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Impact of Corporate Governance on Algeria's Banks' Decisions: Exploratory Study

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Abstract

The confusing thing about Algerian economic environment is that it has no clear rules or systems concerning corporate governance up to this date unfortunately. That is since the initiative of ministry of small and medium size companies and traditional industries, which made in 2009 a general corporate governance guide for Algerians companies called "good corporate charter for companies in Algeria". The latter is no longer been applied since this Ministry was dissolved. These facts make us seek to discover whether Algerian companies are voluntary applying of OECD corporate governance guide from banks' point view as an important stakeholder in Algerian economy. In addition, whether this implementation can affect Algerian banks decisions. To get this study results a survey have been distributed on 70 decisions' makers working for 8 banks located in south Algeria including managers, deputies, heads of departments and loan officers. The results conclude that Algerian banks believe that Algerian companies are voluntary applying OECD corporate governance guide, which significantly increase their trust. However, these banks do not consider corporate governance as a relevant information for their lending decisions due to many causes including the lack of analytic potentials, and absence of rules that encourage them to use it in their lending policy.

Keywords: Corporate governance, Banks' decisions, Trust, Relevance, Guide

1 Introduction

Corporate governance appears after corporates financial scandals around the world it is a tool that can help corporate to organize its relationship with stakeholders especially shareholders. Algeria as a part of global economic and a developing country has known since

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independence increasing in companies' numbers especially small and medium size companies. However, one of the big problems of this kind of companies is that they do not last. Due to issues in managing their relationship with stakeholders and the wild spreading of corruptions in Algerian environment. Which we can see it through transparency 2007 Report that Algeria ranked in 99th (safir Mohammed, 2017). That led most of the time to a bankruptcy causing damage to all types of stakeholders especially bad debt for banks around the country. these bad conditions made ministry of small and medium size companies and traditional industries in 2009 to adopt corporate governance and develop a general guide for corporations called "good corporate charter for companies in Algeria" in corporations with many bodies such as Association of Workshop and Reflection on Institutions, Forum of Heads of Institutions and IFC (zaror naima, 2017). Good corporate charter for companies in Algeria was a big step in Algerian economy prove well and sincere intentions from both government and corporations. However, it did not last. Actually, After the dissolving of the ministry, this charter became words on papers and no longer being applied, leaving Algerian economic again in mysterious with no clear rules organize economic agents' relationships. Fortunately, there is the global common guide of OECD, which suggests general principles for those companies who want to continue and repair relationship with stakeholders among themes banks. By these far from information, this research paper suggest the following main problematic: does Algerian companies' voluntary implementation of OECD corporate governance guide impact Algerian banks' decisions? By using survey on 70 decisions' makers who belong to 8 banks. The finding provides a support for the hypothesis that Algerian companies are voluntary applying OECD corporate governance guide. also for hypothesis that Algerian companies voluntary implementation of OECD corporate governance increase banks' trust , while the results did not support the hypothesis that banks consider corporate governance as a relevance information for their lending decisions. The remainder of the paper proceeds as follow: section 2 contains theoretical framework and hypothesis development; section three present research method, section 4 report results and discussion.

2 Theoretical framework and hypothesis development

2.1 Good corporate charter for companies in Algeria

in fact this charter is very simple and summarized most of it inspired by OECD corporate governance guide (yasmina amamra, 2018), which is naturally since international bodies have been involved in its creation, with taken into consideration Algerian economic and SMEs specificities. The charter contains two main part the former describe corporate governance concept, Algerian and SMEs conditions, the latter present four principles. The First one called internal stakeholders and their interrelationship it presents different rights and duties of

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shareholders general assembly, board and directorate. The second one known as company relationship with external stakeholders which cite and organize the rights of each of authorities, banks, other financial institutions, suppliers, customers, employees and competitors. The Third one named as quality and disclosures it discussed companies' financial disclosures commitments; also encourage them for non-financial and voluntary disclosures. Fourth principle address one of big problems for SMEs which is transformation of ownership, lead and successions from founders to successors in a safe way without destabilized the company (ministry of SMEs and traditonal industry, 2009).

2.2 OECD corporate governance guide

as it has known the OECD corporate governance guide is commands wide international recognition, and a benchmark for corporate governance quality (yasmina amamra, 2018). OECD state that corporate governance should be applied through six principles. First, ensuring the basis for effective corporate governance it states that integrity and independent authority should create suitable and legal governance framework that can organize market participant's contractual relationship and enhance ethics, transparency and accountability. Second, the rights and equitable treatment of shareholders and key ownership functions guaranty rights of all shareholders kind. Third, institutional investors, stock markets, and other intermediaries, which it expend corporate governance implementation to investment chain such as brokers, rating agencies and analysts. Fourth, the role of stakeholders in corporate governance provide to achieving of full respect for all stakeholders among themes banks and employees. Fifth, disclosures and transparency it encourages companies to ensure the minimum level of financial and non-financial disclosures. Sixth, the responsibilities of board which means that board must be independent and efficient responsible to determine company strategies of and its ethical tone (OECD, 2015). From above it can be concluded that there is a quite similarity between good corporate charter for companies in Algeria and OECD corporate governance guide. which means that companies can rely on the latter in the absence of the former ,also the banks can determine whether these companies are applying corporate governance. Hence, the first hypothesis can form as follow:

H₁: Algerian companies are voluntary applying OECD corporate governance principles from banks' point view.

2.3 Corporate governance and banks' decisions

Almost all of Banks have an accurate framework used by them in their decisions especially in loan application evaluating. According to Beaulieu(1994,1994) and Guiral (2012,2016) loan officers in order to form their lending decisions they resort to both financial and non-financial

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information using framework called "five C's of credit ", which consists of the following five elements: character, capacity, capital, conditions, and collateral. Among the five C's character is the most important and complicated (Andres Guiral, 2016) (i.e. integrity, stability and honesty of borrower)(Beaulieu, 1994) in other words it provides loan officers with summary measure of management's determinations to repay debt loan officers then combine their judgment with the other four (Andres Guiral, 2016). So corporate governance implementation can be consider as debtor character .since it describes companies strategies, ethical behaviour and board integrity, also management good intentions of conducting business in legal and ethical way without damaging stakeholders especially banks. Therefore, it can be telling that corporate governance implementation may affect banks' trust. Hence, the second hypothesis will be as follow:

H₂: Algerian companies voluntary implementations of OECD corporate governance guide increases banks' trust.

A relevance information means that it meets the users' needs and they rely on it in their decisions making process. Moreover, it is clear from above information that corporate governance is a non-financial information. As a result, it can be saying that corporate governance information is a relevance information for banks. Because In one hand loan officers are taught to seek and organize non-financial information to form their lending decisions (Beaulieu, 1994), so they need it. in other hand corporate governance voluntary disclosure contribute in reducing information asymmetry, restrict profits management, achieving completeness (Gaa, 2014), solving agency issues and conflicts of interests, Furthermore corporate governance implementation raise credit ranking, reduce debts cost (Judy Day, 2014), and credit risks by controlling managers behaviour, as well as reducing agency cost and information asymmetry between lenders and borrowers. Therefore, if companies were not able to disclose enough information, then the banks will reject lending (Bill Francis, 2007). As a result, the third hypothesis can be written as follow:

H₃: Algerian banks consider corporate governance information as a relevance information for their lending decisions.

3 Research method

3.1 Research tool

in order to achieve the study results a survey have been developed. It contains two main parts the first one includes demographic information for the study sample such as job position, educational qualification while the remain part of survey present in total 21 phrases regarding independent and dependent variable. The independent variable (i.e. OECD corporate

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governance principles) had been adjusted according to Algerian economic specifics and banks' level of knowledge and interest to read as follow: corporate governance framework, stakeholders relationship, disclosure&transparency and board responsibilities. The dependent variable (i.e. banks' decisions) contain phrases regarding banks trust and corporate governance relevance for banks. The Likert scale was used to design the survey (Agree, Neutral, and Disagree). also the value of Cronbach's Alpha coefficient for all the study phrases is 86% which means acceptable degree of internal stability that enables us to rely on it in achieving the study goals.

3.2 Research sample

the study sample is normally distributed. As shown in (figure 1) the number of study sample was 70 employees including managers, deputies, heads of departments and loan officers. Most of them are loan officers, who consider the firsts' responsible for loan application agreement.

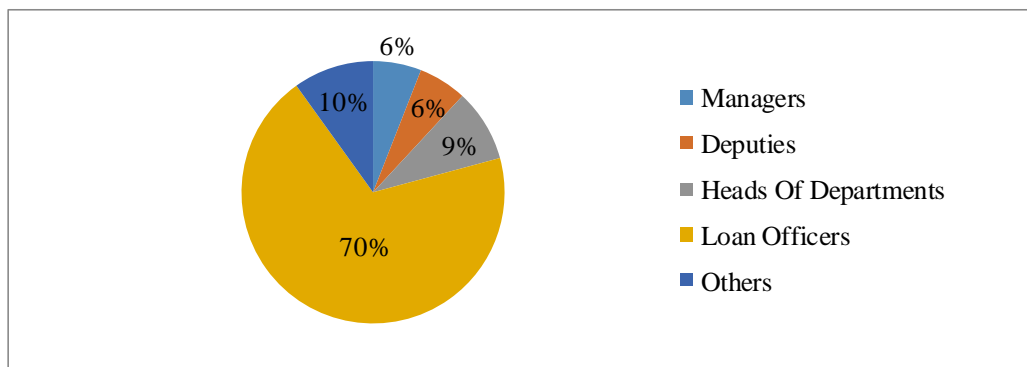
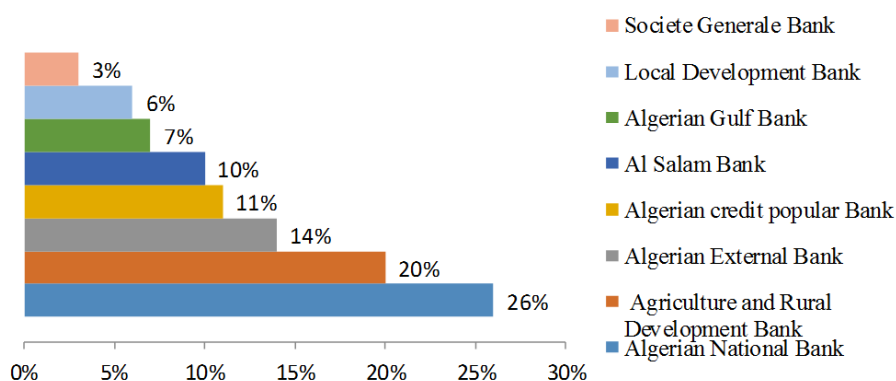


Figure 1: sample distribution by job position

Source: SPSS outputs

In addition, (figure 2) shows that the sample works for 8 different Bank located in south Algeria (i.e. Ouargla state) most of them works for Algerian National Bank.



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Figure 2: Sample distribution by banks

Source: SPSS outputs

4 Results

4.1 First hypothesis test

to validate the first hypothesis, the mean of independent variable axe have been calculated (table1).Therefore, the result provides a support for H₁, that Algerian companies are voluntary applying OECD corporate governance principles from banks' point view.

Table 1: IV axe Mean

Independent variable axe	Mean	Likert scale score
OECD corporate governance principles	2.41	Agree

Source: SPSS outputs

4.2 Second hypothesis test

for testing the second hypothesis, the multiple linear regression have been used (Table2), in which the four OECD corporate governance principles considerate as independent variables represented in β_1 as corporate governance framework, β_2 as stakeholders relationship, β_3 as transparency disclosure and β_4 as board responsibilities. While Banks' trust considerate as a dependent variable. Through both F value of 11.419 and its significance of 0.000, which is less than the significant level, 0.05 it can be concluding that the regression model is significant. Moreover, R-value of 64% indicates that there is a high relationship between OECD corporate governance principles and banks' trust where R^2 value show that these principles can describe 41% the changes in banks' trust. Also, from (β_1 , β_2 , β_3 , and β_4) respectively values show that increasing one unit of corporate governance framework, stakeholders' relationship, disclosure & transparency, board responsibilities may increase banks' trust by (0.110, 0.212, 0.351, 0.306) respectively. However, t value and t significance of (β_1 , β_2 and β_4) indicate that they are not significant vice versa for β_3 . In addition, the VIF of the model is less than 3 which mean that there is no multi-collinearity among the model's independent variables.

Table 2: Regression result of the second hypothesis

Symbols	Values	T. value	T. sig	VIF
R	0.642			
R^2	0.413			

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F. value	11.419			
F. sig	0.000			
β_0	-0.64	-0.146	0.885	
β_1	0.110	1.200	0.235	1.591
β_2	0.212	1.191	0.238	1.633
β_3	0.351	2.160	0.034	2.149
β_4	0.306	1.664	0.101	1.625

Source: SPSS outputs

The results above provides a support for H₂, that Algerian companies voluntary implementations of OECD corporate governance guide increases banks' trust. Moreover, the regression model of this impact can be written as follow:

$$BT = -0.64 + 0.110Fram + 0.212Stak + 0.351T \& D + 0.306Boa$$

Where BT refers to banks' trust, Fram refers to corporate governance framework, Stak refers to stakeholders' relationship, T&D refers to transparency and disclosure and Boa refers to Board responsibilities.

4.3 Third hypothesis test

In order to test the second hypothesis, the multiple linear regression have been used (Table2), in which the four OECD corporate governance principles considerate as independent variables represented in β_1 as corporate governance framework, β_2 as stakeholders relationship, β_3 as transparency disclosure and β_4 as board responsibilities. While corporate governance relevant considerate as a dependent variable. Through both F value of 3.889 and its significance of 0.007, which is greater than the significant level, 0.05 it can be concluding that the regression model is not significant. Moreover, R-value of 44% indicates that there is a moderate relationship between OECD corporate governance principles and banks' trust where R² value show that these principles can describe only 19% the changes in corporate governance relevant. Also, from (β_1 , β_3 , and β_4) respectively values show that increasing one unit of corporate governance framework, disclosure&transparency, board responsibilities may increase corporate governance relevant by (0.198,0.473 ,0.211) respectively vice versa for β_2 . However, t value and t significance of (β_2) indicate that it is significant vice versa for the rest. In addition, the VIF of the model is less than 3 which mean that there is no multi-collinearity among the model's independent variables.

Table 3: Regression result of the third hypothesis

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Symbols	Values	T. value	T. sig	VIF
R	0.439			
R ²	0.193			
F. value	3.889			
F. sig	0.007			
β_0	2.360	3.502	0.001	
β_1	0.198	1.408	0.164	1.591
β_2	-0.904	-3.319	0.001	1.633
β_3	0.473	1.901	0.062	2.149
β_4	0.211	0.750	0.456	1.625

Source: SPSS outputs

The results above do not support H₃, that Algerian banks consider corporate governance information as a relevance information for their lending decisions. Which means they do not consider it as a relevant information for their lending decisions.

5 Results discussions

Form previous results and reality it can be saying that OECD corporate governance implementation effect banks' trust especially both transparency & disclosure principle and board responsibilities principle. Transparency & disclosure principle encourage companies to be open and to increase transparency in its financials statement and provide a strong disclosure system. Which is lacking in Algerian economic environment and that made banks' trust increasing. In addition, the several scandals of companies over years such as spreading of corruption and information blackout, that causes bad debts affect banks and made them more careful and focus on trust as tool to reduce their credit risks, they even confirm companies information by inquiring its external stakeholders among themes tax administration. As for board responsibilities, it considers as companies face that show up for stakeholders so a reliably and ethical board that respect rules is important for banks' trust which we can find it in all banks' conditions for loan application that companies must be empty from any court cases.

However, Algerian banks do not consider corporate governance as a relevant information for their lending decision due to many overlapping causes. First, is that Algerian banks lack of analysis potentials regarding non-financial or voluntary disclosures information they only rely

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on collateral. Second, is that the lack of competition, investment, and the non-dynamic nature of Algerian economy. Third, Algerian economic environment does not have any rules or bodies that can organize and monitoring voluntary disclosures or non-financial disclosures. Finally, as it is clear that there are no rules that encourage banks to use this kind of information in their lending policy.

6 Conclusion

it is clear that corporate governance is important for both developed and developing economies. It considers as a tool that organizes companies conduct. Corporate governance subject received acceptable reaction from Algerian banks but it is not as much as in developed countries.

The finding provide support for hypothesis that Algerian companies voluntary implementations of OECD corporate governance guide increases banks' trust. while it do not support that Algerian banks consider corporate governance informations as a relevance information for their lending decisions due to a lot of causes such as banks analysis potentials. This research recommends Algerian authorities to give more intention for corporate governance rules and bodies in order to build a healthy economy.

Although CSR disclosure does not exist in Algerian environment, this paper suggest studying the probability impact of CSR disclosures on Algerian banks' decisions.

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