The Role of Internal Governance Mechanisms in Improving the Financial Performance of the Algerian Economic Institutions

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Abstract:

This study aims at testing the relationship between the internal governance mechanisms and the financial performance in the Algerian economic institutions. It also tried to highlight the impact of the mechanisms of internal governance on the financial performance of the Algerian economic institutions through the following indicators: The return rate on assets, the rate of return on property rights and the rate of return on sales.

A simple and multiple regression analysis methods have been used to detect the relationship between the variables of the study with the optimal model proposal. This study concluded that corporate governance is applied by the Algerian economic institutions. It also found that there is a significant statistical correlation between the internal governance mechanisms and the return rate on assets, and there is a significant statistical correlation between the internal governance mechanisms and the rate of return on property rights. A significant statistical correlation between the internal governance mechanisms and the return rate of return on sales is also demonstrated.

Keywords: corporate governance, internal governance mechanisms, financial performance, Economic institutions. Algeria.

Jel Classification Codes: G34 ; L25.

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1. Introduction :

The theme governance has attracted the attention of many professionals and academic researchers as a motto of reform through which economic, social and political development are achieved. This slogan is based on many mechanisms (internal and external), when properly implemented is improving the performance and value of these institutions and increase rates of economic growth and avoid financial meltdowns as well the stability financial markets as attracting investments.

That the success of economic institutions depends on the choice of a realistic system, it organized the relationship between the management of the institution and stakeholders

In this paper we will try to answer the question: What is the impact of the application of internal governance mechanisms on improving the financial performance of the economic institutions?

1.1. Study Hypotheses: We have addressed the problem of this study by relying on a set of independent variables (corporate governance internal mechanisms) and their relationship with financial performance (dependent variable), our study is based on following hypotheses:

- There is an application of internal governance mechanisms in Algerian economic institutions
- There is a positive correlation between the application of internal governance mechanisms and the financial performance of economic institutions.

1.2. Objectives and importance: This study contributes to reduction of the risk of economic crises, protecting shareholders' rights as well as stabilizing financial markets and raising the level of transparency in those institutions where governance is good applied, and this will inevitably improve the financial performance of economic institutions and improvement on the economy as a whole.

1.3. Study limits: The limits of the study:

- The mechanisms reached by previous studies that are expected to affect performance.
- Expressing performance by financial performance.
- A period of two full years; from January 2017, until December 2019.

1.4. Study Methodology: Within the framework of achieving the research objectives, the study follows two approaches:

- Descriptive and analytical approach, which is reflected in the theoretical study of the concept corporate governance and the internal governance mechanisms
- Inductive approach by studying the case of applying the internal governance mechanisms   the Algerian economic institutions.

2. corporate governance:

The concept governance has clearly spread at the global level, but no specific definition has been agreed on so we will present some definitions as follows:

In 1992, the Cadbury Report stated the following definition (cadbury committe, 1992): "corporate governance is the whole system of controls, both financial and otherwise, by which a company is directed and controlled."

In 1993, the Accounting Supervision Board POB defined it as (POB, 1993): "corporate governance includes those activities undertaken by the board of directors and audit committee to ensure the integrity of the financial reporting process."

In 1999, the OECD defined it as (OCED, 2004): "Corporate governance involes a set of relationships between a company's management, its board, its shareholders other stakeholders, corporate governance also provides the structure through which the objectives of company are set and the means of attaining those objectives and monitoring performance are determined".

2.1 Internal Governance Mechanisms:

Internal Governance mechanisms defined as the methods used to deal with agency problems that arise between management and shareholders in general, and between minority shareholders and the majority controlling shareholders.

There are many internal mechanisms that monitor the activities of institutions in order to take corrective measures to achieve the desired goal.

2.1.1 Mechanism of the Audit Committee (srinivasan, 2005): The Audit Committee has three characteristics

- A committee emanating from the Board of Directors of the corporation

- Its membership is limited only to non-executive members.

- The responsibility of the Audit Committee is to review the

- financial reporting processes and internal and external audit as well as review compliance with the rules of corporate governance with in the institution.

2.1.2 An internal audit mechanism (Iia, 2003): is a stable activity designed to increase the value of an organization and improve its operations.

2.1.3 Disclosure and transparency mechanism (mallin, 2002):

- **Disclosure is:** the obligation of institutions to provide appropriate and reliable information.

- **Transparency is**: an increase in disclosure requirements and encompasses many governance-related items such as voting rights and incentives, remuneration of line managers and others.

— **The mechanism of the Board of Directors (levran, 2004):** is in charge of representing the interests of shareholders and ensures investors in the Corporation that the capital invested is being used by the Directors of the Corporation in a rational manner.

2.1.4 Executives incentives mechanism: Executives of the institution are compensated in different ways.They receive a basic salary (pensions, cash and in-kind grants) as well as a premium.

3. EXPERIMENTAL:

The following is the methodological aspect that we will follow to conduct the field study, where the community and the sample of the study and the type of tool used in the collection of primary data will be identified, as well as the statistical treatment methods used in the analysis of the collected data.

— **Target population and Study Variables:** The population of this study consists of managers and frames of National Electromechanical Industries Corporation The sampling of these study 75 individuals (director and deputy director, Head of Department as shown in table (1). The variables of this study are internal corporate governance mechanisms as independent variables and financial performance as a dependent variable.

— **Methods of analysis Data**: The Statistical Package for Social Sciences (SPSS20), which used statistical methods and measures according to the study requirements, was used as follows:

- Cronbach's Alpha coefficient to test their liability of study instrument.
- Means and the standard deviations to determine the responses of respondents to the sample;
- Pearson correlation coefficient: used to determine the extent to which the study variables are related to each other
- Multiple Linear Regression Model and Linear Regression to test the hypotheses of the study.
- Determination factor: It was used to determine the impact of independent variable on dependent variable.

4. Results and discussion

4.1 Reliability and validity of study instrument:

was measured by the internal consistency coefficient of the Cronbach's Alpha standard. It was found that the reliability coefficients of the measuring instrument components are all higher than 0.6. This is a good value for consistency of internal consistency. In addition, the total reliability of Cronbach's Alpha was 0.821, which gives a strong indication of the stability of the results of the tool and its consistency. This means that this questionnaire can be used to measure the variables studied and to disseminate the results of the questionnaire to the entire study population. In order to know the self-truth, we calculated the square root of the reliability coefficient. It was found that the self-confidence coefficient is high for the study variables 0.906. This indicates the validity of the study instrument see Table (2).

4.2 The descriptive analysis of respondents' responses to the variables of the study:

We relied on the five-digit Lycart model to answer the questionnaire. The values of means and the standard deviation were calculated by descending order according to their relative importance according to the mean of the arithmetic average, In the study. Based on this we have interpreted it based on the following criteria::less three low, 3 averages, greater than three high.

4.3 The descriptive analysis of the dimensions of internal corporate governance mechanisms :

Through the total reading of the data of Table (3). Study hypothesis and analysis: There is a positive correlation between the application of internal governance mechanisms and the financial performance of institutions.

The testing plan for this hypothesis will proceed according to the following steps:

❖ **Step 1:** Simple regression analysis using spss: We conducted the study hypothesis test using simple regression analysis between the dependent variables of the three performance measures and the independent variables of internal governance mechanisms. The results of this analysis are shown in the following tables:

Table No 1: The results of the simple regression analysis between each the performance measures and the mechanism of information transparency.

dependent variable	Independent variable of the information transparency mechanism							result	imposition result
	P	R²	Test T	Sing P	P	TestT	Sing P		
ROA	0.134	0.017	4.24	0.024	0.134	2.228	0.024	Sing	Acceptan
REA	0.316	0.099	31.676	0.001	0.316	5.651	0.001	Sing	Acceptan
ROS	0.194	0.037	10.42	0.001	0.194	3.317	0.001	Sing	Acceptan

The source : Prepared by researcher based on SPSS 20 outputs

Looking at the contents of the previous table, we found: The concept of information transparency is positively correlated with performance measures, namely the rate of return on assets, the rate of return on equity, and the rate of return on sales according to the regression coefficient values 0.134, 0.316, 0.194 respectively, and according to the test values of 2.228,5.651, 3.317 At a significant level 0.024.0.001, 0.001 respectively.

The Simple of regression model between the dependent variable Y Performance measures and independent variable X Mechanism of information transparency according to the test values are 4.24,31.676,10.42, respectively at a significant level 0.001.0.001, 0.024, respectively.

Table No 2: The results of the simple regression analysis between each of the performance measures and the reporting mechanism of the organization.

dependent variable	Independent reporting mechanism variable							result	Imposition result
	P	R²	Test T	Sing P	P	Test T	Sing P		
ROA	0.134	0.017	2.224	0.002	0.134	4.184	0.002	Sing	Acceptan
REA	0.318	0.100	5.684	0.001	0.318	32.064	0.001	Sing	Acceptan
ROS	0.179	0.031	3.031	0.002	0.179	8.549	0.002	Sing	Acceptan

The source : Prepared by researcher based on SPSS 20 outputs

Looking at the contents of the previous table, we found: The concept of the disclosure mechanism is positively correlated with performance measures, namely, the rate of return on assets, the rate of return on equity, and the rate of return on sales according to regression coefficient values of 0.134, 0.318 and 0.179 respectively and according to test values 2.224, 5.684 and 3.031 respectively and at a significant level of significance 0.002 , 0.001, 0.002, respectively.

The Simple of regression model between the dependent variable Y performance measures and independent variable X mechanism of reporting of organization. According to the test values 4.184,32.064, 8.549, respectively at the level of significance 0.002.0.001.0.002 , respectively.

Table No 3: The results of the simple regression analysis between each performance measures and the internal audit role mechanism.

dependent variable	The independent variable of the internal audit role mechanism							result	Imposition result
	P	R²	Test T	Sing P	P	Test T	Sing P		
ROA	0.119	1.963	0.117	0.012	0.119	3.044	0.012	Sing	Acceptan
REA	0.305	5.42	0.303	0.001	0.305	29.087	0.001	Sing	Acceptan
ROS	0.189	3.221	0.186	0.001	0.189	9.752	0.001	Sing	Acceptan

The source : Prepared by researcher based on SPSS 20 outputs

Looking at the contents of the previous tables, we found: The concept of the role of internal audit is positively correlated with performance measures, namely the rate of return on assets, the rate of return on equity, and the rate of return on sales according to regression coefficient values 0.119,0.305 and 0.189 respectively and according to T test values 1.963,5.42,3.221 and at a significance level of 0.012, 0.001 , 0.001, respectively.

The simple of regression model between the dependent variable Y Performance measures and independent variable X according to the test values 3.044, 29.087, 9.752, respectively at the level of significance 0.012 .0.001.0.001, respectively.

Table No 4:the results of the simple regression analysis between each the performance measures and the role mechanism of the Audit Committee.

dependent variable	independent variable of the role mechanism of the Audit Committee							result	Imposition result
	P	R²	Test T	Sing P	P	Test T	sing P		
ROA	0.057	0.003	8.001	0.002	0.057	0.952	0.002	Sing	Acceptance
REA	0.232	0.053	16.627	0.001	0.232	1.082	0.001	Sing	Acceptance
ROS	0.152	0.022	6.711	0.004	0.152	2.677	0.004	Sing	Acceptance

The source : Prepared by researcher based on SPSS 20 outputs

Looking at the contents of the previous table, we found The concept of the role of audit committees is positively correlated with performance measures, namely, the rate of return on assets, the rate of return on equity, and the rate of return on sales according to the values of the regression coefficient 0.057,0.232, 0.152 respectively and according to the test values 0.952, 1.082, 2.677 and at a significant level of 0.002. 0.001, 0.004 respectively.

The simple of regression model between the dependent variable Y and independent variable X   the review committees according to the test values 8.001,16.627, 6.711, respectively at a the level significance 0.002.0.001.0.004, respectively.

Table No5: The results of the simple regression analysis between each of the performance measures and the mechanism of the role of the directors board.

dependent variable	the independent variable for the Governing Body role mechanism							result	Imposition result
	P	R²	Test T	Sing P	P	Test T	Sing P		
ROA	0.145	0.126	6.200	0.010	0.145	2.004	0.010	Sing	Acceptan
REA	0.344	0.042	38.342	0.001	0.344	6.825	0.001	Sing	Acceptan
ROS	0.196	0.027	10.698	0.001	0.196	3.204	0.001	Sing	Acceptan

The source : Prepared by researcher based on SPSS 20 outputs

Looking at the contents of the previous table, we found: The concept of the role of the Board of Directors is positively correlated with performance measures, namely the rate of return on assets, the rate of return on equity, and the rate of return on sales according to the values of the regression coefficient 0.145, 0.344 and 0.196 respectively and according to the values of test 2.004, 6.825, 3.204 and at a significance level of 0.010, 0.001,0.001 respectively.

The simple of regression model between the dependent variable Y the performance measures and independent variable X according to the values of test 6.200, 38.342, 10.698, respectively at the level of significance 0.010.0.001, 0.001, respectively

Table No 6: The results of the simple regression analysis between each of the performance measures and the executive remuneration mechanism.

dependent variable	independent variable of the executive remuneration mechanism							result	Imposition result
	P	R²	Test T	Sing P	P	Test T	Sing P		
ROA	0.133	0.017	5.102	0.020	0.133	2.113	0.020	Sing	Acceptan
REA	0.314	0.097	31.017	0.001	0.314	5.443	0.001	Sing	Acceptan
ROS	0.203	0.040	12.603	0.001	0.203	3.557	0.001	Sing	Acceptan

The source : Prepared by researcher based on SPSS 20 outputs

Looking at the contents of the previous table, we found: The concept of the role of executive remuneration is positively correlated with performance measures, namely, the rate of return on assets, the rate of return on equity, and the rate of return on sales according to the regression coefficient values 0.131. 0.312. 0.201, respectively, according test values 2.113, 5.443, 3.557 and at a significance level of 0.020 and 0.001.0.001 respectively.

The simple of regression model between the dependent variable Y and the independent variable X according to the test values 5.102, 31/017, 12.603, respectively at a significance level 0.020, 0.001,0.001, respectively.

From the above analysis, there is a positive correlation between the three performance measures and the internal governance mechanisms.

❖ **Step 2:** Multiple regression analysis using spss After completing the test of the study using the simple regression model, which reflects the relationship between internal governance mechanisms as independent variables, and dependent variables are the three performance measures.

− **The first model:** the impact of internal governance mechanisms on the rate of return on assets Under the hypothesis that there is a significant correlation between the rate of return on assets as a dependent variable Y and internal governance mechanisms as independent variables. A multiple gradient regression analysis was used to determine 5% as a significant level to enter the independent variables. The table below summarizes the test results of this hypothesis.

Table No 7: Results of multiple regression analysis the first impact of internal mechanisms corporate governance on the rate of return on assets.

dependent variable	Independent variables	P	R²	Test F	Moral	P	Test T	moral
The rate of return on assets	Board of Directors X1	0.500	0.250	7.830	0.000	0.500	3.836	0.000
	Audit Committee X2	0.396	0.157			0.396	3.035	0.003
	Internal Audit X3	0.198	0.039			0.198	3.002	0.001
	Executives RewardsX4	0.159	0.025			0.159	2.915	0.001
	Fixed					0.395-	1.808-	0.005
The result				morale of model		moral of regression coefficients		
coefficient of determination				%5				
Multiple regression equation: Y= -0. 395 + 0.500 X1+ 0.396 X2+ 0.198 X3+0.159 X4+ ε								

The source: Prepared by researcher based on SPSS 20 outputs

The results in the previous table indicate that there is a significant impact of internal governance mechanisms on the rate of return on assets

As the result, the analysis showed that the coefficient of determination was 0.050, that is, the ratio of internal governance mechanisms interpreted by rate of return on assets is about 5%.and that the estimated regression model was significant, where the calculated value was 7.830, which is at a level of significance less than 0.001 Therefore, the rate of return on assets is positively influenced by the mechanism of the role of the Board of Directors, the Audit Committee mechanism, the internal audit mechanism, and the executive remuneration mechanism.

– **The second model:** the impact of internal governance mechanisms on the rate of return on equity Under the hypothesis that there is a significant correlation between the rate of return on equity as a dependent variable and the internal governance mechanisms as independent variables, a stepwise regression analysis of 5% was used as a significant level to enter the independent variables. The following table shows a summary of the test results of this hypothesis.

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«JEFB, volume: 07 , Numéro: 01 , Mars, 2022, P: 547-558 », Université El Oued, Algérie.

Table No 8: Results of multiple regression analysis for the second model test. The impact of internal governance mechanisms on the rate of return on equity

dependent variable	Independent variables	P	R²	Test F	Moral	P	Test T	Moral
the rate of return on equity	Board of Directors X1	0.717	0.514	26.141	0.000	0.717	5.814	0.000
	Executive Rewards X2	0.417	0.174			0.417	3.337	0.000
	Internal Audit X3	0.369	0.136			0.369	3.215	0.000
	Audit Committee X4	0.215	0.046			0.215	2.645	0.000
	Fixed					0.365-	1.808-	0.001
The result				morale of model		moral of regression coefficients		
coefficient of determination				%14.9				
Multiple regression equation: Y = - 0.365+ 0.717X1+0.417X2+0.369X3 +0.215X4+ ε								

The source : Prepared by researcher based on SPSS 20 outputs

The results in the previous table indicate that there is a significant impact of internal governance mechanisms on the rate of return on equity, where the results of the analysis showed that the coefficient of determination was 0.149, which means that the ratio of mechanisms governance internal of rate of return on equity is about 14.9%, therefore the rate of return on equity is positively affected by the mechanism of the role of the Board of Directors, the executive remuneration mechanism., the internal audit mechanism, and the audit committee mechanism.

— **The third model:** the impact of internal governance mechanisms on the rate of return on sales Under the hypothesis that there is a significant correlation between the rate of return on sales as a dependent variable and the internal governance mechanisms as independent variables, a stepwise regression analysis of 5% was used as a significant level to enter the independent variables. The following table shows a summary of the results of testing this hypothesis.

Table No 9: Results of multiple regression analysis of the third model test the impact of internal governance mechanisms on the rate of return on sales

dependent variable	Independent variables	P	R²	Test F	Moral	P	Test T	Moral
The rate of return on sales	Executive Rewards X1	0.201	0.04	12.63	0.000	0.201	3.550	0.000
	Board of Directors X2	0.050	0.003			0.050	3.478	0.000
	Audit Committee X3	0.306	0.094			0.306	2.219	0.000
	Internal Audit X4	0.179	0.032			0.179	2.458	0.000
	Fixed					0.154-	1.171-	0.001
The result				morale of model		moral of regression coefficients		
coefficient of determination				%4				
Multiple regression equation: Y= -0.154+ 0.201X1+ 0.050X2+ 0.306X3+ 0.179X4+ ε								

The source : Prepared by researcher based on SPSS 20 outputs

The results in the previous table indicate that there is a significant impact of the of the internal institutions' governance mechanisms on the rate of return on sales; As the results of the analysis showed that the coefficient of determination was 0.040, that is the ratio of internal governance mechanisms explained by rate of return on sales is about 4%. and that The estimated regression model is significant, where the calculated value was 12.630, which at a level of significance less than 0.001; Therefore, the rate of return on sales is positively influenced by the mechanism of the role of the Board of Directors, the Audit Committee mechanism, the internal audit mechanism, and the executive remuneration mechanism. The study hypothesis can therefore be partially accepted ie there is a significant correlation between the dependent variable the institution's performance and some governance mechanisms internal.

5. Conclusion:

The results of the simple decline between the performance of the institutions as a dependent variable and the internal governance mechanisms of the institutions as independent variables showed that there is a positive correlation between the three performance measures(the rate of return on assets, the rate of return on sales and the rate of return on equity) and the internal mechanisms of corporate governance.

Under the assumption that there is a significant correlation between the rate of return on assets and the rate of return on sales and the rate of return on equity as dependent variables and the mechanisms of governance of internal institutions as independent variables, namely, the mechanism of information transparency, the mechanism of disclosure of the reports of the institution, mechanism of the role of the Board of Directors, mechanism of the Audit Committee We have reached the following conclusions:

✓ The existence of a significant impact of some internal corporate governance mechanisms on the rate of return on assets.

✓ The existence of a significant impact of some internal governance mechanisms on the rate of return on equity.

✓ The existence of a significant impact of some internal corporate governance mechanisms on the rate of return on sales

In light of the results obtained, this paper recommends that it is necessary to set international rules that ensure the effectiveness of governance mechanisms at the international level. In addition to activating institutions as a priority to carry out their tasks to avoid the occurrence of financial crises. However, In Algeria, it is necessary to formulate an integrated scientific framework for governance as guidelines for the scientific application, in accordance with the conditions of the Algerian economic environment.

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6. Appendices:

Table (1): The target population and study variables

Company name	Study community	Number of distributed questionnaires
Eniem	managers and frames of National Electromechanical Industries Corporation	25
Cevital	managers and frames of company of Cevital	25
Ifri	managers and frames of company of Ifri	25

Source: Prepared by researcher

Table (2): Results of Cronbach's Alpha coefficient of study variables

Variable	Number of Phrases	Cronbach's Alpha	Sqrt Cronbach's Alpha
the mechanisms internal corporate governance	56	0.936	0.906
total summation	64		0.821

Source: Prepared by researchers based on SPSS 20 outputs

Table (3): The descriptive analysis of the mechanisms internal corporate governance

N^0	Phrases	The average	the standard déviation	priority level	Level of significance
01	Information Transparency Mechanism	3.632	0,671	02	High
02	Financial reporting mechanism	3.345	0,623	04	High
03	Mechanism of the role of audit committees	3.805	0,832	01	High
04	Board role mechanism	3.921	0.646	03	High
05	Executives Rewards Mechanism	3.029	0.452	05	High
Total average		3.530	0.643	High	

Source: Prepared by researcher based on SPSS 20 outputs