# Implementation of Governance Mechanisms in the Algerian Corporations - Empirical Study -

# تنفيذ آليات الحوكمة في الشركات الجزائرية – دراسة تطبيقية –

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**Abstract:**

This study aimed to introduce the identify reality of application of governance in Algeria , in addition to study and analyze the interactive relationship of governance mechanisms and the compatibility of the legal and institutional framework with the requirements of governance.

The study concluded that the board of directors and external auditing are considered one of the most important mechanisms contributing to the application of governance in the Algerian business environment, and the study also concluded that there is a strong correlation between the board of directors and various other mechanisms as the latter is considered one of the most effective mechanisms in the governance system in view of the role and tasks of doing it.

**Keywords:** Governance mechanisms, board of director, audit environment in Algeria, Governance situation.

**JEL Classification Codes**: G34, K22, M42

**ملخص:**

هدفت الدراسة إلى التعرف على واقع تطبيق الحوكمة في الجزائر بالإضافة إلى دراسة وتحليل العلاقة التفاعلية لآليات الحوكمة ومدى مواءمة الإطار القانوني والمؤسساتي مع متطلبات الحوكمة.

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وخلصت الدراسة أن مجلس الإدارة والتدقيق الخارجي يعتبران من أهم الآليات المساهمة في تطبيق الحوكمة في بيئة الأعمال الجزائرية، كما خلصت الدراسة إلى أن هنالك علاقة ارتباط قوية بين مجلس الإدارة ومختلف الآليات الأخرى إذ يعتبر هذا الأخير من أهم الآليات الفاعلة في نظام الحوكمة نظرا للدور والمهام التي يقوم بها .

**كلمات مفتاحية:** آليات الحوكمة، مجلس الإدارة ، بيئة التدقيق في الجزائر، واقع الحوكمة في الجزائر.

**تصنيفاتJEL** : G34، K22، M42

## 1.INTRODUCTION

Following the financial crises and corporate breakdowns witnessed in the two last decades, the world has started to look at corporate governance with a new perspective. The enactment of the Sarbanes Oxley Act of 2002 was a response to that since it had the aim of bettering auditing quality as well as restoring confidence i US institutions and legislation (Samir Kamel, 2008, p.1).

Consequently, a great deal of attention has been paid to governance at both the local and international levels in an attempt to restore users confidence in the financial information and their trust in the external auditor’s reports given the two-way influence between governance mechanisms (Board of Directors, Senior Management, Audit Committee, Internal Audit and External Audit) and attempts have been made to activate this relationship in a way that narrows the expectation gap in the audit environment (Ali. Abdessamed .O, 2017, p. 217).

The economic developments in Algeria have led to the elaboration of a legal and regulatory framework that is adapted to the market economy, such as corporate governance. The Algerian economy has put in place a series of reforms without having a proper understanding of the contents of governance. Yet, since these reforms are endorsed by international organizations such as the IMF and the World Bank, governance principles were among the package of measures proposed to the public authorities (kadi, 2010, pp.5-7).

On July 2007, the first international colloquium on «Sound Corporate Governance » was held in Algeria. It was a timely opportunity to meet up with all the actors involved in the corporate world. During this colloquium, the idea of developing a sound corporate governance charter was conceived as a first recommendation and practical step to be taken. The charter which was issued in 2009 is considered as a framework and guideline that provides an understanding of the fundamentals of sound corporate governance in Algeria.

This leads us to formulate our problem statement as follows:

**How can governance mechanisms be implemented in Algeria ?and how can they be developed?**

**Objectives of the Study :**Besides attempting to answer the primary research question and the subquestions raised above, this study seeks to :

- Learn about the current state of governance mechanisms in Algeria.
- Examine the extent to which the corporations studied adhere to the suggested indices of governance. mechanisms, and propose some recommendations that help avoid the weaknesses and increase the levels of governance within these corporations, and thus undertake the desired reforms.

**Significance of the Study :**The significance of this research stems from the need to apply governance to the Algerian business environment, for despite the reforms undertaken by the state, Algeria is still ranking high in corruption perception index and lack of attractiveness of the investment climate. This has prompted the state to form a committee called « Sound Governance Committee » especially with Algeria being one of the NEPAD initiators, a project which sets out that the member states should be subjects to periodic evaluations on governance.

## 2.Review Of Literature.

**2.1. Gebba T. Roshdy, (2015) :** The goal of this study was to enhance understanding of corporate governance (CG) in the banking sector and to explore the existence and practice of corporate governance mechanisms in United Arab Emirates (UAE) national commercial banks. More specifically, the paper is targeted to examine whether the mechanisms forced by the law; Board of Directors, Auditors, Audit Committee and Credit Committee, are used by UAE banks and if the majority of these banks choose independent boards. This descriptive study conducted on all UAE national commercial banks over the year 2014, indicates that most of the corporate governance mechanisms adopted by banks are those imposed by laws and regulations, all banks have a board of directors, an auditor, an audit committee and an executive committee. However, most of these banks have other committees voluntarily created to enhance corporate governance systems in these banks, such as nomination, numeration and risk management committees. The domination of non-executive directors (NEDs) on the board and the lack of board duality reflect that the banks are increasingly adopting a more independent board of directors. Finally, the study reveals the importance of internal mechanisms vis-à-vis external norms.

**2.2. Alhumoudi H.Yuosef, (2016) :** This study examines whether implementation of internal CG mechanisms have affected the performance of non-financial firms listed on the Saudi stock exchange "*Tadawul*", since the implementation of Saudi CG code. A cross-sectional regression analysis is employed on a sample of 118 non-financial Saudi firms in 2014, to test the hypotheses set out in the study. Board characteristics assessed include, board size, board composition, board meetings and CEO duality. Ownership structures include managerial and concentrated ownership. The study's empirical findings show board size and CEO duality, are amongst those board characteristics with a positive influence on firm performance. In the case of the second internal mechanisms of CG ownership structures, the findings suggest only managerial ownership positively affects performance. The study findings conclude that CG structures differ in every country, as each has its own social and regulations situation. The study contributes to existing literature about the CG in Saudi Arabia by reviewing the impact of CG practices eight years after the CGC. It enhances understanding among practitioners of CG, and explains how it influences firm performance in Saudi.

**2.3**. **Oketooyin A.G, (2019) :** This study sought to examine the influence of corporate governance mechanisms on corporate performance of non-financial firms in Nigeria. Secondary data from published accounts and Nigerian Security Exchange Fact books were analyzed using panel regression methodology. Independent variables were board size, directors' shareholding, block holding and leverage while return on assets and return on equity was the dependent variables for the period between 1990 and 2017. Findings suggest that leverage has positive significant correlation with return on assets and return on equity while directors' shareholding, block holding had inverse relations with dependent variables. However, board size had mixed result with a negative significant influence on return on equity while showing an inverse but insignificant impact on return on assets. The study concludes that the independent indicators have more influence on return on equity than return on assets. Thus, return on equity performs better than return on assets for non-financial firms in Nigeria.

**3.Governance Mechanisms Indices.**

In order to properly apply governance, a set of requirements ought to be provided inside and outside the corporation. Just as the definitions given to governance vary, so do its principles, mechanisms and application models across the globe depending on the prevailing political, social and economic systems. (Clarke and Thomas, 2007, pp.4-5), There are two models of application, the first model is that which is applied in the USA, UK, and Australia. This model prioritizes the preservation of shareholders' rights as its key mechanisms consist of the Board structure (Olof et al, 2007, pp.296-305) , disclosure system (Gene Imhoff, 2003, pp.3-26) and other governance mechanisms such as internal and external auditing (Charlie et al, 2003, pp.23-75) and (Marianne O, 2011, p.4).As to the second model, it is applied in European countries, Japan and some East Asian countries, an cares more about stakeholders' interests such as the firm's clients, creditors, and workers ( De Miguelet al, 2003, p.4). Yet, OECD principles have been widely accepted by international organizations like the IMF and the World Bank, and they were conceived as benchmarks for the healthy financial systems by the Financial Stability Forum (FSF) as they constitute the basis of corporate governance initiatives in both member countries and non member countries, and are derived from theories explaining the concept of governance. (OECD, 2011) principles are intended to outline the best common practice standards. This latter could be agreed upon by all countries regardless of their respective cultures, and are neither binding nor excessively detailed. These principles are applicable irrespective of the level of ownership concentration, the model of representation in the Board of Directors or abidance by the civil or common law in place in the country in question. The said principles focus primarily on publicly traded companies, however, they might also be a useful tool to improve governance in non-traded companies (OEOC, 2004, pp.1-36).

Studies related to corporate governance point out that there are various mechanisms that could be used to apply the concept of governance. It can be said that there is near unanimity among writers and researchers in the area of governance that governance mechanisms can be divided into two categories :

- Internal corporate governance
- External corporate governance

Yet, these people disagree about what each category comprises and the efficiency of these mechanisms.

Denis (2001) noted that there are 4 governance mechanisms :

- Legal and legislative mechanisms
- Internal control mechanisms such as the Board of Directors, executives stock ownership, Executive compensation, reliance on debts and large investors ownership.
- External control mechanisms such as external auditing.
- Corporate product market competition .

Denis &Mcconnell (2003) believe that governance mechanisms can be classified as follows :

- Internal corporate governance mechanisms which include :
  - Board of Directors ;
  - Ownership Structure.
- External corporate governance mechanisms which include:

- The Legal Systems ;
- The market for corporate control.

As to Gillan (2006) who provided a comprehensive overview of a range of governance-related studies and research and displayed the different mechanisms addressed by researchers, he indicated that governance mechanisms can be classified as shown below :

Internal Corporate Governance Mechanisms, which contain the following elements : Board of Directors ; Managerial Incentives ; Managerial Incentives ; Capital Structure ;Bylaw and Charter Provisions ;Internal control systems such as internal audit and Audit Committee ;External Governance Mechanisms, which contain the following elements :

- Legal, financial and accounting bodies ;
- The Laws and Regulations in place ;
- Markets including (product market, capital market, labor market and the market for corporate control) ;
- Sources of External Oversight ;
- Information provided by the capital markets and their analysis.

Drawing on the previous studies on governance and OECD principles we can take five mechanisms as indices to measure governance in Algeria based on the current state of governance in the country. These 5 mechanisms shall be used in the empirical part to see if they exist; and if they do, to determine the extent to which they are implemented in the Algerian corporations. These mechanisms are outlined in the table below :

The board of directors ;Senior management ;Audit committee ;Internal audit ; External audit.

**4.Empirical Section .**

The objective of this section is to see how committed are the companies under study to the mechanisms of governance and studying the relationship of the effectiveness of the Board of Directors with other mechanisms. To reach this objective, an index of governance mechanisms was created based on OECD principles, previous research and Algeria's reforms, all of these are well reflected in the content of the survey that we distributed to the population.

**4.1.Population.**

The survey population is a range of Joint-stock companies. They are among the largest corporations in Algeria. Some of them are public while others are private, and they all have governance mechanisms consisting of (Board of Directors, Audit Committee, Senior Management, and Internal Audit). The said corporations have significant organizational, human and material potentials. The target groups are members of the Board of Directors, Audit Committee, Senior Management, and Internal auditors).

**4.2.Sample:**A random sample was taken from the original survey population. 125 copies of the survey were distributed, 91 copies were recovered.

**4.3.Hypotheses**.

In order to answer the primary research question of this study, the hypotheses to be tested are :

H01: The corporations adhere to Directors Board Index ;

H02: The corporations adhere to Senior Management Index ;

H03: The corporations adhere to Audit Committee Index ;

H04: The corporations adhere to Internal Audit Index. ;

H05: The corporations adhere to external Audit Index ;

H06:There is a relationship of statistical significance at the level of significance ($\alpha = 0.05$) between the effectiveness of the Board of Directors and each of the other governance mechanisms of the study sample.

**4.4.Research Methodology.**

For the purpose of collecting primary data from the sample, the survey was designed based on previous studies, and presented to a group of academics to be further reviewed and improved. After making the appropriate modifications, the survey was circulated to the sample. The survey contains two parts: the first part has to do with the respondents' personal and professional data, as to the second, It has to do with determining the extent to which sample the corporations apply the suggested governance mechanisms. The 5-point Likert scale was adopted to measure the dimensions of governance. Table N2 outlines the standard against which analysis was made based on the mean values.

**Table 1.**Standard for analysis based on the means

| Mean | Scale |
|---|---|
| 1.00 -2.33 | low |
| 2.34 - 3.66 | medium |
| 3.67 - 5.00 | high |

**The Source**: made by the researchers

To analyze the primary data of the survey, we used a statistical analysis software called « SPSS » (which stands for Statistical Package for Social Sciences) as follows :

- Extracting the frequencies and percentages of the individual variables.
- Calculating the mean values to see the extent of the application of governance in the sample corporations.
- Using the One-Sample T-test to determine the statistical significance of each governance mechanism.

**4.5.Statistical and Economic Analysis of Governance.**

**4.5.1. Personal Data Analysis :** Most of the respondents in our target audience (72 %) are aged between 30 and 40 years old. 85 **%** are males whereas 15 % are females. 50 % are graduates in finance, 15 % are accounting graduates, 10 % studied business management while the rest received degrees in economics and management .As for job positions, 50 % of the surveyed are members at the Board of Directors, 10 % are members of the Audit Committee, 22.5 % belong to Senior Management while 17.5 are members of the Internal Audit Department. As far as professional experience is concerned, 25 % of the audience have a work experience of fewer than 10 years, 74 % have a professional experience ranging between 10 and 20 years, while the remaining 15 % have an experience of more than 20 years.

**4.5.2.Reliability Analysis :**At the first stage, we are going to test the reliability of research tool by Cronbach's Alpha.

reliability is the extent to which a variable or set of variables is consistent in what it is estimated to measure. (Djadli & Moussaoui, 2016) ;A Cronbach's Alpha of 0.60 or higher is the minimum acceptable level for the study(See Table 02).

**Table 2.** Reliability Statistics

| variables:(governance indices ) | N of Items | Cronbach's Alpha |
|---|---|---|
| Board of Directors' Responsibilities | 07 | 0.926 |
| Senior Management | 03 | 0.890 |
| Audit Committee | 03 | 0. 952 |
| Internal Audit | 04 | 0.822 |
| External Audit | 03 | 0.892 |

**The Source:** made by researchers depends on SPSS Results.

The table (2) shows The coefficient of Cronbach's alpha value is high (more than 0, 82) for all the Indexes of Implementation Of Governance Mechanisms In The Algerian , which shows the high reliability coefficient; therefore the tool is able to address the problematic studied.

### 4.5.3.Analysis of the Survey Texts :

### 4.5.3.1.Index1: Board of Directors' Responsibilities

**Table 3.** Results of sample answers for the first index

| Paragraph text | Mean | S.D | T test | Sig | Scale |
|---|---|---|---|---|---|
| 1.The Board of Directors Develops action-oriented strategies, sets the goals and public policies and appoints the CEO, key officials, assistants, experts, and consultants. | 4.88 | 0.43 | 43, 54 | 0, 00 | high |
| 2. The Board sets up committees tasked with running the operations of the company such as the Audit Committee, Risk Management Committee, Reward, and Compensation Committee and Governance Committee. | 3.02 | 1.15 | 38.01 | 0, 01 | medium |
| 3. There is a separation between the chairmanship of the Board and the Executive management positions. | 3.04 | 1.56 | 36.23 | 0, 00 | medium |
| 4. It follows up on the integrity of data issued by the company to ensure the fairness of the presentation of the financial position. | 4.70 | 0.66 | 34.31 | 0, 02 | high |
| 5. Board members are reputable and have never committed an offense, and none of them has filed for bankruptcy nor caused any losses for other companies. | 4.20 | 0.87 | 32.59 | 0, 00 | high |
| 6. Board members are informed about all the basic laws and instructions regulating the work of the company and make sure that they are properly implemented, and calling for the Board's periodic meetings as necessary. | 4.25 | 0.52 | 24.26 | 0, 00 | high |
| 7. At least 4 members have academic and professional qualifications in management, finance, accounting and economics. | 4.08 | 0.47 | 21.28 | 0, 00 | high |

**The Source:** made by researchers depends on SPSS Results.

Table 03 shows that the mean ranges between (4.88-3.02) with a standard deviation ranging between (0.43 - 156) and positive high ranking answers to 5 paragraph texts. The table also shows that all T test values are statistically significant at the significance level (0.05).This is a logical result since the paragraph texts in question have to do with developing action-oriented strategies, following up on the integrity of data, and being informed about the different laws and regulations which are basically what a Board of Directors exists for. In addition, the key requirement for setting up a Board of Directors consists of its membershaving specific attributes including academic and professional qualifications and integrity. It is also noted that there is a lack of separation between chairmanship of the Board and Executive management positions, and the creation of the Board committees(being one of the main requirements of Sarbanes Oxley Act) as it is noticeable that these are not in place in the required manner.

### 4.5.3.2.Index 2:Senior Management

**Table 4.**Results of sample answers for the second index

| Paragraph text | Mean | S.D | T test | Sig | Scale |
|---|---|---|---|---|---|
| 8. Senior Management sees to it that periodic meetings are held with the company's employees to consult them and discuss their proposals for better performance. | 3.54 | 0.65 | 48.24 | 0, 00 | medium |
| 9.Senior Management discloses and disseminates financial information and the external auditor's reporton every material information, and any other data required to be divulged by the Law in a timely manner and makes them accessible to all parties involved. | 4.70 | 0.81 | 35.68 | 0, 00 | high |
| 10. Senior Management works professionally to facilitate the work of internal and external auditors and ensure their neutrality. | 3.20 | 0.54 | 32.53 | 0, 00 | medium |

**The Source:** made by researchers depends on SPSS Results.

Table 04 shows that the mean ranges between (4.70 - 3.20) with a standard deviation ranging between (0.80 – 0.54) and a positive high ranking answer to paragraph text N8 which relates to disclosure components and the parties involved in it which are all enshrined in several laws such as the Tax Law, The table also shows that all T test values are statistically significant at the significance level (0.05), the Commercial Code, and the accounting and financial systems derived from international accounting standards. The table also shows a medium scale response for paragraph text N 10, and that is due to the fact that the tasks of internal audit are linked to Senior Management.

### 4.5.3.3.Index 3: Audit Committee

**Table 5.**Results of sample answers for the third index

| Paragraph text | Mean | S.D | T test | Sig | Scale |
|---|---|---|---|---|---|
| 11. Under the supervision of the Board of Directors, the Audit Committee examines the efficiency of internal monitoring with the external and internal auditors . | 3.42 | 0.72 | 42.42 | 0, 00 | medium |
| 12. There are pre-established criteria upon which the Audit Committee appoints the external auditor in concert with the Board of Directors. | 4.01 | 0.60 | 33.62 | 0, 00 | high |
| 13. Audit committee discusses the financial statements with the management and reports it accordingly to the Board of directors. | 2.54 | 1.54 | 29.64 | 0, 00 | low |

**The Source:** made by researchers depends on SPSS Results**.**

Table 05 shows that the mean ranges between (4.01 -2.54) with a standard deviation ranging between (0.60-1.54) indicating that there is an average adherence to Audit Committee index, The table also shows that all T test values are statistically significant at the significance level (0.05). and deficiencies in the internal audit mechanisms of the companies under study. This is due to the inadequacy of the institutional and legislative framework particularly with respect to specifying the roles and structure of the Audit Committee, but it is also due to the absence of a mandatory governance framework that entails the establishment of internal audit mechanisms (Audit Committee).

### 4.5.3.4.Index 4: Internal Audit

**Table 6.**Results of sample answers for the fourth index

| Paragraph text | Mean | S.D | T test | Sig | Scale |
|---|---|---|---|---|---|
| 14. Internal Audit key roles consist of performing financial and operational audits, risk management, and providing advisory services. | 1.58 | 1.10 | 38.34 | 0, 00 | low |
| 15. Internal Audit discusses the financial statements with Senior Management, Audit Committee and Board of Directors and provides them with reports. | 4.49 | 0.44 | 36.20 | 0, 00 | high |
| 16. Internal Audit assesses the efficiency of internal control with the external auditor and with the involvement of Senior Management. | 2.81 | 1.17 | 24.23 | 0, 00 | low |
| 17. There are effective channels of communication between the Internal Audit, External Audit and Audit Committee | 3.40 | 0.84 | 22.06 | 0, 02 | medium |

**The Source:** made by researchers depends on SPSS Results.

Table 06 shows that the mean ranges between (4.49 -1.58) with a standard deviation ranging between (0.44 -1.17) indicating that there is an average adherence to internal audit index and deficiencies in the internal audit mechanisms of the companies under study. The table also shows that all T test values are statistically significant at the significance level (0.05). This is because internal audit standards in Algeria are inexistent, and international standards for the professional practice of internal audit are not adopted either since an internal audit is still limited to the financial aspect. These deficiencies are also a result of the absence of a mandatory governance framework that entails the establishment of internal audit mechanisms.

### 4.5.3.5.Index 05: External Audit

**Table7.** Results of sample answers for the fifth index

| Paragraph text | Mean | S.D | T test | Sig | Scale |
|---|---|---|---|---|---|
| 18. The external auditor submits timely reports in which he comments on the fairness and reliability of financial statements. | 4.35 | 0.82 | 36.44 | 0, 01 | high |
| 19. The external auditor assists in the work of the internal auditor, audit committee, Senior Management and the Board of Directors and implements the interactive relation between them. | 4.05 | 0.61 | 31.13 | 0, 00 | high |
| 20. Discussing and analyzing the strengths and weaknesses, and studying the observations and reservations discovered with the Board of Directors, Senior Management, Audit Committee, and Internal Audit. | 4.21 | 0.80 | 21.16 | 0, 01 | high |

**The Source:** made by researchers depends on SPSS Results.

Table 07 shows that the mean ranges between (4.35 - 4.05) with a standard deviation ranging between (0.82 -0.61) and positive high ranking answers to 3 paragraph texts. The table also shows that all T test values are statistically significant at the significance level (0.05). This is owing to the existence of laws regulating the profession, professional organizations overseeing its practice, and Algerian audit standards that follow from international ones.

**4.5.3.6.Hypotheses Testing :** Results :In order to have a picture of the extent to which the sample corporations comply with governance standards, we tested the hypotheses as follow:

**Table 8.** hypotheses testing results

| Hypotheses | | Mean | Standard deviation | T value | Statistical significance |
|---|---|---|---|---|---|
| Board of Directors | accepted | 4.02 | 0.65 | 29.041 | 0.000 |
| Senior Management | accepted | 3.81 | 1.03 | 30.231 | 0.000 |
| Audit Comittee | accepted | 3.32 | 0.87 | 31.064 | 0.001 |
| Internal Audit | accepted | 3.07 | 0.74 | 08.058 | 0.042 |
| External Audit | accepted | 4.20 | 0.65 | 32.045 | 0.000 |

**The Source:** made by researchers depends on SPSS Results.

Table 08 shows that the means of adherence to governance mechanisms in the companies under study range between (4.20 - 3.07) with the External Audit and Board of Directors' responsibilities indexes being on top, and the Internal Audit index at the bottom. The table also shows that all T values are statistically significant at ($\alpha \leq 0.05$) significance level, henceforth, the study's hypotheses are accepted. This indicates that all governance mechanisms' means range between medium and high. The overall mean is of 3.68 suggesting that there is an average implementation of governance mechanisms in the Algerian corporations.

**4.5.4.The Relationship between the Board of Directors and the Mechanisms of Governance.**

Several studies have examined the role played by the Board of Directors in the corporate governance system, such as (Thu Ha TRAN, 2018, pp.1-181) and that of (Ioannis, 2014, pp.1-246). The Board of

Directors is considered to be the mechanism that sets all corporate governance mechanisms into motion, and the link between management and shareholders. In order to verify the sixth hypothesis of our study, we will do the partial correlation matrix as follows:

**Table 9.** Partial Correlation Matrix**.**

| **Pearson Correlation Coefficient** | **Board of Directors** | **Senior Management** | **Audit Committee** | **Internal Audit** | **External Audit** |
|---|---|---|---|---|---|
| Board of Directos | 01.00 | 0.884 | 0.922 | 0.851 | 0.837 |
| Senior Management | 0.884 | 01.00 | 0.752 | 0.664 | 0.556 |
| Audit Committee | 0.922 | 0.752 | 01.00 | 0.871 | 0.912 |
| Internal Audit | 0.851 | 0.664 | 0.871 | 01.00 | 0.808 |
| External Audit | 0.837 | 0.556 | 0.912 | 0.808 | 01.00 |

**The Source:** devised by the researcher based on the outputs of SPSS

Based on the matrix of partial correlations, we note that all correlations are strong, especially between the Board of Directors and the other governance mechanisms, the highest percentage of which was 92.2%. This confirms the validity of the sixth hypothesis (H6) proposing the existence of a relationship between the effectiveness of the Board of Directors and each one of the governance mechanisms.

The strong relationship between the Board of Directors as a mechanism for governance and the other mechanisms is accounted for, from an economic point of view, by the responsibilities and tasks of the Board of Directors in the corporate governance system, for the latter is considered as the basis of the governance system, being the Principal party in the agency theory. For senior management, the Board of Directors is the one that appoints and holds managers accountable for their performance towards achieving the company's goals on behalf of the investors. Moreover, managers who fail to perform their tasks often do not resign, and here we find that the Board of Directors is the one that removes and replaces the CEO. The same holds good for the audit committee, for it is the Board of Directors, within the corporate governance system, that appoints its members and determines their remuneration, and also supports the committee in order to carry out its tasks. In return, the Audit Committee assists the members of the Board of Directors in performing their tasks and responsibilities, especially with regard to auditing. In this context, we find another type of correlation between the audit committee emanating from the Board of Directors and internal and external auditing, for the audit committee is regarded as one of the important mechanisms in strengthening internal and external audit mechanisms in the governance system through supervising the internal and external audit processes, and serves as a safety valve for Senior management interventions in audits. That said, successful governance is conditioned by the success of the audit committee, and any deficiency in the membership, composition, role, efficiency, or commitment of the members of the audit committee would create a gap within the corporate governance system.

## 5.CONCLUSION .

In this paper, we measured governance mechanisms in the companies under study by adopting five mechanisms derived from OECD principles and previous relevant studies. They represent the minimum mechanisms required to be in place in order to guarantee the shareholder's interests and sort out the problems caused by the separation of ownership and management. The said mechanisms were adapted to the Algerian environment which may differ from the target environments of the previous studies.

### 5.1.Results.

As far as economic assessment is concerned, it can be said that External Audit and the roles assigned to the Board of Directors are the most applied mechanisms in the companies studiedsince they are supported by the existing legal and regulatory framework like 10.01 Act for instance and the other acts that followed. The aforementioned mechanisms are also applied thanks to other factors, namely the restructuring of the National Accounting Council and the creation of a national chamber of bookkeepers, the promulgation of Algerian Auditing Standards; moreover, the Algerian Code of Commerce makes it mandatory upon partnership institutions to establish a Board of Directors and define its working mechanisms, not to mention that the country adopts the international accounting standards by implementing a finance and accounting system through which disclosures of information regarding the corporation's activities are made in the form of financial statements that include the characteristics of the financial information.

As to the average implementation of the Audit Committee and Internal Audit indices, this can be explained by the deficiency of the legislative aspect and the absence of a binding corporate governance inventory.

**5.2.Recommendations and Suggestions.**

According to the results, we propose a set of recommendations as follows:

- Corporations should seek to strengthen some governance requirements by setting a governance committee at the level of the Board of Directors and increasing the number of non-executive members for instance ;
- There is a need to issue a compulsory corporate governance manual destined for the Algerian listed companies, banks, micro, and medium-sized enterprises. Such a manual should include the interplay between governance mechanisms and is to be used as a guide for corporations ;
- Examining whether the legal and institutional processis in line with the principles of governance so as to provide a robust legislative framework for an efficient governance system ;
- It is important to work on inculcating the culture of governance inside the business environment by creating an Algerian corporate governance institute following the example of other Arabic countries, promoting governance principles and their manuals, providing training opportunities for Board Directors, Senior Managers ;
- It is necessary to set up an internal audit professional organization that endeavors to regulate the mechanisms of professional practice and promulgate internal audit standards, and establishes a code of ethics adapted to the Algerian business environment ;
- There is a need to enact and update the laws regulating the work of audit committees and make this one of the listing requirements so as to increase the effective performance of the stock market. In view of its oversight and control functions that contribute to rational decision-making for different parties, a there by helping to implement governance ;

- Strengthening the role of audit committees in line with governance requirements particularly with reference to the supervision of internal control system, monitoring how enterprise risk is being managed, and activating the relationship between internal and external audit .

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