

Institutional environment as an explanation to the barriers of the expansion of large scale trade in Algeria

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Abstract

Algeria presents a significant delay compared to Morocco and Tunisia in large scale retailing implementation. This paper analyses the main determinants sector development. Explanations are proposed in the factor analysis of the institutional environment. The method of investigation will focus on an exploratory approach to large scale retailing in Algeria. An analytical framework for the determinants of development of the large scale retailing in Algeria is proposed.

Keywords: large scale trade; channel marketing; institutions; institutional environment; Algeria.

Introduction

The exploratory study of the large scale trade sector in a country or a region must not only try to evaluate objectively the nature and importance of the latter in the economic sphere, but also identify the socio-economic processes and political issues that are at the origin of the emergence and development of this sector. The objective of this twofold approach is to analyze different scenarios in order to develop future development trajectories and assess their social, political, economic and environmental impact.

The development of mass distribution remains an undeniable and prominent fact in today's world that increasingly affects people's lives and the entire economic sphere in the world. The emergence and development of major retailers such as Wal-Mart, Carrefour, Tesco... are the visible consequences of the rise of this sector globally.

In return, the retail sector was a modernization leverage to the entire business, because of its ability to provide very wide assortment of products, constant pressure on suppliers with regard to advantageous conditions purchase resulting in a lower selling price to upgrade their logistics systems to ensure a steady and reliable supply for fresh produce and deliver many services to clients.

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These profound changes in the distribution sector have influenced national commercial structures (Colla, 2003). These have important differences from one country to another especially in terms of distribution formats, the weight of the retail sector, strategies of retailers and consumer buying behavior. These disparities are particularly noticeable in developing countries where differences are recorded in these countries between the weight of “modern retail” and traditional commerce.

The deployment of the retail sector in Algeria (especially in terms of concentration of large retailers and groups, integration structures, development of “modern retail”) remains limited despite the opportunities offered by the Algerian market compared to other Maghreb countries.

The issue at the center of this contribution finds its essence in this matter: what explains the causes of the delay in the implementation of large retail chains in Algeria?

The method of investigation will consist of an exploratory approach of the retail sector in Algeria through the analysis of institutional environment factors influencing its development. Our analysis of the environmental sector of large retail in Algeria will highlight all the issues which stand as obstacles to the modernization of distribution channels in Algeria.

The plan of the paper is as follows. First a literature review of trends and institutional determinants of changes in the large retail offering a grid of criteria specific to the case of Algeria will be presented. Secondly, the current situation of retail in Algeria to lead to the specifics of the current situation of large retail will be discussed and finally, an in-depth analysis on the influence of the main determinants on the development of the large retail sector in Algeria will resume this paper.

Institutional determinants of the development of the retail: proposal for an analysis grid

The development of mass distribution is now undisputed and promising. Emerging countries are living a massive implementation of new retail formats, especially from foreign brands, which are grafted to their business landscape, revolutionizing the consumption and purchase habits and behaviors of consumers.

Development trends of large scale trade in developing countries

Several trends have characterized the development of large scale trade in developed countries over the past century. The first trend is the widespread use of self-service. A second trend was observed in the choice of “couples” store format-store location: medium and large supermarkets in major cities, hypermarkets in the suburbs, convenience stores in the city center and in the small towns. The strategies of internationalization and diversification of sales formats are a specific trend of major retailers which was confirmed and

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generalized in the 1990s (Reardon, 2003). The multiplicity of the services offered by the large surfaces is an important evolution of practices of large scale trade. Finally, the modernization of logistics systems from the 1990s is a major trend in retailing in developed countries (Reardon, 2003). The traditional retailing in developed countries (20% of the food retail trade Reardon, 2003) in the wake of mass distribution observed an evolution that has resulted in a strong movement of association (franchises, grouping retailers) and a development of the specialized trade.

The large food surfaces have entered a phase of adaptation to a more competitive and unstable environment where they had to answer two largely contradictory requirements: a demand for current consumption products at low prices and a need for differentiation expressed by consumers increasingly demanding and versatile.

Mergers and acquisitions have also enabled retailers to maintain their winning growing market share relying on different formats and complementary stores. Large retailers have in parallel accelerated their expansion abroad. Most groups have focused their investments on countries with the greatest potential for return on investment.

Large scale trade is increasingly facing mobile and unstable customers which forces these latter's loyalty. This requirement is even stronger than the large food surfaces, whose concept is increasingly criticized (dehumanization of the deed of purchase, hyper-concentration, pressure on suppliers, low proximity, little differentiation, too wide offer ...) face a revitalization of convenience stores in developed countries. Development trends of large scale trade in developing countries have many similarities with the experience of developed countries (Reardon, 2008).

In developing countries, the adoption of modern retail by local consumers was done fairly quickly. This is in part due to the inability of traditional channels to respond to consumers' expectations. Indeed, the needs and consumption behaviors in emerging countries have experienced a great transformation resulting from the increasingly westernized behaviors favored by the effects of globalization and accented by the development of new information and communication technologies in these countries. This situation has contributed to the rise, in some local classes, of a new, more western than traditional consumption values, aided in this by the raising of standards of living and education in these countries.

The determinants of large scale trade development in developing countries: proposal of an analytical grid

The gradual implementation of local and foreign retail chains, the variety of retail formats and changes that the retail sector is facing in developing countries are to be linked to the evolution of consumption behaviors, the macroeconomic changes and the trade policies in these countries.

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Early research on the determinants focused on the factors that influence demand. Moreover, Goldman (1974) highlighted the factors such as income, urbanization, development of women's work. Reardon (2003) considers the factors influencing demand as necessary but not sufficient, and focus on political factors and offer's influencing factors in particular the supply system, and state policies attractiveness FDI in retail.

Thus, Reardon proposed to analyze the impact of his determinants on the development of the retail sector, particularly in the countries of South-East Asia and Latin America (Reardon 2003, 2008) through comparative analysis of the following criteria groups:

Table 1. Analysis grid of determinants of large distribution sector according to Reardon

Criteria group	
Factors relating to the demand	<ul style="list-style-type: none"> - The development of woman's work - Growth rate of household equipment - The improvement of public transport - Development of household car ownership - Growth of gross real income - Emergence of a middle class
National policies	<ul style="list-style-type: none"> - Retail policies - Market liberalisation - Policies on FDI attractiveness

The institutional environment is defined as the set of political, social and legal rules for supporting the production, exchange and distribution (Baudry, 1999). The institutional environment refers to related institutions and institutional processes that lead to the formation of the legitimacy of the company's concerns. (Suchman, 1995). Williamson was interested in modes of governance and institutions of the economy that are the result of choices made by companies to implement their strategy in the most efficient way by saving on transaction costs (Williamson, 1995). For North, the institutional environment is determined by the political power that is imperative for economic actors (North, 1991). Therefore, the institutions of the environment are the rules within which contractors drive their strategies and choose modes of governance (Ghertman 1994).

To explain the delay in the development of the retail sector in Algeria compared with other countries of the Maghreb, we propose a grid of factors of the institutional environment with particular reference to the different

Reardon's works on the development of the retail in south America and south-east Asia, to the research dedicated to the analysis of the determinants of internationalization of international retailers, through the identification of the choices that govern the selection of the modern sale formats by a "receiver" country (Benoun, 2012) and, with the work developed by O. Chanut and N. Gharbi on a comparative analysis of the development of the franchise in the Maghreb countries (Chanut, 2012).

Our reading grid is based on four criteria groups. The first set of criteria is related to the country risk and climate of the target country. Thereby, will be analyzed the political, financial and social risks. All these risks (largely treated in various academic researches) are difficult to anticipate (like the Jasmine revolution in Tunisia in 2010) and are appreciable especially by many rating agencies and international organizations. In the case of the retail sector in the GRDI ranking (Global Retail Development Index) established annually by the A.T. Kearney firm since 2002, it is an interesting approach to assessing country risk of emerging countries. The calculation of this index is based on four criteria: market attractiveness, country risk, market saturation and pressure, in terms of time to penetrate the target market. This notation, although unsatisfactory, will serve as a barometer for assessing country risk by adopting a comparative approach to the three Maghreb countries.

The accessibility and development criteria refer to the analysis of all the regulatory and fiscal constraints that may limit the development of the retail sector, including international retailers. Benoun, note that these factors are objective and factual; he showcases their volatile and unpredictable character (Benoun, 2012). These include evaluating the national investment policy, including foreign direct investment, but also, to review the national tax policy regarding tax incentives for investment in the retail sector. Our approach to this second group of criteria will go through the review of deficits incentives for foreign investment in Algeria which will be based on a comparative analysis with other Maghreb countries.

The third group of criteria is related to environmental factors favoring the "operational" development of the retail sector. Thus, this set will cover the evaluation of "facilitators" criteria such territorial logistics and the use of New Technologies of Information and Communication.

Finally, in the last criteria group relating to legislation, it is linked to the existence of a retail trade modernization policy in Algeria, resulting in a real desire to include large retailers like a leverage of this modernization.

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Therefore, it is interesting to analyze the legal environment in which the sector of large scale trade is evolving in Algeria. We will analyze, in the context of this group, the laws regulating the creation and development of commercial establishments, the specific case of informal practices in Algeria. The analysis grid proposed of the institutional environment of the retail sector in Algeria is summarized in the table below.

Table 2: Institutional environment analysis grid of large scale trade in Algeria

Criteria group	
Risk criteria	<ul style="list-style-type: none"> • Political risk • Financial risk • Social risk
Accessibility and development criteria	<ul style="list-style-type: none"> • Degree of openness to foreign investment • Incentives to foreign investment • Administrative locks • Free movement of capital and goods • Repatriation of profits
Permeability criteria	<ul style="list-style-type: none"> • Existing commercial structure • Territorial logistics performance • Availability and reliability of commercial information • Technological development • Level of performance of customs system
Legislation criteria	<ul style="list-style-type: none"> • Regulation of foreign and local investments in retail • Retail modernization policy • Social regulation • Legislation on commercial planning • Informal sector

We present in the following the large scale trade sector in Algeria, through its current structure and the intensity of competition in the retail trade.

The large scale trade sector in Algeria

Historically, from the beginning of the 1990s, the decrease of the monopolization of production and marketing had allowed low capital holders to focus on marketing activity by substituting, disorderly, former monopolies. Market liberalization, the disengagement of the state and the disappearance of retail structures had a direct impact on the private sector. Therefore, the marketing activity is the subject of growing interest of private initiative and this is resulting in a number of entries in the commercial register, which will continue to grow throughout the 1990s.

The traditional retail trade in Algeria

Traditional trade in Algeria is very similar to that found in other developing countries (Maghreb countries in particular), especially in terms of its weight in the sector, store types, the type of organization and operation (family investment, archaic management, low geographical influence).

The wholesale trade sector, although was exclusively held by the state, has fully been released, giving rise to a multitude of private wholesalers. Parliament enacted a number of laws to regulate and organize the wholesale business.

The wholesale business recorded sustained growth during the last decade. This increase is due to the combination of a number of factors:

- The “historical” role of the wholesaler in the Algerian market, especially in the distribution of food products.
- The strong dispersion of retailers, reflecting a disarticulation of trading device.
- The local wholesalers’ radiation, with an average ratio of 1 wholesaler for 10 retailers.
- The family nature is predominant in the wholesale business, and this is reflected by the legal status of the company with a predominance of personal investment.

In Algeria, the traditional retail sector is characterized by a high growth rate, the openings are intensifying every year nationally. Since 1999, the development of retail stores had a strong increase. This situation can be explained by:

- The trade liberalization and the removal, since January 1995, of the monopoly on foreign trade with as a corollary the emergence of a multitude of importers (placing on the market a large number of products which had to ensure the marketing), the development of retail stores is the logical continuation;
- The void left by the demise of state witness’s outlets has attracted the interest of private traders.

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- The attractiveness of the sector particularly in terms of profitability (the absence of state and suppliers control on the levels of prices in the retail trade, the level of practiced margin remains high, the relative weakness of the initial investment) and low qualification required for the exercise of the activity;
- The rise of urbanization, particularly with the development of social housing and promotional programs.

Since the withdrawal of the state from the distribution sphere, the commercial landscape has been invaded by a new generation of stores, “the minimarkets¹”. The economic environment in Algeria lent itself well to the launching of such stores. The convenience store has advantages for consumers, manufacturers, retailer and the State. The first and biggest advantage is its proximity. Knowing that the Algerians are concentrated in popular cities on the outskirts of cities, the transport is not well developed, and the time saved in purchasing current consumption products is appreciable.

The total number of convenience stores nationwide in 2012 was 2 469 (Abdellaoui, 2012). It should be noted that the pace of settlement of such stores has even affected the small communities. These minimarkets, which have developed throughout Algeria, certainly satisfy a consumption need for a segment of the population.

The development of the large scale trade sector in Algeria

The current state of retail trade is characterized by a strong disorganization and a significant imbalance in trade settlements. We encounter similar situations with neighboring countries, Tunisia and Morocco, with the sole difference, the breakthrough of specialized large signs in large retail recorded in these two countries. Comparatively to other Maghreb countries, the large scale trade sector has the following specificities:

- The lack of large international retailers, including French ones since the withdrawal of Carrefour in 2009 (franchise operating of one supermarket with Arcofina group);
- Low development of private labels;
- Shy development of commercial franchising;
- The lack of interest of large retailers such Numidis to the principle of multi-format, including the discount format or convenience stores that can be a real development opportunity for these signs;
- Lack of interest from independent retailers for associated trade practices (operating of a single brand, development of joint actions ...).

Analysis of the factors of the institutional environment of large scale trade in Algeria

Several factors act to refrain the rise of large scale trade in Algeria. They directly or indirectly influence the development of this sector. The objective of this section is to analyze the development differences of the large scale trade sector in Algeria from the reading grid of the sector determinants presented above.

The low penetration rate of the large retail in Algeria contrasts with the strong potential of this market, comparatively to the other two countries. It is clear that the factors of the environment in the sector, particularly those referring to the institutional environment appear “unfavorable” to the development of the latter.

The criteria of country risk

In this first category of criteria, we will focus our analysis on the criterion of the GRDI. According to the tenth edition of the GRDI, the Maghreb remains attractive for the development of investment in the large retail field. However, Algeria is recording a very low score resulting in a decline in overall index (loss of 10 places between 2009 and 2010). According to this survey, Algeria is classified in the category of countries with low interest for major international brands.

The downward trend in the overall index of Algeria was confirmed in 2012 and 2013, where it is completely out of ranking². This trend is also shared by the other Maghreb countries (- 12 places for Morocco between 2010 and 2013, - 19 places for Tunisia for the same period³). This Maghreb countries situation can be explained by the risk of instability in the region especially because of the Arabic spring, but should not obscure the rise of certain regions in the world, which can become the new El Dorado of large retail, including sub-Saharan countries (Botswana, Nigeria, Uganda), MENA countries (Oman, Kuwait, Jordan) or even the transition countries (Moldova, Kazakhstan).

The accessibility and development criteria

The constraints to the development of foreign investment, can explain the current disinterest of international brands for the Algerian market. The flow of FDI in the retail sector is still down compared to Tunisian and Moroccan “competitors”. Numerous studies (Boutaleb, 2009 Boualam 2008) on the analysis of the attractiveness of FDI in Algeria converge towards the identification of bottlenecks that hinder the development of FDI, they relate in particular to:

- Difficult access to bank financing;
- Very burdensome administrative barriers;
- Bureaucratic constraints;
- Inadequate logistics services.

In addition, comparatively to Tunisia and Morocco, Algeria adopts a restrictive policy regarding foreign investment which results from investment financing done only in local currency (Algerian Dinar) non-convertible. In addition, specific regulations govern the transfer of capital (prohibition of payment of royalties). This specific situation in Algeria leads to a restriction of commercial franchise implantations that can be an important tool in the development of the large retail sector in Algeria.

The Permeability criteria

Currently logistics is at the heart of the business and the strategy of the large retail chains (growth in the number of references, decrease of the inventory levels throughout the chain, globalization of trade ...).

Distribution logistics is based on organization and logistics tools arranged according to several parameters: the nature of the products, supply sites, transportation and distribution network configuration. Although it is primarily a company, logistics is a matter for the government and strongly impacts the territorial attractiveness.

Algeria is far from controlling the transport and logistics. It occupies the 140th place worldwide on 150 countries. The most significant differences with other countries cover customs clearance procedures and skills of national actors in logistics. Compared to Morocco, Tunisia and Egypt, Algeria holds the last place rank when it comes to logistics expertise and efficiency of procedures, it does equal weapon with its competitors only in terms of deadlines while it is overtaken by both Egypt and Tunisia in traceability and tracking.

The unattractiveness of Algeria for international retail chains can be explained by the considerable obstacles (lack of intermodal transit platforms, lack of correspondence and lack of logistical bases) resulting in a mismatch of logistics offer compared to large retailers expectations, but also in a logistics costs higher than countries such as Morocco and Tunisia. Moreover, Algeria has the lower logistic performance index compared to other Maghreb countries.

On the other hand, many food SMEs will be solicited by the large retailers to supply the established stores in different regions of the country. To facilitate the movement of physical flows, governments will have to invest heavily in the development of physical infrastructures (roads, warehouses, platforms, etc.) and necessary technology to the optimization of physical flows.

The availability of industrial land issue find all its importance in the retail sector heavily "consumer" of space (stores, parking, central purchasing ...). Land management has never been a major priority for the government.

Despite the measures taken by the latter with the introduction of new alleviation measures to improve the accessibility of investors to industrial land, the current situation of this sector is reflected by the scarcity of land (especially due to the pace urbanization and the high land consumption), the

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land registry management problem and finally the organizational problems of industrial areas.

The legislation criteria

It is clear that the legislation criteria in Algeria is not favorable to the development of the large scale trade: deficit in long-term planning of activity of retail trade (resulting in shortages of some basic products, a failure to control the price level of consumption products, a geographical imbalance in the commercial establishments), no statistics on retail trade in general and the large scale trade sector, no legal recognition of franchising, a restrictive policy regarding the investments, banned consumer credit. This seems specific to Algeria compared to Morocco and Tunisia, as shown in the table below.

Table 3. Comparative analysis of trade policies (Algeria-Tunisia-Morocco)

Criteria	Algeria	Morocco	Tunisia
Retail trade statistics	No, no measured data No long-term policy	Yes, especially for modern trade	Partially
Retail trade modernization policy		Rawaj Plan 2020	In early 2009, setting up a trade modernization policy

The commercial landscape still strongly dominated by informal economy increasingly important that reflects the duality of informal trade development and widespread use of informal practices (no invoicing or under-invoicing, no or under-tax reporting, marketing counterfeit products, lack of traceability ...). The first consequence of the proliferation of the informal sector lies in unfair competition for the formal sector but also in the deterioration of the business climate in Algeria. The rooting of the informal sector is also due to the advantages of this sector compared to the formal sector, especially large surfaces as shown in the following adapted from the matrix of strengths and opportunities of the informal sector in Algeria proposed by Gharbi (Gharbi, 2012).

Strengths: the principle of “everything under the same roof” perfectly assimilated (informal markets); specialization in a family of products; changing the field of activity; control of pricing techniques; the choice of strategic locations; the possibility of testing locations.

Opportunities: the multiplication of sources of supply; the absence or late intervention of authorities; the development of corruption; customers’ proximity; the cooperation of wholesalers; informal logistics (transport, warehouses, ...).

Conclusion

Our analysis of the large scale trade sector in Algeria highlighted all the issues related to the institutional environment which stand as obstacles to modernization of distribution networks in Algeria. We observed that the retail sector could not take off in Algeria due to the combination of a number of factors.

As for managerial contributions, they are for large international retailers. Indeed, it is to make them know the key criteria for the implementation of large surfaces in Algeria and the implications of this type of business on their competitive situation in Algeria. These are the same criteria to the integration of the distribution channels in Algeria.

This work is also relevant for governments allowing them to develop policies to support the efficiency of distribution channels in Algeria. The large scale trade sector development makes possible better structuring therefore greater transparency of trade. It can be a lever to fight against informal trade. In addition, through its business volume and its bargaining power with suppliers, large retailers may exercise, at first, a significant impact on price levels.

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