

# Is the upgrade enough to reinforce the Performance of SME ?

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## Abstract

The article constitutes the empirical instrument making it possible to bring operational slopes on the upgrade of SME to Algeria. It attempts to know the impact of the process of upgrade about the reinforcement of the economic situation of the companies having undergone this treatment. In order to tackle this question, and on the basis of sample of 20 SME of the wilaya of Oran pertaining to the sector of profit Manufacturing industries of program (EDPME), we carried out a comparative analysis of which the data of these last were collected for the year 2005 and 2009 thus presenting their situations before and after the installation of the program of setting level.

**Keywords :** SME, upgrade, Algerian SME, SME of the wilaya of Oran, program ED SME, Manufacturing industries, indicators of competitiveness.

## Introduction

Introduction the space field of this empirical study covers a group made up of 20 Oranian SME profit of the program of upgrade Euro Development SME (ED SME), and shared depending on two different states, of which the data of these last are thus collected for the year 2005 and 2009 thus presenting their situations before and after the finalization of installation of the program.

Thus, before carrying out the economic analysis, and to better be able to interpret the results found later on, we will present a description of the sample of surveyed companies. Accordingly, the present section is built in three stages : - Base of the program Euro Development SME (ED-PME) - data and definition Sources of the variables - Presentation and data analysis

**1. Base of the program Euro Development SME (ED-PME)** the opening of the market leads the State to improve the macroeconomic environment and to give to the companies means of fighting against foreign competition in, incentive to be levelled, to develop and diversify their activities. For that the program Euro Development SME (ED-PME) was implemented. Indeed, which is the base of this program ?

**1.1. Definition of the program the program Euro Development SME (ED-PME)** lies within the scope of the program of support to the development of the Algerian PME/PMI private (MEDAI) which was the object of a convention of financing between the Algerian Government and the signed European Commission on September 14th, 1999. The purpose of this program is to pre-empt the coming into effect of the association agreement, and to make so that the program of support to the development of the Algerian private PME/PMI aims primarily the reinforcement of the competitiveness of the industrial companies while being aligned on the international standards of organization and management, and evolution of the managerial behavior of the entrepreneur, with respect to the market, and in particular of the emergence of a euro-Mediterranean market, thus of the good practices of management. Indeed, this program was spread out over one five years duration, (started in July 2002 and on December 31st, 2007 was completed), with “a budget of 63 million euros which understands 57 million<sup>1</sup> euros coming from the European Commission, 3.4 million euros coming from the Algerian State (Ministry for SME and the Crafts) and the rest constitutes the participation of the companies in their own actions”.

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<sup>1</sup> 1 MIPI, [2008].

**1.2. The shutters of interventions of the program the program Euro Development** SME intervenes in the 3 following fields:

**1.2.1. The direct support with the companies (Shutter I)** the direct support with the companies (average) by the means of diagnoses and actions of upgrade, constitutes the most important shutter of this program. It concentrates as regards reinforcement of the immaterial activities. It results in supports going up to 80% of the actions related on the development of the diagnoses and the formulation of the plans of upgrade, the realization of the actions of upgrade and the accompanying measures with an aim of reinforcing their level of competitiveness and performance.

**1.2.2. The support with the new instruments of financing of SME (Shutter II)** Indeed, the program ED SME puts in full light the problems of financing of SME, in this respect, it envisages to contribute to the facilitation of the access to the banking financing, through the installation and the support of Guarantee funds (FGAR) allow to reinforce the solvency of SME, and while bringing its support thus, with the creation and the formation of the Specialized Finance companies, able to widen the range of financial instruments at the disposal of promoters and of the heads of undertakings.

**1.2.3. The support with the institutional environment of the PME/PMI (Shutter III)** the program intervenes thus in the third shutter which relates to the actions of support likely to improve the environment of the companies. These actions, indeed, are designed to support the public and deprived organizations of support, the intermediate structures, the institutions of formations, and the employers' and professional associative movement, thus the central administrations for the best taken in charge of the needs and concerns for SME.

**1.3. The objectives of the program**

According to its originators, and in accordance with the Association agreement, program ED-PME aims at helping the Algerian PME/PMI with: - To re-examine their methods of management; - To develop their knowledge of the market; - To reinforce their competitiveness to cope with the opening of the Algerian market with competition and the emergence of a vast market Mediterranean euro; - To increase the effectiveness and the profitability of more a large number of PME/PMI and to support the emergence of favorable conditions to the development of the company.

**1.4. The recipients of the program** the principle which guides this Program rests on the concentration of the efforts on the companies and the other final recipients of the program who are likely to constitute, by their success, of the examples for the companies of which the methods of managerial organization and production do not enable them yet to face international competition. So the eligible recipients with the present program are divided into three categories, as follows:

**1.4.1. On the level as of institutions**

- institutions and organizations of support to the companies: All entities public or private having authority to promote, frame and support SME, such as the Ministry for SME and the Crafts, the Chambers of commerce and industry, the employers' organisation and professional associations of branch, thus Bources de Sous-Traitance and of Partnership. , etc - financial institutions and financial promoters private: Banks, and the private promoters having the aim of in general creating and to promote new finance companies specialized in the financing of SME, through the placement of various means and instruments, like the capital risks, the leasing, factoring, thus of other alternate instruments to the bank credit allowing to cover the economic activities of SME.

### 1.4.2. On the level of the companies

- Any private company of the industrial sector or related services with industry, in particular that which belongs to the following sectors: Chemistry, Mechanics and Metallurgy, Electricity and electronic Building materials, Agri-foodstuffs, Textile and clothing, Leathers and shoes, Wood and furnishing, and of the goods manufactured in general. - Very undertaken justifying:

- Of Algerian right, legally made up in Algeria;
- Of at least three fiscal years;
- Of a manpower between 20 and 250 employees;
- Of the certificates of tax identification and registration with the CNAS.
- To present a good motivation for an upgrade;
- To commit itself paying a contribution of an amount of 20% of the overall costs of the interventions envisaged by the competitive upgrade.<sup>2</sup>

## 2. Data sources

### 2.1. Presentation of profit Oranian SME of the program of upgrade (EDPME)

Thus, the space field of this empirical study covers a group made up of 20 Oranian<sup>3</sup> SME of the sector of profit manufacturing industries of the program of setting level "EDPME"<sup>4</sup>. Indeed, they are shared depending on two different states, of which the data of these last are collected for the year 2005 and 2009 thus presenting their situations before and after the installation of the program. The

<sup>2</sup> The 80% are financed by the program.

<sup>3</sup> It is to be announced in this respect, the total of profit SME Oranian of this program of all confused sectors arrives at 25 companies, and thus presenting the population of our sample, it is what is presented in bottom.

<sup>4</sup> 3As we already mentioned, Program ED-PME is presented as having had more success because of the number of companies which were adhered. It is what justifies the choice of our field of study.

following table presents the number of profit Oranian SME of this program by branch of industry.

**Table (1.): The distribution of profit Oranian SME of program EDPME by branch of industry**

Sector	number of SME	%
Services	0	0%
BTP	1	4%
Manufacturing industries	24	96%
Agriculture and fishing season	0	0%
Related services with industries	0	0%
total	25	100%

**Source:** Document interns Management of SME and Promotion of the Investment of Oran, [2011].

Concerning the distribution of profit Oranian SME of the programme of upgrade (program EDPME) per branch of industry, and which is thus reported

by tables (1.), it is to be announced that the sector of Manufacturing industries presenting our context of analysis includes almost the totality of profit SME of the program, (either 24 companies of 25 SME accounting for 96% of the totality of the surveyed population) and whose sector of the Construction industries (BTP) remains with the second rank with only one company, or 4% of listed totality. Accordingly, it is to be specified that, the agroalimentary sector records the most important volume compared to the other sectors, either 8 profit companies of this program, thus the sector Chemistry, Plastic and Pharmacy remains with the second rank with 5 companies, or 2 activator in industry Chemistry-Pharmacy, thus irons and steel industries, Metal, Mechanical and Electronic (ISMME), or 4 SME, including 3 activator in "the branch Metallurgy", then the industry of building materials is present with 2 surveyed profit companies of totality, and or 2 with the sector of the textile. However, the other sectors record a timid presence of SME (that is to say one

1 only company) such as, wood Industries & paper, and Leathers, Skins & Shoes and medical equipment.

**2.2.Characteristicsofthesample**

We chose a sample of companies which answers the following criteria: Companies belonging to manufacturing industries. This choice is explained by a greater exposure of these industries to foreign competition following the installation of a free exchange zone by 2017 with the EU;

- Companies having an employee <250;
- Indeed, the choice of the sample covers the various types of sectors of manufact

uring industries to knowing the agri-foodstuffs, textile clothing and leathers and Shoes, chemistry, mechanics and electric, the building materials, as well as wood industries and Papers.

**2.3.Description ofthe sample**

Considering the difficulty in laying out the data concerning 24 SME activating in the industrial sector and presenting thus almost totality of the surveyed population, our sample is composed of 20 SME shared out of seven (7) industrial sectors; the Agroalimentary sector, Chemistry & plastic and Pharmacy, Textiles, Industries of wood and paper, Leathers, skins & shoes, the sector of the ISMMEE, and building materials. Indeed, they are presented and distributed as follows:

**Table (2.): The distribution of 20 SME surveyed by branch of industry Sector of Manufacturing number of**

Sector of Manufacturing industries	number of SME
AGRO Food	8
Chemistry & Plastic and Pharmacy	4
Textiles	2
Industry of wood & paper	1
Leathers, Skins & Shoes	1
ISMMEE	3

Building materials	1
Total	20

**Source:** Personal clothes industry.

**3. Definition of the variables**

We have an observation of these 20 SME for the variables available before the implementation of the actions of upgrade, that is to say the year 2005, as well as an observation after the finalization of the process of upgrade, namely the year 2009. Indeed, the exploited indicators also relate to the level of the sales, of the investment, the turnover, and the added-value. One also finds the number of employees, as well as the structure of the debts. In this meaning, it is to be specified that, we could collect the data necessary<sup>5</sup> making it possible to calculate the list of the variables (indicators)<sup>6</sup> of Performance relating to each company of our sample, and on which the statistical test, of checking of the positive effect of the upgrade on the competitiveness of the companies will be highlighted. These indicators are calculated as follows:

**1. Indicators of structure**

- Evolution of equities ü total Emplo (EMPL) = Full number of employees
- Investment (INVES) = investissement = /CA
- **Indicators of operation**
- Tauxofdebt (ENDET) =  $\frac{\sum \text{Debts/Active}}{\text{CA}}$

<sup>5</sup> These data are exploited starting from the assessments, and of the Tables of the Accounts of the Results of these companies, and that concerning the two periods (12/31/2005) and (12/31/2009). They concerning thus, following variables: Equities (FP), the Added-value (GOES), Investments, Bottom line (RN), the Turnover (CA), Credits, long-term Debts (DLT), Current liabilities (DCT), and Manpower.

<sup>6</sup> We could not have the data concerning surveyed Exportationsdes SME. For that, the indicator relating to the export (EXPORT), and which presents the second variable thus defining the third assumption (P 3 Output) is not included in our analysis.

- Structure of the debt = DLT/DCT
- Ventees= turnover (CA)

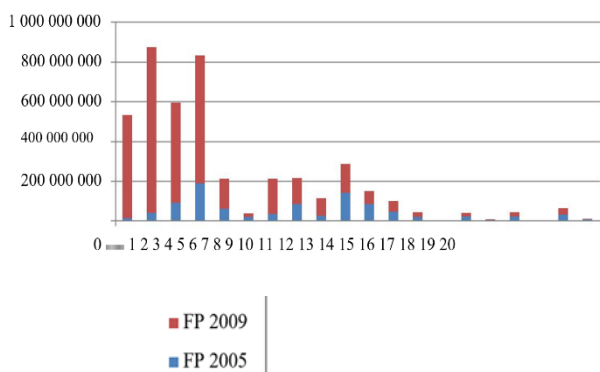
**2. Indicators of performance**

- Evolution of the bottom line
- Taux of added-value = Added-value/Turnover
- the profitability of Equities (RFP) = Equities/Bottom line
- productivity (PROD) = Added-value/ employees
- the productivity of value (PRN) = Bottom line/ employees
- the Productivity of sales (PVENTES) = Sales/ employees

**4. Presentation and data analysis**

The following figures inform us about the financial situation of each firm of the sample which fell under this process of upgrade, in terms of 9 variables (Equities (FP), Investments (INV), Bottom line (RN), Credits long-term Debts (DLT), Current liabilities (DCT), Manpower(EFFE), Added-value(GOES), and Turnover (CA)). They relate to a presentation detailed concerning 20 SME surveyed in 2005, like their situations after the finalization of the process of upgrade implemented(in 2009):

**Figure (1.): The situation of Equities of 20 SME surveyed before and after the upgrade**

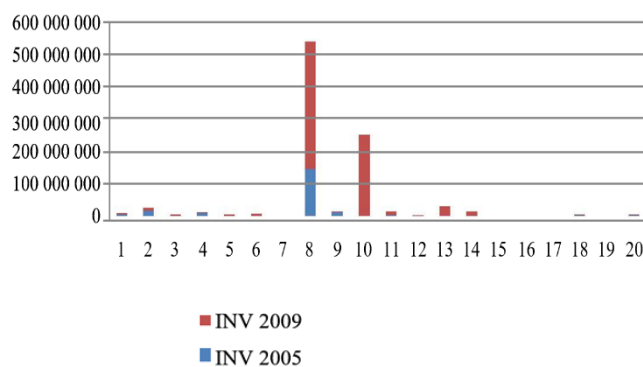


**Source:** Figure drawn up starting from the book of the companies.

The figure releases a marked progression of Equities in 2009, by recording a total growth of 2 497 600 604 DA,

that is to say almost four (4) times the amount generated in 2005. The majority of SME (15) followed same logic, and that is explained by a reinforcement of the structure of the class “1: Equities” of the assessment after the implementation of the upgrade, in which the increase arrives at 76.44%. It is to be announced in addition that a weak evolution of this variable was noticed for 5 companies out of 20, thus accounting for 25% of the totality of surveyed SME, and in which the reduction arrives at 28.30% after their upgrade. The stockholders' equity corresponds to the long-term resources available to the company without calling on the long-term loan near third (banks, debts suppliers etc). In this respect, any fluctuation of Equities can be explained by a change on the level of its components presented as follows: the authorized capital, the reserves, known as statutory reserves, which are essential as books security equivalent to 5% of the bottom line, the carryforward again, indicating the cumulated results not distributed to the shareholders, the bottom line of the exercise corresponding to the losses or the benefits of the exercise, as well as the provisions<sup>7</sup> in purely tax matter that the companies have the possibility of constituting in certain cases.

**Figure (2.): The situation of the Investment of 20 SME surveyed before and after the upgrade**



**Source:** Figure drawn up starting from the book of the companies.

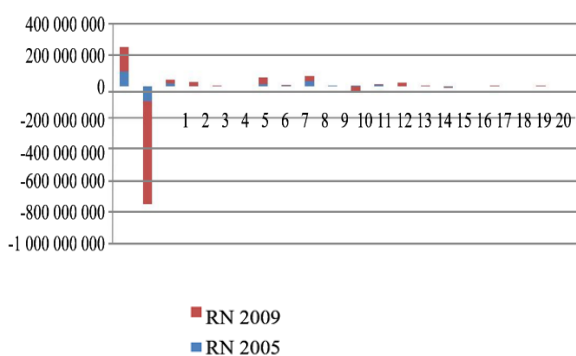
<sup>7</sup> If one finds them in stockholders' equity, it is by what they represent a form of reserve of frankness total or partial of taxes.

The investments of a company represent the value desbiens durable assets by the production units to be used during at least a year in their production process. They are goods or values intended to remain durably in the same form in the company. They are likely to be accompanied with damping for depreciation of asset. Indeed, damping represents the countable observation of a diminution of the value of an asset. This variabelerecovers thus:

- Intangible fixed assets correspond to the goodwills, the right to the lease, with thepatents,licencesand brands, etc
- The tangible fixed assets correspond to the grounds, construction, techniques installation, equipment and tools etc

The figure clearly indicates a progression of clear accounting values of the investments acquired to the level of our sample, and in which the total increase, is de 748 479,572 DAin2009, after 231 364,456DA in 2005. The majority of the companies followed the same logic, in which the increase in this variable east can probably be explained by the acquisition of new investments during the period of upgrade. On the other hand, the companies (2, 4,9,15, and 16) did not react in a strong way to increase their level of investment. Indeed, they recorded falls on the level of the Clear Accounting value their investments. In addition, this regression can be probably explained by transfers of credits, et/oupar the irreversible diminution of the values of their investments.

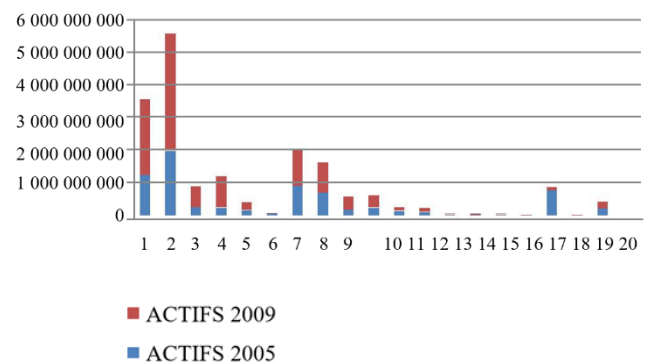
**Figure (3.): The situation of the Bottom line of 20 SME surveyed before and after the upgrade**



**Source:** Figure drawn up starting from the book of the companies.

Information on the bottom line is to be taken with much precaution, because the data presented clearly reflect a strong reduction in the bottom line, by thus releasing a negative amount, that is to say (- 366 391 089 DA) like a deficit released in 2009, after 75 074 251 DA, like a benefit created by the totality of our sample before the implementation of the program of upgrade. According to these results, it is probable that the majority of firms (13 SME, thus presenting 65% of listed totality) committed in this process, were able to appreciably improve their results of exercise. The companies (2, 6, and 11), with is respectively(-656762 647 DA, - 1,709 505DA,and-32,609 524 DA) however carried out results obtained thus contrary what is expected with a rather negative and significant sign. This observation requires to be consolidated by other studies in order to better understand the degree of resistance of the firms to the future shocks.

**Figure (4): The situation of the Credits of 20 SME surveyed before and after the upgrade**

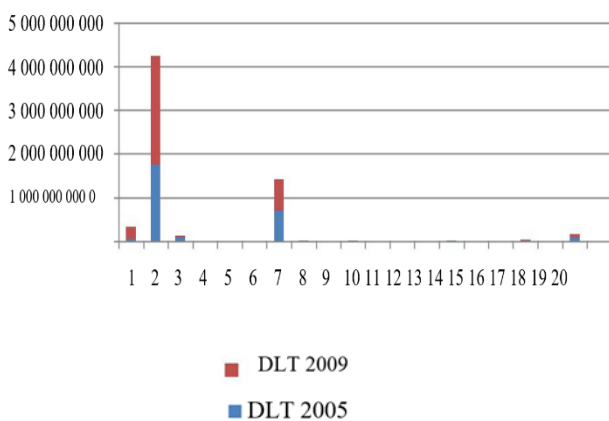


**Source:** Figure drawn up starting from the book of the companies.

The assessment is a summary in which are gathered. At a given date, the whole of the resources available to the company and the whole of employment that it made some. In other words, it is about a “photography” of the heritage of the company at one exact moment. The latter corresponds to the “date of inventory” or that of “end of

the financial year”. Indeed, the total of credits represents the total of the assessment at the end of the exercise. This variable recorded a progression arriving à11 251 265 684 DA in 2009, after 7 317 568 509 DA in 2005, thus including the whole of the surveyed companies, and whose 15 SME followed this logic. However, the companies (6, 11,16,17 and 20) knew falls of the total assets, and that can be explained by the fall of the one and/or the majority of the components of the assessment appearing in the level of the credit (investments, stocks, claims), and logically in the level of the liability. The company (16) recorded falls on the level of its total of credit and its investments (13 275 000 DA in 2005 and 5,643 532 DA in 2009).

**Figure (5.): The situation of the long-term Debt of 20 SME surveyed before and after the upgrade**

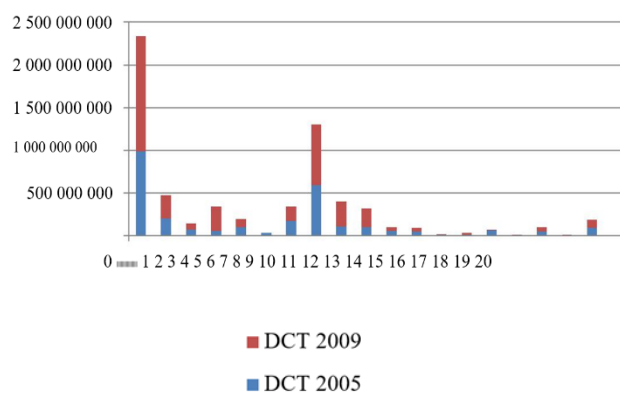


**Source:** Figure drawn up starting from the book of the companies.

The long-term debts understand all the loans near the thirds, whose expiry is higher than one year. These debts are made up of the loans (including the bank overdrafts or banking competitions). The figure informs us about the total evolution of this variable, thus including the totality of the companies listed after the implementation of the process of upgrade, that is to say a progression of 35% in 2009 compared to the basic year. The companies (4, 6,9,11,13, and 18) display worthless amounts, thus expressing the inexistence of the long-term debts, thus a stagnation is marked concerning the company (20). In this

meaning, it is possible to probably affirm the existence of the debts family thus financing the financial transactions of the companies, and more particularly those relating to the acquisition of the investments. In addition, the companies (8 and 10) presented a disappearance of the debts after two years of finalization of the process of upgrade. Amongst other things, the companies (1, 2,5,7,12,19) did not follow the same logic of the precedents, they however knew an important progression of this variable, that is to say an increase of 60% in 2009 compared to 2005.

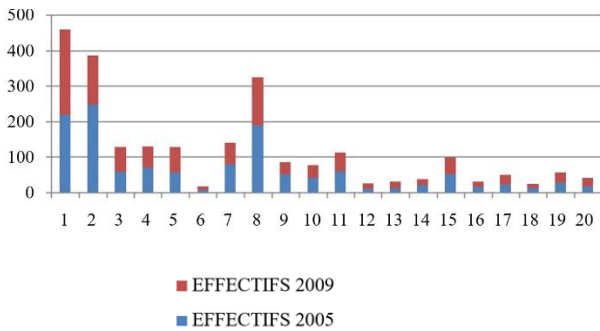
**Figure (6.): The situation of the Current liability of 20 SME surveyed before and after the upgrade**



**Source:** Figure drawn up starting from the book of the companies.

The current liabilities form the resources in the short run intended to finance short-term employment (assets at less than one year). The figure releases a marked progression of the Current liabilities in 2009, by recording a total growth of 3 726 050 533 DA, that is to say almost 35.63% compared to 2005. Half of SME (10) followed same logic, and that is explained by a reinforcement of the structure of the debts of exploitation of the assessment after two (2) years of implementation of an upgrade. It is to be in addition announced a regression of this variable was marked on the 10 remaining companies.

**Figure (7.): The situation of Manpower of 20 SME surveyed before and after the upgrade**

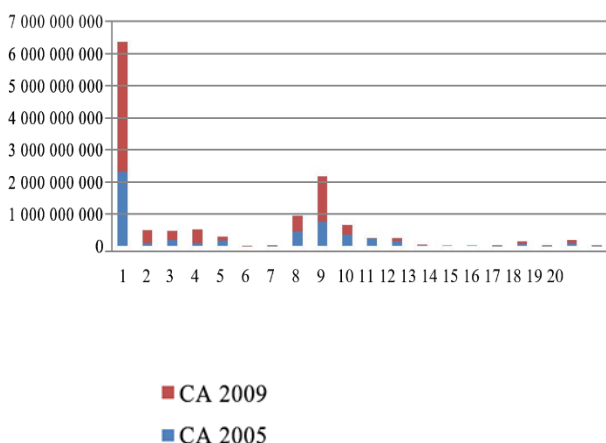


**Source:** Figure drawn up starting from the book of the companies.

The figure displays a timid regression amongst employees after two years of finalization of the process of upgrade of 155 paid, presenting is a fall from almost 5% of the totality of the companies listed compared to the basic year (2005).

Accordingly, it is imperative to announce that, this regression is indeed explained by the strong fall of employment, released thus by the companies (2 and 8), that is to say respectively of 109 and 53 like job losses displayed in 2009.

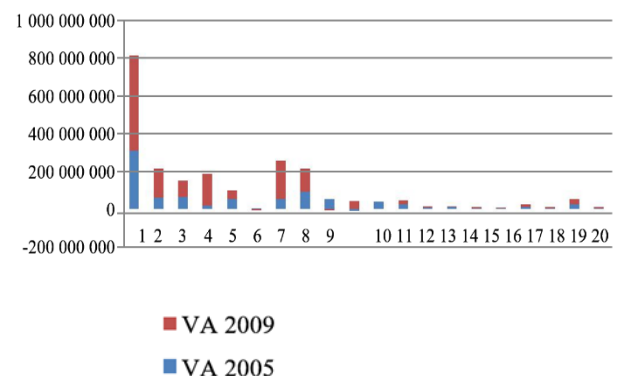
**Figure (8.):** The situation of the Sales turnover of 20 SME surveyed before and after the upgrade



**Source:** Figure drawn up starting from the book of the companies.

The turnover (CA) is the sum of the sales of goods and performances of service concerned with the usual exploitation of the company. This amount understands neither the VAT nor the other taxes directly related to the Turnover. The commercial reductions (given, rebates, discount) are to be deducted from the Turnover to obtain the Turnover<sup>8</sup>. Indeed, the figure above indicates a total increase in the sales in 2009 recorded presenting ainsi7 844 508 734 DA, after 5 044 192 300 DA like a Turnover generated before the implementation of the process of upgrade. The majority of the surveyed companies (13 SME) followed the same logic, explained thus by the increase in the sold quantities or the selling prices, and/or the unit costs of the sold productions. Moreover, the companies (5, 6,10,12,14,19, and 20) knew falls of the sales after their upgrade.

**Figure (10.):** The situation of the Added-value of 20 SME surveyed before and after the upgrade



**Source:** Figure drawn up starting from the book of the companies.

**Table (3.):** Annual index of the producer prices of Manufacturing industries (Price incl. VAT)« Private sector »

year	2005	2006	2007	2008	2009
index	414,8	422,5	430,7	436,6	443,0

<sup>8</sup> It is to be announced accordingly that, the turnover is exploited starting from the Tables of the accounts of results (TCR) of the surveyed companies.



Source : ONS, [2010].

**Table (4.): Price effect on the evolution of the Turnover and the Added-value - In Dinars Algerian (DA) –**

year	2005	2009		
<b>AV (VA)</b>	811 120634	Price effect « AV » = AV 2009 / (IPP <sup>9</sup> 2009 / IPP2005)	1 321 644706	Real increase in added-value
<b>Turnover (CA)</b>	5044192 300	Price effect « CA » = CA 2009 / (IPP 2009 / IPP2005)	7 345 151 745	Real increase in turnover

Source: Our calculations.

The analysis of the added-value is used in a multiplicity of fields at various ends. In the field of management and consultation, the concept of the added-value is especially used in order to identify solutions with the problems of inefficiency of the companies. The basic idea is that the companies may find it beneficial to concentrate their efforts and resources on the activities which raise the value of the company, and to minimize, to even eliminate the others. The vision of the company, its objectives and the needs for its customers will be used as benchmarks to evaluate the contribution of the activities to the creation of value (Willis. J.F, and Avoided.G, [2002]). The figure releases a total progression of the remarkable added-value after the finalization of the process of upgrade [2009], that is to say a total difference of 600 375 520 DA, with an evolution of 75% compared to the basic year [2005], whose rate of added-value accounts for 16.08% and almost 18% respectively before and after the upgrade compared to listed totality. Table (3.) presents the annual Index of the producer prices of Manufacturièresqui Industries arrives at 443.0 in 2009 after 414.8 in 2005. And by presenting the price effect on the evolution of the Turnover and the Added-value, table (4.) shows the real increase in the sales as well as added-value justified by the superiority of these indicators in 2009 at the prices of

2005, compared to those of 2005. Later on, the majority of SME (14 companies) followed same logic, and presenting ainsuine increase to the level of their added-values. In addition to, the number remaining of SME (6 companies) knewheavyfallsandeven negative (companies6.9,and11).

Concerning the companies; 6,11,14, and 20 the regression marked on the level of their added-values, after the upgrade is thus explained by significant drops on the level of their turnover by recording falls on the level of the rate of added-value arriving at 855.96%, and 37.46% respectively at the companies (6 and 11).

## Conclusion

The tables and figures above presented the financial situations and economic of 20 SME of the wilaya of Oran surveyed before and after the installation of the program of upgrade ED-PME. They clearly released a total strong growth of equities arriving at 267.51% after the installation of the process of upgrade, by recording a total growth of 2 497 600 604 DA, that is to say almost four (4) times the amount generated in 2005. Indeed, the majority of SME (15) followed same logic, with an increase of 76.44% after the installation of the upgrade. The investments in their turn, clearly recorded a progression of their clear accounting values, newcomer with 748 479 572 DA in 2009, with a growth rate of 223.50%. Also, the indicators of operation as well as the credits, followed same logic, that is to say a progression which varies between 35% and 55%. Then a real progression of the rate of added-value of 1.91% justified by the superiority of these two indicators in 2009 at the prices of 2005, compared to those of 2005. Moreover, the rate of the bottom line is to be taken with precaution, because the data presented reflect a strong reduction clearly, by thus releasing a negative rate, that is to say (- 388.04%), thus, the majority of the firms engaged in this process (13 SME) was able to appreciably improve their results of exercise. Although the Program of Upgrade refers to the improvement of the macro-economic environment and

<sup>9</sup> (IPP) : Price index to the Production.

the meso-economic environment of the company, and in spite of the insufficiencies of our investigation, the studied sample enabled us to note that the upgrade of Algerian SME was not committed with much conviction, as well as the actions conducted on the macro-economic environment (institutional environment, banks, infrastructures, services,...) are far from achieving their goals. Indeed, administration as a whole, as well as the banking environment remain dependent on the influence of the culture inherited the years the economic centralism. Consequently, these entities are always battling against a nonfavorable culture on the initiative and with the development of the business (Joyal. With, [2010]).

Lastly, the conclusions of our study enabled us to note that, the upgrade of Algerian SME by no means fulfills the checked requirements. This is why Madoui. M and Boukrif. M, [2009] recommend the real upgrade of the whole of the structures and institutions which compose the environment of SME, which can involve to eradicate the culture inherited the years of state intervention.

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