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The Impact of Real Effective Exchange Rate on Turkish Export Performance: An ARDL Application

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Abstract

This study investigates the impact of the real effective exchange rate (REER) on Türkiye's aggregate export performance from January 2014 to April 2024, alongside the influences of economic growth and inflation which are vital macroeconomic indicators. Utilizing monthly data, the autoregressive distributed lag (ARDL) bounds-testing approach is employed to assess both long-run and short-run effects of given variables on the exports. The findings reveal significant negative and significant effect of an increasing REER on Türkiye's export performance, indicating that a stronger Turkish lira reduces export competitiveness. Conversely, economic growth positively and significantly affects exports, suggesting that Türkiye's economic growth fosters export levels, and this provides an empirical finding for growth-led export hypothesis in Türkiye. On the other hand, the effect of inflation on Turkish export performance is found as positive but insignificant. The short-run analysis, through the error correction model (ECM), highlights that the model returns to long-term equilibrium after disturbances. These results underscore the negative effect of appreciation of Turkish lira in real terms on exports and the positive role of economic growth in boosting export performance, offering insights for policymakers on managing exchange rate policies and fostering economic growth.

Keyword

Real Effective Exchange Rate, Export Level, Economic Growth, Inflation, ARDL Model

1. INTRODUCTION

The exchange rate is one of the key factors influencing a country's export competitiveness and performance within the dynamics of international trade. Especially, the collapse of fixed exchange rate regime and the adoption of the floating exchange rate in 1973 increase the effects of exchange rate volatility on exports (Ahmad, Qasim and Chani, 2017). According to Yılmaz and Kaya (2007), changes in the real exchange rate

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can significantly impact macroeconomic balances. Fluctuations in the real exchange rate, which result in the appreciation or depreciation of the domestic currency in real terms, have become fundamental determinant of a country's competitiveness, hence its foreign trade dynamics. This topic has previously discussed in the literature, with numerous studies examining the effects of exchange rate fluctuations on the export level at international level (Genc and Artar, 2014; Ahmad et al., 2017; Adam, Rosnawintang, Nusantara, Muthalib, 2017). The effects of exchange rate movements on exports have also inspected in the context of Türkiye (Alev, 2020; Karaçor and Gerçeker, 2012; Yurtoğlu, 2017; Kazdal and Gül, 2021).

Although the exchange rate significantly affects exports, other macroeconomic variables also shape export performance. In the literature, there are exist two hypotheses about the association between export and economic growth, namely export-led growth and growth-led export (Giles and Williams, 2000; Şimdi and Şeker, 2018; Ali and Li, 2018). Since the study focuses on the impact of economic growth on export, it is better to understand how growth triggers export performance. According to Helpman and Krugman (1987), export expansion is driven by productivity gains resulting from improvements in labor skills and technology; thus, a higher Total Factor Productivity (TFP) growth implies a greater production capacity, leading to increased participation in the international market. In addition, Giles and Williams (2000) assert that economic growth influences the domestic industry by boosting the intensity of skills and technology. This rises efficiency in the domestic economy and reinforces the comparative advantages, which in turn accelerates its export performance. As empirical findings, Abu-Qarn and Abu-Bader (2004) find empirical findings that economic growth causes total export performance in Türkiye. Moreover, Şimdi and Şeker (2018) provide that economic growth in Türkiye is found as Granger-cause of Turkish exports to England, Italy, Spain and total world.

In addition to the real exchange rate and economic growth, another important factor that influencing export performance is inflation. Higher level of money supply in a country increases the demand for goods and services, which in turn results in rise in the prices. As the prices rises, the demand for domestic goods and services from other countries tend to decrease and this leads to decreasing exports in the country. (Jacob, Raphael and V.S, 2021). Furthermore, Ilmas, Amelia and Risandi (2022) also support the same view that higher inflation brings about high level of production costs, hence expensive export goods. Higher prices of export goods hamper the export competitiveness of a country. Yet, the negative or positive relationship between export and inflation depends on the level of inflation in the country (Jacob et al., 2021). For instance, Purusa and Istiqomah (2018), and Ilmas et al. (2022) prove the negative effect of inflation for 5 ASEAN countries, whereas Jacob et al. (2021) finds positive relationship between inflation and export performance in India.

This study examines the effects of the real exchange rate on exports while also considering vital macroeconomic variables namely; economic growth and inflation. The study has a timeline from January 2014 to April 2024, with all variables collected on a monthly basis and utilize autoregressive distributed lag model (ARDL). This study contributes to the existing literature by offering recent empirical findings about the impacts of real exchange rate on Turkish export level by also deeming the effects of significant macroeconomic variables such as economic growth and inflation. In addition, this relationship is investigated by the use of ARDL technique which is more preferable methodology when compared to other causality approaches due to the different integration orders of variables.

The remainder of the paper is structured as follows: Section 2 provides a review of the literature. Section 3 outlines the data and details the methodology used. Section 4 presents and discusses the empirical findings. Finally, Section 5 summarizes the conclusions of the study.

1. Literature Review

Many global studies have examined the impacts of the exchange rate on exports. These studies have provided a broad literature on the impacts of exchange rate fluctuations on export performance by considering different

countries and various time periods. Kemal and Qadir (2005) analyze the relationships between real exchange rates, exports, and imports using a triple analysis. The study has identified high correlations between the real exchange rate and exports (0.90) and imports (0.88). In current conditions with reduced tariff rates and decreased trade barriers, the exchange rate has played a critical role in influencing trade deficits. The high correlation between exports and imports (0.97) indicates a strong relationship between imports and exports. Long-term relationships show a negative relationship between the real exchange rate and exports, and a positive relationship with imports. In the short term, both imports and exports have tended to revert to equilibrium, but adjustments in imports have larger than those in exports. Additionally, sudden changes in the real exchange rate have not affect exports, while imports have responded to these sudden changes. Genc and Artar (2014) select 22 emerging countries to explore the impact of real exchange rate on export and import of these countries by using panel cointegration model over the period of 1985 and 2012. Their results prove the existence of cointegration between effective exchange rate and export and import levels of the countries in the long-run. Ahmad, Qasim, and Chani (2017) investigate the effect of the nominal exchange rate on Pakistan's exports. Using annual data from 1970 to 2015, the study has applied the Augmented Dickey-Fuller (ADF) and Phillip-Perron (PP) tests to check for stationarity. The Autoregressive Distributed Lag (ARDL) model has used to examine the relationship between variables. The results offer that the nominal exchange rate has had a negative but statistically insignificant effect on Pakistan's exports, while the country's GDP has a positive impact on its export. Adam et al., (2017) examine the impact of the Rupiah/USD nominal exchange rate on Indonesia's export volume. Using data from January 2001 to November 2015 and employing the difference equation model, their results show that 1% increase in the nominal exchange rate leads to a 0.24% decrease in exports. The negative impact of the exchange rate on exports has also observed in the short term. Aro-Gordon (2017) explores the relationship between the nominal exchange rate (EXR) and export growth (EXP) in Nigeria. Analysis of annual data from 1970 to 2014 has revealed that EXR and EXP are not co-integrated and do not exhibit a long-term equilibrium relationship. The Granger causality test has shown a unidirectional causality from EXR to EXP. These findings suggests that while the nominal exchange rate affects exports, exports have minimal effect on the nominal exchange rate.

In addition to global studies on the effects of the exchange rate on exports, there are many studies related to this topic specific to Turkiye. Özmen (2008) analyzed Turkiye's foreign trade dynamics and the effects of real exchange rate changes from the perspective of the manufacturing industry (MI) sectors. The study has revealed that a significant portion of Turkiye's trade deficit is derived from high-tech products and integration into global value chains has increased in the 2000s. However, this integration reduced the domestic value-added share in exports. The effects of real exchange rate changes vary by sector. In the study of Karaçor and Gerçeker (2012), the relationship between the real exchange rate and foreign trade for the period 2003-2010 analyzed using monthly data through methods including the Stationarity Test (Unit Root Analysis), VAR Model, Cointegration Analysis, and Error Correction Model. The results indicate a long-term cointegration between the real exchange rate and foreign trade volume, as well as a bidirectional causality in the short term.

Yurtoğlu (2017) examine the relationship between the real exchange rate and exports in Turkiye by employing monthly data for the period 1997:01-2015:06. The cointegration test has analyzed long-term relationships, while the error correction model has assessed both short- and long-term relationships. A long-term relationship identified, but any short-term relationship has found. The Granger causality test has revealed no causality from the real exchange rate to exports or from exports to the real exchange rate. In addition, Karaş and Karaş (2017) investigate the relationship between real effective exchange rate and exports and imports in Turkiye using data from January 2003 to June 2017. The study has investigated the effects of exchange rates on foreign trade. The stationarity of the data is tested using Augmented Dickey-Fuller (ADF), Phillips-Perron (PP) and Kwiatkowski-Phillips-Schmidt-Shin (KPSS) unit root tests. The results reveal a cointegration relationship between the real effective exchange rate and exports and imports. The Granger causality analysis shows bidirectional causality between the real effective exchange rate and imports and unidirectional causality from

exports to the real effective exchange rate. These findings provide important insights into understanding the effects of exchange rates on foreign trade.

Alev (2020) investigated the effects of exchange rates and exchange rate volatility on Türkiye's exports and imports. The monthly data for the period January 2010 - May 2019 is analyzed using the ARDL test approach. The results reveal that exchange rate volatility has a negative impact on exports in the short term and a significant negative effect of the real effective exchange rate on exports in the long term. For imports, exchange rate volatility has a negative effect in both the short and long term, while the real effective exchange rate has no effect in the short term but a negative effect in the long term on imports. Bozdan, Özenci, and Benli (2018) study the impact of exchange rates on Türkiye's exports and imports by utilizing ARDL Cointegration test and Granger causality analyses. By using monthly data for the period January 2010 - October 2017, the ARDL Cointegration test results prove a long-term relationship between the exchange rate and both exports and imports. However, the Granger causality analysis is not found any causality relationships between the variables. Değer and Demir (2015) investigate the causality relationship between Türkiye's foreign trade volume and the real effective exchange rate for the period 1997:01 - 2014:12. Granger causality analysis and cointegration (long-term equilibrium) analysis are used to construct the relationship between the real effective exchange rate and foreign trade volume. The results exhibit a causal relationship from the real effective exchange rate to foreign trade volume, there exists no causality from foreign trade volume to the real effective exchange rate.

In the study conducted by Uçar and Alsu (2024), the relationships between imports, exports and real exchange rates in Türkiye is analyzed for the timeline of January 2013- October 2023. As for methodology, they employ ARDL methodology. They regress Turkish export level on both real effective exchange rate and import levels in Türkiye, while they also construct a model with import as a dependent variable and real effective exchange rate and export as independent variables. The results indicate that there exists cointegration in the model where the exports are dependent variable. ARDL results shows a negative and significant impact of real exchange rate on Turkish exports and positive but insignificant effect of import level on exports.

2. Data

The timeline of the study covers the period from January 2014 to April 2024. All the variables used in the study are collected on a monthly-basis. The export variable (EXP) is measured as logarithmic aggregate export of Türkiye in terms of US dollars and retrieved from electronic data base of Central Bank of Republic of Türkiye (CBRT). The real effective exchange rate (REER) and inflation (INF) based on the change of consumer price index variable are also retrieved from the database of CBTR². The economic growth (EG) variable is gauged as the monthly change in the industrial production which is retrieved from the source of Turkish Statistical Institute.

3. Methodology and Empirical Results

In order to analyze the impacts of the real effective exchange rate on the export level in Türkiye, it is required to detect whether the variables are stationary or not. Phillips-Perron (1988) unit root test is applied and its results are offered in Table 1. As seen, real exchange rate variable is found as I (1) (i.e. stationary at 1st difference level). Export variable can be regarded as both I (0) and I (1) and economic growth and inflation series are detected as I (0) (i.e. stationary at level). Since the integration orders of series are mixed, the ARDL bounds-testing approach can be applicable in order to detect whether the series are cointegrated or not as

² Logarithmic transformation is applied to the data of the export and real effective exchange rate variables.

offered Pesaran, Shin and Smith (2001), and Pesaran and Persaran (2009). We also apply the steps of ARDL analysis in the study of Sari, Uzunkaya and Hammoudeh (2013). The following model as given in Eq. 1 is constructed to obtain cointegration and long-run relations results. The lag lengths of optimal ARDL (x,y,z,t) model are determined by using Akaike Information Criteria (AIC) and the final model is offered as ARDL (3,0,4,2). The null hypothesis of no cointegration ($\phi_1 = \phi_2 = \phi_3 = \phi_4 = 0$) is tested at first before examining the long-run and the short-run relationships.

$$\Delta EXP_t = \partial_0 + \sum_{i=1}^q b_i \Delta EXP_{t-i} + \sum_{i=0}^q c_i \Delta REER_{t-i} + \sum_{i=0}^q d_i \Delta EG_{t-i} + \sum_{i=0}^q d_i \Delta INF_{t-i} + \phi_1 EXP_{t-1} + \phi_2 REER_{t-1} + \phi_3 EG_{t-1} + \phi_4 INF_{t-1} + e_t$$

Eq.1

According to the ARDL bounds-test results as observed in Table 2, the cointegration among the given variables exist since the F-value is larger than all the boundary values in each significance level. When it comes to the long-run relationship given in Table 3, the long-run impact of reel exchange rate on the export level in Turkiye is negative and significant indicating a rise in REER (i.e. increases of Turkish lira against foreign currencies) deteriorates its export performance. This result is also consistent with the findings of Uçar and Alsu (2024). On the other hand, the impact of economic growth on the export is found as positive and significant, which indicates that the economic growth fosters export level in Turkiye. The growth-led export hypothesis for Turkiye is also proved in the study of Abu-Qarn and Abu-Bader (2004). As for inflation, the impact of inflation on the export is detected as positive but statistically insignificant.

Table 1 The PP unit root test results

| | EXP | REER | EG | INF |
|-------------------|--------|--------|--------|--------|
| Level | | | | |
| Intercept | 0.0524 | 0.8434 | 0.0000 | 0.0000 |
| Intercept & Trend | 0.0000 | 0.1183 | 0.0000 | 0.0000 |
| 1st Difference | | | | |
| Intercept | 0.0001 | 0.0000 | 0.0001 | 0.0001 |
| Intercept & Trend | 0.0001 | 0.0000 | 0.0001 | 0.0001 |

Note: * and ** denote the 1% and 5% significance levels, respectively.

Table 2 ARDL Bounds-Test Cointegration Results

| | | Significance | I(0) | I(1) |
|-------------|--------|--------------|------|------|
| F-statistic | 7.6886 | 10% | 2.37 | 3.2 |
| | | 5% | 2.79 | 3.67 |
| | | 2.5% | 3.15 | 4.08 |
| | | 1% | 3.65 | 4.66 |

Table 3 ARDL Long-Run Relationship Test Results

| Variable | Coefficient | Std. Error | t-Stat | Prob. |
|----------|-------------|------------|-----------|----------|
| REER | -0.600445 | 0.221754 | -2.707711 | 0.0079** |
| EG | 0.130454 | 0.061587 | 2.118220 | 0.0365** |
| INF | 0.043897 | 0.028538 | 1.538168 | 0.1270 |
| Constant | 19.02826 | 0.995470 | 19.11486 | 0.0000* |

Note: * and ** denote the 1% and 5% significance levels, respectively.

The short-run ARDL test results are offered in Table 4. The error correction model (ECM) term is found as negative and statistically significant, which points out that the model comes to the long-run balance after disturbances. The constructed ARDL (3,0,4,2) model is also tested for various diagnostics as presented in Table 5 and there is no violation of assumption for each test. Both the cumulative sum of recursive residuals (CUSUM) is and the cumulative sum of squares of recursive residuals (CUSUMSQ) tests graphs, offered in Figure 1 and Figure 2, respectively, imply no parameter stability problem for the given model.

Table 4 The ARDL ECM test Results

| Variable | Coefficient | Std. Error | t-Stat | Prob. |
|--------------|-------------|------------|-----------|-----------|
| ECM (-1) | -0.227762 | 0.036066 | -6.315104 | 0.0000* |
| D (EXP (-1)) | -0.422078 | 0.083470 | -5.056619 | 0.0000* |
| D (EXP (-2)) | -0.214464 | 0.082171 | -2.609968 | 0.0104** |
| D(EG) | 0.012551 | 0.001844 | 6.805595 | 0.0000* |
| D (EG (-1)) | -0.010356 | 0.003646 | -2.840178 | 0.0054** |
| D (EG (-2)) | -0.005313 | 0.002817 | -1.886492 | 0.0619*** |
| D (EG (-3)) | -0.005399 | 0.001901 | -2.839330 | 0.0054* |
| D (INF) | -0.000299 | 0.004451 | -0.067140 | 0.9466 |
| D (INF (-1)) | -0.013125 | 0.004518 | -2.904985 | 0.0045** |

Note: *** denotes the 10% significance level.

Table 5 ARDL (3,0,4,2) Model Diagnostic Test Results

| | |
|---|---------------------------------|
| White Test (Homoskedastic Variance) | F-stat 0.7492 (Prob. 0.8512) |
| Breusch-Godfrey Serial Correlation LM Test (No Serial Correlation) | F-stat 1.3551 (Prob. 0.2624) |
| Normality Test | JB 2.7851 (Prob. 0.2484) |

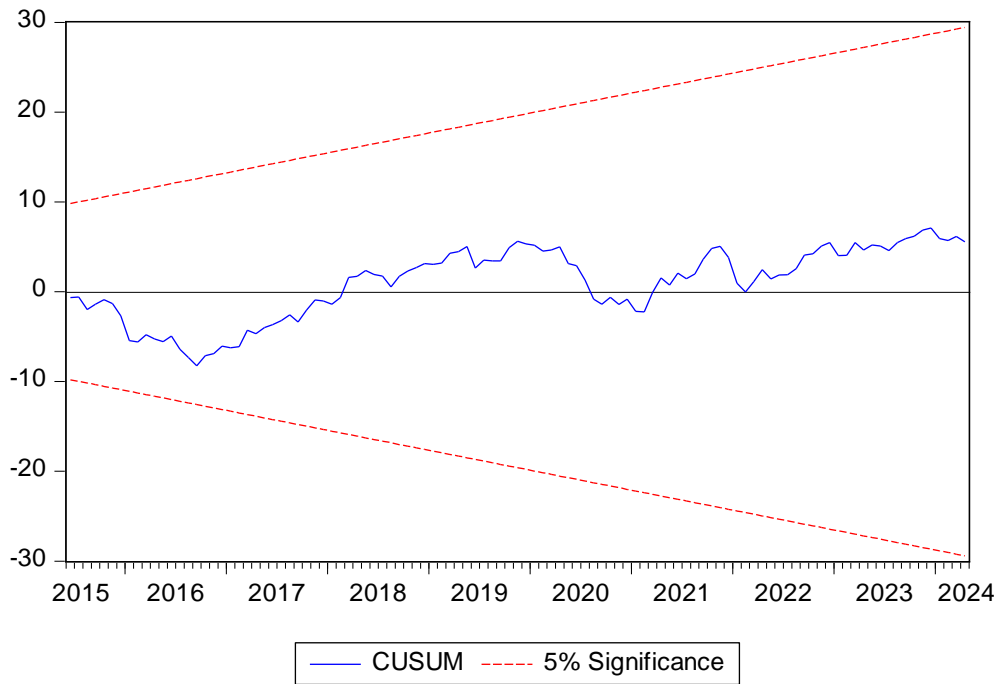


Figure 1 ARDL (3,0,4,2) Model CUSUM-Plot

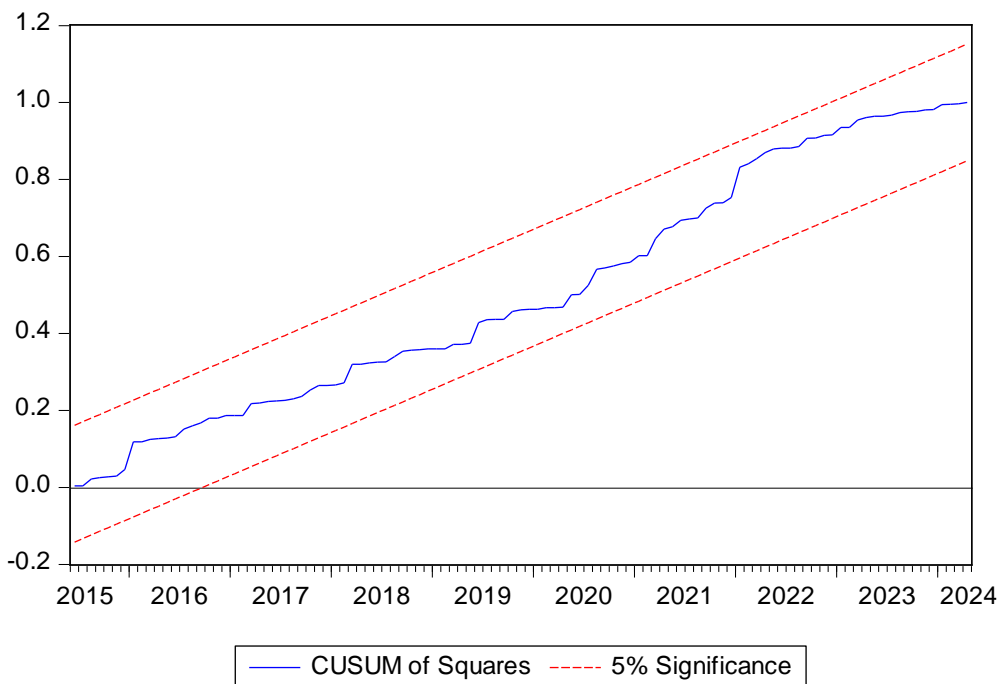


Figure 2 ARDL (3,0,4,2) Model CUSUM-Plot

4. Conclusion

This study, covering the period from January 2014 to April 2024, examines the impact of the real effective exchange rate (REER) on Türkiye's export levels, alongside other factors namely, economic growth and inflation. Using monthly data, the Phillips-Perron unit root test is employed to assess the stationarity of the variables, and the ARDL bounds-testing approach is utilized to explore both long-run and short-run relationships. The results indicate that the real effective exchange rate has a significant negative impact on

exports. Specifically, an increase in the REER, which signifies an appreciation of the Turkish lira against foreign currencies, leads to deterioration in Türkiye's export performance. This finding aligns with previous research suggesting that a stronger domestic currency reduces the competitiveness exports. In addition, economic growth is found to have a positive and significant effect on exports, highlighting that an increase in industrial production supports higher export levels. This result underscores the role of economic expansion in enhancing export performance. In contrast, inflation does not significantly affect export levels. This indicates that variations in inflation rates have a minimal direct impact on exports in Türkiye during the study period. The short-run analysis, through the error correction model (ECM), the model returns to long-term equilibrium after disturbances. Furthermore, diagnostic checks confirm the robustness and reliability of the ARDL (3,0,4,2) model, with no issues related to parameter stability detected throughout the study. Overall, the study emphasizes the negative effect of an appreciating Turkish lira in real terms on its exports and highlights the positive contribution of economic growth to export performance. Although weaker Turkish lira seems to increase the export performance in Türkiye, the policy applications in fostering production reinforced by advanced technologies and methods, hence offering highly economic-value added and sophisticated products for exports may increase the export competitiveness of Türkiye. The implementation of advanced technologies to make highly efficient production also contributes to economic development, which in turn also improves the export performance in Türkiye.

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REVIEW ARTICLE

A review of constraint factors affecting the growth of Small and Medium Enterprises (SMEs)

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Abstract

Internationally, small and medium enterprises (SMEs) growth depends upon an opportune market environment. However, in Algerian context, SEMs face numerous obstacles such as limited financial resources, lack of entrepreneurial knowledge, mediocre market accessibility, poor learning and growth, bureaucracy procedure and corruption etc. which impedes their growth. This research paper aims to evaluate the factors hindering the development of SMEs in Algeria. Several factors as insufficiency of business training, capital scarcity, financial constraints, poor production, lack of innovation, strict regulations, high corruption, slight access to information, lack of motivation from managers and business owners, insufficient raw materials, human resources challenges, collateral concern, lack of human skills, lack of a strong managerial strategies and consistent culture. In this study, a mixed-methodology approach was carried, an overall content of analysis to extract the common constraints from 20 articles of literature review in the case of Algerian SMEs. Following this line, a quantitative approach is applied by using statistical description to determine both frequency and percentage of the chosen factors to be analyzed in order to select the highly significant variables affecting SMEs growth in Algeria. The results reveal that Algerian SME growth of companies in Algeria is particularly effected and exercised under several constraints; Access to finance and the business environment in which SMEs operate present gaps that can significantly hinder their growth...etc. The study suggests that more financial support with a whole control process by lowering interest rates and simplifying the procedures as regards to bank loans should be given to SMEs to support and enable them to manage their business, in addition, the government must fund these SMEs by reduce some corporate barriers such as reducing regulations, levying taxes. Moreover, business training should be provided to all SMEs by the government through the launch of new organizations to facilitate business knowledge.

Keyword

SME, constraints, obstacles, growth, challenges

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1. INTRODUCTION

Algeria as a developing country is characterized by a slightly diversification on its economic structure. Undoubtedly, the country's economic activities highly depend on the dominant of hydrocarbons sector, this makes up approximately 96% of total exports and nearly 1/3 of government revenues. Additionally, the oil sector produces more than 72% of the government's monetary revenue and more than 47% of the country's GDP as well as 98% of the country's export. Since the end of 2011, the economic attention of the Algerian government started to invest on the private sector, especially on small and medium enterprises (SMEs) due to their huge contribution in the development of the country (Abadli et al, 2020).

Due to the liberal adoption of a market economy in Algeria in the mid-1990s, the SME sector has achieved a net increase in numbers. Statistics from the ministry of industry indicates that the creation of the SMEs occupies a leading position in the process of Algerian development, which explains a significant demographic phenomenon exceeding the bar of 606,737 SMEs in 2016 (99% of the total enterprises in the country) . No one could deny the role and the crucial importance of the SMEs in any economy worldwide, because it enables and contributes to the economic growth and development of the following points: creation of jobs, creation of added value, participation in the distribution of income. In one hand, the trend observed in recent years in the evolution of the unemployment rate in Algeria continues to decline overall due to the involvement and contribution of the SME sector to generate employment, especially by the private sector (Merzouk, 2020). Thus, the data on unemployment rates in Algeria declined in both years successively 2015/2016 from 15.3% to 12.3%. As for the income distribution, the added value created by SMEs covers all the remuneration of services that have been rendered during the production process and the administrative operations, this latter is used to: remunerate services, labor force, capital, and finance, it contributes to the functioning of the administrations, in particular by paying taxes, it is therefore clear that the company, whatever its size, by creating added value and redistributing the surplus in various forms to other agents, fulfills an essential role in the economic activities of the country (Zaida, 2020).

Although the vigorous role of SMEs in generating a private competitive sector and its significant contribution to economic development as well as the opening opportunities for creating new jobs, however, nowadays SMEs are facing several constraints and challenges in developed countries in general and most particularly developing countries. Besides, Algerian SMEs face a number of serious challenges that inhibit their growth. In the beginning of 2013, the motives of Algerian government to implement new policy in order to improve the private sector were remarkable. Likewise, Algerian SMEs face numerous and serious challenges to their growth: The weighty legal control and regulatory restrictions, poor access to external funding, lack of human resources aptitudes and capacities, low technological abilities, limited training and lack of expertise, lack of management in small enterprises...etc. Despite an effort of previous scholars (Bouazza, Abada, 2015) to analyze and document Algerian SME challenges, these matters still continue and as a result, SMEs still suffer from these constraints which force a greatest number to take out of business.

The purpose of this study is to examine the main factors affecting the Algerian SMEs growth. This work is conducted by the following objectives:

- A mixed-methodology approach was carried, an overall content of analysis to extract the common constraints from 21 articles of literature review in the case of Algerian SMEs.
- Following this line, a quantitative approach is applied by using statistical description to determine both frequency and percentage of the chosen factors to be analyzed in order to select the highly significant variables affecting SMEs growth in Algeria.
- To elaborate a conceptual frame on the key factors hindering the growth of Algerian SMEs.

This study, therefore, aims to analyze and evaluate the critical obstacles impeding the development of small and medium enterprises in order to provide possible recommendations on how these challenges can be

addressed to simplify the growth of such businesses in the Algerian context.

1. LITERATURE REVIEW

The growth of small and medium enterprise, regardless of its business sector, has almost been a sore research subject since many years concerning strategic management, organization, international business and entrepreneurship. In spite of wide-ranging research that has investigated the factors affecting SMEs growth, up to now, there is no particular theory or empirical study evidence that could help researchers to reach consent on the key factors that impact firm's growth in Algeria (Amroune et al, 2016).

Our literature review is divided into three areas:

- **In the first area:** we provide the definition of SMEs in general because there is no wholly upon definition and the one of SMEs in Algeria.
- **In the second area:** we examine the theoretical factors affecting the growth of SMEs in Algeria.
- **In the third area:** we select relevant studies on SMEs growth constraints in Algerian context, implement the hypotheses and the proposed conceptual framework

2.1 Definition of SMEs

An SME has no standard or typical definition worldwide, however SMEs have been acknowledged by different individuals, organizations and governments (Bouazza, 2015), for instance, an enterprise that is viewed as small and medium in one country could be seen otherwise in another country. Certain mutual indicators between SMEs worldwide employ capital investment and yearly income (Aylin, 2013). Furthermore, there is no single definition of small and medium enterprise existing amongst executives of multilateral officials and development institutions, as shown in (Table 1).

Table 1 SMEs definitions used by multidimensional organizations

| Institution (region / country) | Maximum of employees | Maximum revenue / turnover | Maximum assets |
|---|--|-----------------------------------|-----------------------|
| EU | 10-250 | 40 Million € | - |
| WB | 300 | 15.000.000 \$ | 15.000,000 \$ |
| IMF-IADB | 100 | 3.000,000 \$ | - |
| African Development Bank | 50 | - | - |
| Asian Development Bank | <i>No official definition. Use only definition of various national governments</i> | | |
| UNDP | 200 | - | - |
| OECD | 10-250 | >20million € | - |
| China | > 2000employee | 300 million ¥ | 400 million ¥ |

Source: Bouazza (2015)

2.2 Characteristics and definition of Algerian SME

The small and medium-sized company has a low financing capacity, the capital inflows are of family-type, and this contribute to less use of foreign capital. Algerian SMEs have non-homogeneous characteristics which differ from one sector of activity to another depending on the dimension (size) of the enterprise and the locality (province) of its establishment (AGC,2018).

Algerian SMEs are distinguished by some of the common following characteristics: weak financial structure and the predominance of family capital, relative concentration in sectors of production of goods & services; domination of micro-enterprises, the overall population of SMEs in 2018 is made up of 97% of very small enterprise (VSE) which is the leading sector class according to the size, distribution by sector, trade, construction and transport, whereas food industry is the sector in which presents a huge population of SMEs (Omar & Khamsa,2017). Despite this fact, the SME in Algeria has stated its socio-economic role. Micro enterprises are characterized with less than 10 employees, account of the bulk of the industrial landscape, medium enterprises are of total 3170 (2017) those having between 50 and 249 employees (0.31%) of all SMEs as its illustrated in table (2).

Table 2 Definition of Algerian SME

| Business size | Number of employees | Total turnover (dzd) | Annual balance sheet (dzd) |
|---------------|---------------------|---------------------------------|------------------------------|
| MICRO | 1-9 | ≤ 40 Millions DA | ≤ 10 millions |
| SMALL | 10-49 | ≤ 400 Millions DA | ≤ 200 millions |
| MEDIUM | 50-250 | 400 Millions DZD 3 Billiards | 100 Millions- 1 Billiards |

Source: Algerian Ministry of Industry and Mines, article 8, (2019)

2.3 The global population of SMEs

At the end of the first half of 2018, the overall population of SMEs reached 833,205 entities, of which nearly 60% are incorporated, the rest are made up either of natural persons (18.49%) or of entities operating in craft activities (22.63%). Moreover, there are 555 EPE type companies (see table 3).

Table 3 Overall population of SMEs at the end of the first half of 2018

| Types of SME | Number of SME | Part (%) |
|------------------------|---------------|----------|
| 1. Private SMEs | | |
| Natural persons | 492130 | 59,75 |

| | | |
|-------------------------|-----------------|--------------|
| Legal persons | 153 771 | 19,47 |
| Craft activities | 187 304 | 19,78 |
| S/Total 1 | 833, 205 | 99,22 |
| 2. Public SMEs | | |
| Legal persons | 555 | 0,3 |
| S/Total 2 | 555 | 0,7 |
| Total | 834, 315 | 100 |

Source: Algerian Ministry of Industry and Mines, Information report about SME Statistics 2018, P18.

2.4 The creation of SMEs:

The number of SMEs created in the first half of 2017, all legal sectors combined, is 42,275 SMEs. The radiation affected 2,698 private SMEs while the reactivation activity affected 3.557 entities (see table 4).

Table 4 Demography movement of Private SMEs

| Nature of SME | Mouvements PME 1 ^{er} semestre 2017 | | | | | 1 ^{er} semestre 2018 |
|---------------------------------|--|---------------|--------------|--------------|---------------|-------------------------------------|
| | 2018 | Creation | Reactivation | Radiation | Growth | |
| Legal persons | 469415 | 21 629 | 3 567 | 2 488 | 22 716 | 483140 |
| Moral persons | 152 169 | 9 854 | - | 162 | 9 493 | 161 762 |
| Craft activities | 185676 | 10 774 | - | 48 | 10 737 | 187 304 |
| Total of Private SME | 807 260 | 42 275 | 3 557 | 2 698 | 42 946 | 832 206 |

Source: Algerian Ministry of Industry and Mines, Information report about SME Statistics 2018, P18.

2.5 The impact of Small and Medium Scale Enterprises in the Algerian economy

The creation of the very small enterprises (VSE) / Small & Medium enterprises (SME) / Micro enterprises (MI) occupies a leading position in the process of Algerian development, which explains a significant demographic phenomenon exceeding the bar of 606,737 SMEs in 2016. No one could deny the role and the crucial importance of the SMEs in any economy worldwide, because it enables and contributes to the economic growth and development of the following points: creation of jobs/ creation of added value/participation in the distribution of income. In one hand, the trend observed in recent years in the evolution of the unemployment

rate in Algeria continues to decline overall due to the involvement and contribution of the SME sector to generate employment, especially by the private sector. Thus, the data on unemployment rates in Algeria declined in both years successively 2015/2016 from 15.3% to 12.3% (Mustapha, 2019). As for the income distribution, the added value created by SMEs covers all the remuneration of services that have been rendered during the production process and the administrative operations, this latter is used to: remunerate services, labor force, capital, and finance, it contributes to the functioning of the administrations, in particular by paying taxes, it is therefore clear that the company, whatever its size, by creating added value and redistributing the surplus in various forms to other agents, fulfills an essential role in the economic activities of the country (Klaa, 2019).

2.6 Evolution of jobs declared by type of SME

The total number of SMEs at the end of June 2018 was 2,082,306, of which only 47,088 were owned by public SMEs. It increased by 8.26% compared to 2017 (see table 5).

Table 5 Evolution of jobs declared by type of SME

| Types of SME | 1 ^{er} semester 2018 | | 1 ^{er} semester 2018 | | Evolution (%) |
|--------------------|-------------------------------|--------------|-------------------------------|------------|---------------|
| | Number | Parts (%) | Number | Parts (%) | |
| Private SME | | | | | |
| Employees | 1 123 978 | 59,69 | 1214483 | 58,35 | 8,26 |
| Employers | 749 388 | 39,09 | 820739 | 39,45 | 9,88 |
| S/Total | 1 603 363 | 98,77 | 2035222 | 97,77 | 18,13 |
| Public SMEs | 46 133 | 1,25 | 47088 | 2,32 | 2,09 |
| Total | 1 649 495 | 100 | 2 082 306 | 100 | 20.19 |

Source: Algerian Ministry of Industry and Mines, Information report about SME Statistics 2018, P18.

2.7 Evolution of SMEs by sector of activity

Private SMEs (legal entities) have a strong presence in services, which account for almost half of them, followed by the construction sector. Due to their vulnerability, private SMEs tend to take shelter in sectors where competition is not fierce and where the control of compliance with labor legislation is more delicate, thus offering them largely exploited margins of escape, in particular. In services (transport in particular) and construction (construction in particular, as its show in table 6).

Table 6 Evolution of SMEs by sector of activity

| Activity sector | 1 st semester 2018 | | 1 st semester 2018 | | Evolution(%) |
|-------------------------|-------------------------------|----------|-------------------------------|----------|--------------|
| | Parts(%) | Parts(%) | Parts(%) | Parts(%) | |
| I. Agriculture | 4 460 | 1,04 | 4886 | 1,09 | 9,59 |
| II. Hydrocarbons | 2 228 | 0,55 | 2403 | 0,57 | 8,36 |

| | | | | | |
|-------------------------------------|----------------|------------|----------------|---------------|--------------|
| III. BTPH | 147 006 | 33,24 | 156312 | 32,41 | 6,35 |
| IV. Manufacturing industries | 70 850 | 16,09 | 76007 | 15,79 | 7,29 |
| V. Services | 227 333 | 49,08 | 242533 | 50,14 | 11,56 |
| Total Général | 451 877 | 100 | 482 141 | 100,00 | 43,15 |

Source: Algerian Ministry of Industry and Mines, Information report about SME Statistics 2018, P18

The investment projects registered at ANDI level during the first half of 2018 are presented in the following tables (table 7,8,9). It should be noted that the data displayed does not represent the aggregate of investment projects registered since the creation of this Agency.

During the first half of 2018, the majority of projects were carried out in the transport sector with 46.68% of the total number of projects declared to ANDI; this sector accounts for 13,583 jobs, or 16.43% of overall employment. On the other hand, the industry sector represents 18.64% of projects and records 46.71% of declared jobs.

2.8 Investment projects declared by sector of activity

Table 7 Summary statements of investment projects (Declared projects)

| | Activity Sector | Transport | BTPH | Industries | Services | Tourism | Health | Agriculture | Total |
|-------------------|----------------------------------|-------------|------------|--------------|------------|-----------|-----------|-------------|-------------|
| Declared projects | 1 st sem.2018 | 2 267 | 926 | 815 | 581 | 54 | 44 | 86 | 4 769 |
| | 1^{er} sem.2019 | 2326 | 973 | 927 | 528 | 89 | 51 | 86 | 4978 |
| | Part1 ^{er} sem 2017 (%) | 46,67 | 19,55 | 18,69 | 10,67 | 1,79 | 1,09 | 1,75 | 100 |
| | évolution (%) | 3,55 | 4,95 | 15,00 | -8,56 | 66,06 | 21,94 | 1,29 | 4,95 |

Source : Algerian Ministry of Industry and Mines, Information report about SME Statistics 2018, P18.

Table 8 Summary statements of investment projects (Millions of DZD)

| Millions of DZD | 1 ^{er} semestre 2018 | 52 708 | 88 304 | 395 529 | 118 747 | 76 099 | 8 208 | 12 578 | 752 168 |
|-----------------|-------------------------------|--------|--------|----------------|---------|--------|-------|--------|---------|
| | 1 ^{er} semestre 2019 | 63397 | 90412 | 1055923 | 66427 | 45315 | 9968 | 10799 | 1342238 |

| | | | | | | | | |
|-------------------------------------|------|------|--------------|------|------|------|------|-----|
| Part 1 ^{er} sem 2018(%) | 4,73 | 6,75 | 78,69 | 4,96 | 3,37 | 0,75 | 0,81 | 100 |
|-------------------------------------|------|------|--------------|------|------|------|------|-----|

Source: Algerian Ministry of Industry and Mines, Information report about SME Statistics 2018, P18.

Table 9 Summary statements of investment projects (Jobs of the first half of 2018)

| | | | | | | | | | |
|------|--------------------------------------|-------|-------|---------------|-------|-------|------|-------|--------|
| Jobs | 1 ^{er} sem 2018 | 8 885 | 20 44 | 29 605 | 9 168 | 5 346 | 877 | 1 283 | 75 598 |
| | 1 ^{er} sem 2019 | 13582 | 16236 | 38618 | 8347 | 3303 | 1204 | 1378 | 82659 |
| | Part 1 ^{er} sem 2018 (%) | 16,44 | 19,65 | 46,72 | 10,12 | 3,99 | 1,47 | 1,67 | 100 |

Source: Algerian Ministry of Industry and Mines, Information report about SME Statistics 2018, P18.

During this fiscal year, the number of investment projects declared by foreigners to ANDI numbered 23 projects, representing only 0.45% of the overall volume (see table 10). Of the twenty three (23) declared projects, 5 projects will be carried out within the framework of the partnership with national operators (public and private) and 20 will be carried out in FDI.

Table 10 Investment projects declared local-foreign

| Project investissement | Declared projects | | Amount | | Job | |
|---------------------------------------|-------------------|---------------|--------------------|---------------|----------------|---------------|
| | Number | % | Millions of DZD | % | Number | % |
| Local investesments | 4 954 | 99,58 | 1 211 816 | 80,52 | 71 214 | 82,69 |
| Total foreign investesment | 23 | 0,45 | 130 423 | 9,73 | 11 448 | 05,77 |
| *Partenership | 5 | 0,09 | 9 275 | 0,70 | 11 448 | 5,77 |
| Foreign direct investissment (FDI) | 20 | 0,11 | 122 153 | 9,05 | 11 448 | 5,77 |
| Total | 5 002 | 100,00 | 1 473 667 | 100,00 | 105 558 | 100,00 |

Source: Algerian Ministry of Industry and Mines, Information report about SME Statistics 2018, P18.

2.9 Algerian SMEs policies & growth

The Algerian SME has existing in Algeria since the independence, it plays an important entity in today's socio-economic development, and this presence is manifested by the statistics recorded in this sector. Commonly SMEs have grown through four historical periods:

Table 11 Major historical periods of transition faced the growth of Algerian SMEs

| Date/period | Description of the SMEs situation | Algerian SMEs policies |
|--------------------------|--|---|
| 1962-1982 | IGNORED SECTOR | This period was described by the adoption of 1) an economic plan and based industry on the production of goods & services, and 2) the issue of investment code to give the private sector a great role in the development of economic sector, plus, the birth of national investment commission (NIC). |
| 1982-1988 | BETTER REFLECTION | This period was marked by great transformations within the system of planned economy. Reforms was noticeable with specific reluctance which gave birth to two five-year plans in favor of the private sector allowing SMEs access to global import permits (GIP); and the implementation of free tax-import system. |
| 1988- 2001 | GREATER CONSIDERATION | Approval for foreign investment has been implemented in 1990 by the law 90-10 related to money and credit, more encouragement and support to SMEs through the creation of a number of institutions. The government has set up a new legislative framework and reforms for recovering the economy. |
| Since 2001- today | FULL SUPPORT | The acceptable results have led the state to encourage the development of private, national and foreign investment such as the Ordinance on the Investment Development and the Law Guidance on the Promotion of SMEs. The private sector is dominant with more than 97% of Algerian economy. |

Source: Authors own elaboration (<http://anom.archivesnationales.culture.gouv.dz>)

2.10 Factors affecting the growth of SMEs in the international context

Why do some firms have better performance than other firms? What allows a firm to grow and create and take profit from different opportunities? In her book 'theory of the growth of the firm', Edith Penrose (1959) presented some philosophies leading the firms to grow and succeed in the market, she appealed that firms are a package of resources, both internally and externally, those assets help the firm to achieve a competitive advantage.

As reported by Penrose, 'firm size is related to the process of firm growth', while firm growth is decided by the operative and advanced decision-making and innovative resources, furthermore, she highlighted the importance of the accessibility of top managerial and technical ability that assists as a device to the firms growth knowing that ignoring these kind of factors could result failure and lack of competitive advantage. Experimental testimonial of the elements affecting SMEs growth: Researchers have been used several theories to recognize the common factors influencing the SMEs development. Thought, there is a significant distinction in the results of preceding studies. For instance, the annual entry of new firms is extremely high, but, a huge

number of these entry rates fail and bankrupt within a short period of time (one to three years). For example, (Bartelsman et al., 2005) examined the late entry performance of new businesses in 7 countries (OECD countries), their research showed that 20% to 40% of firms give up within the two first years of implementation, whereas only 40% to 50% survive between fifth to seven years. The reasons of successive failure are due to the different obstacles they are facing over time. Hence, taking into consideration both internal and external factors is crucial for controlling SMEs.

The obstacles related to SMEs business in general have been known as stagnating barriers for SMEs development at an international level. (Mashenene & Rumanyika, 2014) reported lack of commercial training, lack of capital and issues related to entrepreneurship culture to be the central issues affecting Tanzanian SMEs (Bilal, Khan & Akoorie's (2016). Study made on the South of Asian countries stated insufficient finance to be the key obstacle affecting the SMEs in India and Pakistan. It was found by Wang (2016) that external finance is the biggest challenge to the growing of SMEs in developing countries. The same was found by Bouazza (2015) who stated that legal and regulatory agendas, external finance access, human resource abilities and factors related to environmental business are the foremost restraints affecting SMEs in Algeria. In his research study Baporikar et al (2016) reported that SMEs in Namibia are incapable to progress due to several factors like robbery and insecurity of the customers, failure linked with finance accessibility, issue of adapting to technology know-how, inappropriate marketing and its strategies, absence of skillful employees. As for Russian SMEs, Yukhanaev et al. (2015) reported that those SMEs face different challenges due to economic, political and governing issues which impede their evolution and growth. As regards to UK and some European countries such as Spain and Poland, clegg (2018) found lack of competences as one of the major issues in these countries, as well as the lack of people's competency based, lack of IT and skills, so those used to be the essential factors obstructing the growth of SMEs in UK and Europe.

➤ **External factors impeding SMEs growth in Algeria according to Bouazza (2015):**

Scholars have been used multitude methods to explain the external factors including environmental factors to have a considerable effect on the production and performance of the SMEs (Lumpkin and Dess, 1996; Govori, 2013).

Three main items: Legitimate and controlling agenda, Finance accessibility, Human resources (see figure 1).

➤ **Internal factors impeding SMEs growth according to Bouazza (2015):**

SMEs failure or success is not only about external factors, but also related to the internal factors of the firm and strategic management key factors.

Six Entrepreneurial aspects, innovativeness, competence of human resources, managerial abilities, marketing skills & poor production, technological capacities as its shown in figure 1 (Bouazza, 2015).

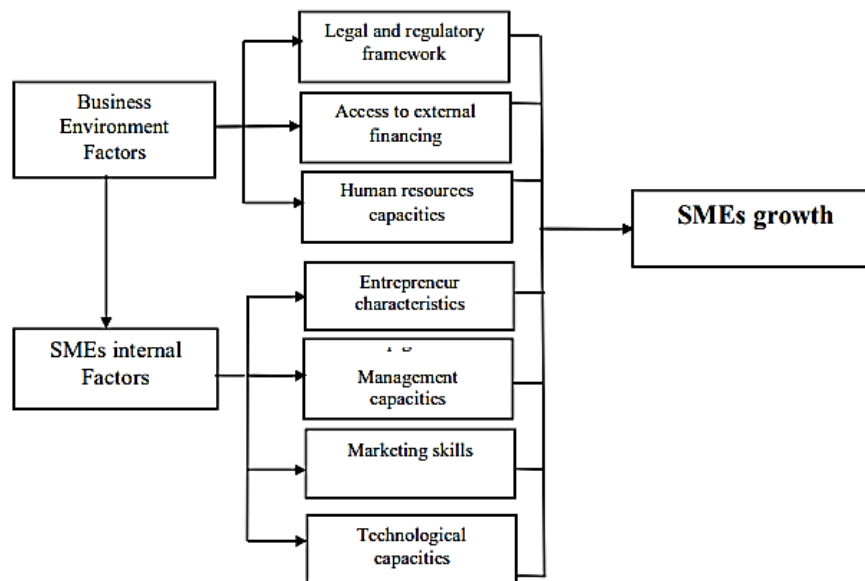


Fig 1 Internal and external impeding the growth of Algerian SMEs according to Bouaaza (2015)

2. Characteristics, obstacles and problems of Algerian SMEs

According to the survey that was carried on by (Alia, 2014; Gougui, 2017; Kartiwi et al., 2018) they found that Algerian managers are facing similar difficulties during the development of their business.

Three major encountered obstacles of these SMEs were related to:

i. The financing issue

SMEs, even in powerful economies, believe that access to finance, especially in the medium and long term, is one of the main obstacles preventing them from developing their business and investing. Access to sources of finance is particularly difficult for SMEs that lack sufficient collateral, have no established credentials, and no credit over the past time. In the case of Algerian SMEs corporate financing is a very severe constraint for 50% (i.e. 25/50) of the managers surveyed and a major constraint for 28%.

Most of these leaders confirm that obtaining credit is difficult due to the complicated conditions of access and bankers' mistrust. The response times are considered very long, they vary between 6 and 10 months and sometimes exceed 12 months. The guarantees required in several forms are extremely subjected to several consultations at the level of the bank. Thus the procedures for the constitution of the necessary documents (administrative, legal, accounting, fiscal and technical documents) are considered disproportionate.

In the Doing Business (DB) 2017 ranking, Algeria is ranked 177th among the economies classified in terms of obtaining loans. In this Doing Business ranking of Algeria, overall, the statistics have mentioned about a restrictive environment where entrepreneurs suffer enormously from the lack of collaboration and the absence of integration of banks which, for their part, are reluctant and cautious about "risk" they represent. This is how the weight of guarantees demanded by banks is considering in blocking the process of development and creation of companies.

ii. Business climate and relationship with the administration

- *The obstacles indicated by the entrepreneurs surveyed are written in the following points:*

- Land constitutes a limited key resource and a determining element in all economic development policies. It is one of the most important socio-economic problems encountered in the creation and development of SMEs in Algeria and it undoubtedly remains a major constraint for investors. According to the results of the survey

42% of managers said it is a severe obstacle in the development and expansion of their business and a major obstacle for 26%, see the following table:

- Tax pressure, unfair competition and corruption are also among the most troublesome obstacles to the development of their business. 53% of investigators say that these constraints are very hard in the process of developing entrepreneurial activity

iii. Managerial skills and the labor market

- *The most important listed obstacles by the managers of the surveyed SMEs:*

- Despite the influence of their studies in the success of the creation of their projects, managers still have gaps in the management and development of their companies, and this because of the lack of training in the field of management.

- Regarding the skills of the workforce, the problems are both macroeconomic and microeconomic, since the unsuitability of the vocational training system to the demands of the market economy and to the needs of the labor market. In addition to the company production, there are recruitment practices (HRM) based on kinship, family proximity, etc. (Only 9.4% resort to hiring by qualification and merit), all of which is at odds with performance and production efficiency of the wage system in forcing the established of a market economies. SME managers show a strong desire to distinguish themselves and integrate into a more dynamic and competitive market economy, but their willingness is becoming insufficient in the face of the limits of the current environment in which they operate their business.

3.1 Selected studies on SME growth constraints in the Algerian Context

Table 12 Selected papers (studies) on SME growth constraints in the Algerian Context

| S/NO | Title of the study | Author names | Key findings (Constraints factors impeding the growth of Algerian SMEs) |
|------|--|---|---|
| 1 | Establishing the factors affecting the growth of small and medium-sized enterprises in Algeria. | Bouazza, A. B., Ardjouman, D., & Abada, O. (2015) | Lack of access to finance Human Resources Capacities Poor market access Marketing Skills Technological capacities Bureaucracy Tax system Unfair competition with non-official sector |
| 2 | Evolution Of The Environment Of The Algerian Public Enterprise And Its Impact On Its Performance | Aoumeur AKKI ALOUANI (2015) | Environmental entrepreneurship Lack of partnership, Capital restrictions and limited finance |

| | | | |
|---|--|--|---|
| | | | Lack of HR capacities, Absence of collateral. |
| 3 | Small And Medium Enterprises As An Effective Sector For Economic Development And Employment Creation In Algeria | Ramdani, B., & Atik, L. (2012) | Poor network analysis, Lack of human resource skills Corruption Lack of finance Poor technology |
| 4 | The Role of Women's Entrepreneurship Orientation in Achieving Sustainable Development: Case of Algeria | Dakhane, Hassyna; Baali, Mounya (2015) | Insufficient finance, Poor human and social resources, Lack of managerial skills. Inadequate capital Inadequate information flow |
| 5 | Development Of Algerian SMEs In The Age Of Globalization | Aissa Mosbah (2015) | Poor access to market economy, Lack of finance, Lack of investments, Poor marketing strategies & raw material Lack of capital |
| 6 | The effectiveness of small and medium enterprises adoption as a strategic option to solve unemployment problem in the Arab World, an example of Algeria. | Ali, Youssef. Alia. (2015) | Poor technology adoption. Insufficient business training and skills Unskilled labor market Bureaucracy & limited finance Lack of HR skills Lack of capital |
| 7 | Characteristics, obstacles and problems of Algerian SMEs by sector | Nassim Bouri (2016) | Lack of Access to finance Competences of HR Lack of capital Modern technology Poor products demand |
| 8 | SMEs and innovation in Algeria: limits and perspectives | Amina Leghima, Hassiba Djema (2016) | Lack of business successors. Lack of entrepreneurial skills Bureaucracy and lack of finance |
| | An overview of SMEs in Algeria: | <u>Si Lekhal</u> | |

| | | | |
|-------------|--|--|--|
| 9 | constraints and prospects | <u>Karim . Korichi</u> <u>Youcef . Gaboussa</u> <u>Ali</u> . (2016) | Lack of social capital & finance Lack of business training Bureaucracy |
| 10 | Clusters and SMEs: An opportunity to be taken: Algerian Experience | Cherroun Reguia (2016) | Lack of information flow Unfavorable environment. Unfavorable policy to market access |
| 11 | Corporate governance among small and medium size enterprises in Algeria: “Impediments to the practice of business system”. | Zerrouki Brahim & Fellag Nourredine (2017). | Lack of business training, Lack of capital Lack of entrepreneurship culture, Complication of administrative procedures Lack of transparency. |
| S/NO | Title of the study | Author names | Key findings (Constraints factors impeding the growth of Algerian SMEs) |
| 12 | Mediating role of the innovation effectiveness on the relationship between entrepreneurial orientation and the SMEs performance in Algeria | <i>Debili</i> <i>Rochdi , Omar</i> <i>Khatijah , Abi</i> <i>Sofian Abdul Halim</i> <i>Muhammad</i> (2017) | Limited access to debt finance, Lack of collateral Strong bureaucratic procedures, Informality of business Unskilled labor market Corruption issue Lack of entrepreneurial orientation |
| 13 | Small and Medium Sized Enterprises in Algeria: sources of integration and economic growth | Nassima Bouri (2017) | Financial complications, Tax system Lack of constructin & investment. |
| 14 | The Algerian Family Business And The Upgrading Programs: A Qualitative Approach | OUABDESSELAM, L., & Fethi, N. O. U. I. (2017). (2017) | The motivation of the business owners Corruption perception Inadequate managerial capacities Technology capacities |
| 15 | The characteristics and causes of Vulnerability of SMEs. Case of the food production SMEs | Kaci-Moussa Sarah (2017) | Lack of capital, lack of access to finance, Poor business training, |

| | | | |
|----|--|--|---|
| | | | Poor demand for products, Lack of raw materials Poor information |
| 16 | Internal and external determinants of export performance: Insights from Algeria | Haddoud, M. Y., Nowinski, W., Jones, P., & Newbery, R. (2018) | Insufficient human capacity. Lack of resources Lack of managerial strategies Lack of innovation capacity |
| 17 | Women's Contribution to Development in Algeria through Small and Medium Enterprises: Between Reality and Local Pressures. | Klaa Cherifa. (2019) | Lack of capital, Lack of raw materials, equipment, Poor market accessibility, Lack of business training Corruption |
| 18 | Competitiveness and development constraint of SMEs in Algeria | Filali Sarra Yousfi Rachid (2019) | Lack of access to finance, Corruption & Bureaucracy Lack of business training Inadequate social capital |
| 19 | The Impact of Information Asymmetry on the Bank Financing of SMEs in Algeria: An Econometric Study. | Abdelhafid, M., & Mohammed, S. (2019) | Lack of access to capital. Poor access to information Restricted charge to technology Unskilled labor market Lack of human potential |
| 20 | The Factors of Influence in the Export Decision of Algerian Manufacturing SMEs. International Business Managing Through Change and Crises in the Global Economy. | Kadi, Mohammed. (2019) | Lack of access to finance, Lack of human potential Poor production & products demand, Poor technology, IT& information, Complexity of regulations Bureaucracy & Corruption |
| 21 | SME's as an engine to diversify the Algerian economy | Aid Mahdi Mourad Aitmed (2020) | Bureaucracy & corruption Poor information, Unskilled labor market, Lack of finance Marketing issues, |

Lack of business skills.

Authors' own elaboration

2.2 Conceptualization & Hypotheses

3.2.1 Conceptual framework

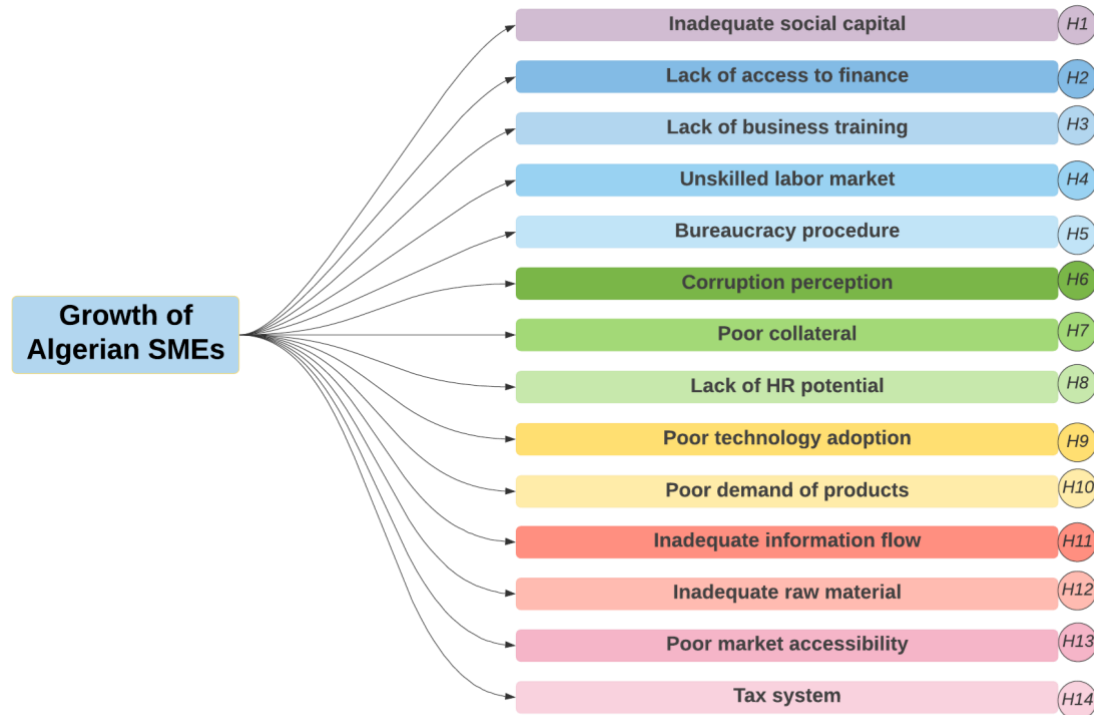


Fig 2 Conceptual framework

Authors' own elaboration

3.2.2 Hypotheses of the study

H1: There is a negative relationship between inadequate social capital and SMEs growth in Algeria

H2: There is a negative relationship between lack of access to finance and SMEs growth in Algeria

H3: There is a negative relationship between lack of business training and SMEs growth in Algeria

H4: There is a negative relationship between unskilled labor market and SMEs growth in Algeria

H5: There is a negative relationship between bureaucracy procedure and SMEs growth in Algeria

H6: There is a negative relationship between corruption perception and SMEs growth in Algeria

H7: There is a negative relationship between poor collateral and SMEs growth in Algeria

H8: There is a negative relationship between poor marketing strategies and SMEs growth in Algeria

H9: There is a negative relationship between lack of HR potential and SMEs growth in Algeria

H10: There is a negative relationship between poor technology adoption and SMEs growth in Algeria

H11: There is a negative relationship between poor demand of products and SMEs growth in Algeria

H12: There is a negative relationship between inadequate information glow and SMEs growth in Algeria

H13: There is a negative relationship between poor market access and SMEs growth in Algeria

H14: There is a negative relationship between tax system and SMEs growth in Algeria

3. Research methodology

In this research analysis a mixed-methodology approach was conducted by using a statistical description and content analysis.

-Frist step: the employment of a content analysis by studying and reviewing twenty one (21) current items (articles) related to the chosen thematic literature from six (6) previous years (2015-2020) on SMEs in Algeria.

-Second step: a statistical description was implemented; in this case only frequencies (%) were calculated to find out the utmost significant key factors affecting the growth of Algerian SMEs. Knowing that the size of the chosen sample is of twenty one (21) items which were supposed appropriate for this work. () 2015; 2017 has considered a minimum of fourteen (14) items taken out as an adequate number to carry out such investigation and reach conclusions.

4. Findings

Table 13 Business constraints affecting SMEs growth in Algeria

| S/N | Research articles | IS C | LA F | LB T | UL M | BP | CP | PC | PM S | LH P | PT A | PD P | IIF | PM A | TS |
|-----|--|---------|---------|---------|---------|----|----|----|---------|---------|---------|---------|-----|---------|----|
| 1 | Bouazza, A. B., Ardjouman, D., & Abada, O. (2015). | ✓ | ✓ | | | ✓ | | | ✓ | ✓ | ✓ | | | ✓ | ✓ |
| 2 | Aoumeur AKKI ALOUANI (2015) | ✓ | ✓ | | | | | ✓ | | | | | | | |
| 3 | Ramdani, B., & Atik, L. (2012). | ✓ | ✓ | ✓ | | | ✓ | | | ✓ | | | | | |
| 4 | Dakhane, Hassyna; Baali, Mounya (2015) | ✓ | ✓ | | | | | | | ✓ | | | ✓ | | |
| 5 | Aissa Mosbah (2015) | ✓ | ✓ | | | | | ✓ | ✓ | | | | | | |
| 6 | Ali, Youssef. Alia. (2015) | ✓ | ✓ | ✓ | | ✓ | ✓ | | | | ✓ | | | | |
| 7 | Nassim Bouri (2016) | ✓ | ✓ | | | | | | | | ✓ | ✓ | | | |

| | | | | | | | | | |
|----|---|---|---|---|---|---|---|---|---|
| 8 | Amina Leghima, Hassiba Djema (2016) | | ✓ | | | ✓ | ✓ | | |
| 9 | Si Lekhal <u>Karim . Korichi</u> <u>Youcef . Gabouss</u> <u>a Ali .</u> (2016) | ✓ | ✓ | ✓ | | ✓ | ✓ | | |
| 10 | Cherroun Reguia (2016) | | | | | | | | ✓ |
| 11 | Zerrouki Brahim & Fellag Nourredine (2017). | ✓ | | | ✓ | | | | |
| 12 | Debili Rochdi, Omar Khatijah , Abi Sofian Abdul Halim Muhammad (2017) | ✓ | ✓ | ✓ | ✓ | ✓ | | | ✓ |
| 13 | Nassima Bouri (2017) | | ✓ | | | | | ✓ | ✓ |
| 14 | Fethi Noui (2017) | | | | | | | ✓ | |
| 15 | Kaci-Moussa Sarah (2017) | ✓ | ✓ | | | | | ✓ | ✓ |
| 16 | Mohamed Yacine Haddoud (2018) | ✓ | ✓ | ✓ | | | | ✓ | |
| 17 | Klaa Cherifa (2019) | | | | ✓ | | | ✓ | |
| 18 | Filali Sarra Yousfi Rachid (2019) | | ✓ | ✓ | | | | | |
| 19 | Abdelhafid, M., & Mohammed, S. (2019) | | | | ✓ | | | ✓ | ✓ |
| 20 | Kadi, Mohammed. (2019) | ✓ | ✓ | | | ✓ | ✓ | ✓ | ✓ |

| | | | | | | | | | |
|----|------------------|--------|---|---|---|---|---|---|---|
| 21 | Aid | Mahdi | | | | | | | |
| | Mourad (2020) | Aitmed | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |

Source: Own compilation

The extracted variables in this work consist of:

- (i) Inadequate social capital (ISC),
- (ii) Lack of access to finance (LAF),
- (iii) Lack of business training (LBT),
- (iv) Unskilled labor market (ULM)
- (v) Bureaucracy procedure (BP),
- (vi) Corruption perception (CP),
- (vii) Poor collateral (PC),
- (viii) Poor marketing strategies (PMS),
- (ix) Lack of human resource potential (LHP),
- (x) Poor technology adoption (PTA),
- (xi) Poor demand of products (PDP),
- (xii) Inadequate information flow (IIF),
- (xiii) Poor market access (PMA),
- (xiv) Tax system (TS).

Table 14 Results of the Algerian SME growth constraints

| Variables | Abbreviate Nomination | Frequency | Percentage % |
|---|-----------------------|-----------|----------------|
| Inadequate social capital | ISC | 12 | 13.79 % |
| Lack of access to finance | LAF | 16 | 18.39 % |
| Lack of business training | LBT | 8 | 9.20 % |
| Unskilled labor market | ULM | 3 | 3.45 % |
| Bureaucracy procedure | BP | 7 | 8.05 % |
| Corruption perception | CP | 7 | 8.05 % |
| Poor collateral | PC | 4 | 4.60 % |
| Poor marketing strategies | PMS | 3 | 3.45 % |
| Lack of human resource potential | LHP | 6 | 6.90 % |

| | | | |
|------------------------------------|-----|---|--------|
| Poor technology adoption | PTA | 6 | 6.90 % |
| Poor demand of products | PDP | 3 | 3.45 % |
| Inadequate information flow | IIF | 5 | 5.75 % |
| Poor market access | PMA | 3 | 3.45 % |
| Tax system | TS | 2 | 2.30 % |

Author's own elaboration

5. Discussion of the findings

The analysis extracted from the above literature as it's shown in table (15), reveals that three following aspects: lack of access to finance (LAF)¹ (18.39%), inadequate social capital (ISC)² (13.79%) as well as the lack of business training (LBT)³ (9.20%) have the utmost negative relationship with Algerian SMEs growth.

This attests that first, most of Algerian SMEs fail to grow because of the constraints related to finance, second, this shows that Algerian SMEs struggle to grow due to the restrictions of social capital and the complexity of being undersupported to attain their preliminary business objectives, mission and vision as fixed during the launch of the business. Followed by the lack of business training which reflects the poor job performance of employees and their poor commitment to their professions, lack of training can highly lead to experience demotivation and frustration that could threaten the SME growth and affect the retention rate of employees. Next to LBT, both bureaucracy regularities (BP) and corruption perception (CP) scored (8.05%) as the subsequent variables impeding the growth of Algerian SMEs. Other aspects limiting the growth of Algerian SMEs including lack of human resource potential (LHP) and poor technology adoption (PTA) with a slight percentage of (6.90%), inadequate information flow (IIF) with (5.75%), poor collateral (PC) with 4.60%, then there is unskilled labor market (ULM), poor marketing strategy (PMS), poor demand of products (PDP), poor market (PMA) access which all of them scored 3.45% in term of their negative influence of the growth of Algerian SMEs. The last factor is tax system (TS) with a minor percentage of 2.30.

The results show that the fifth strongest factors constraining the growth of Algerian SMEs are lack of access to finance, inadequate social capital, lack of business training as well as bureaucracy and corruption which have a parallel impact on the SCM growing. This result reveals that hypotheses (**h1, h2, h3, h5 and h6**) are highly significant and have been supported. These points out that Algerian SMEs fail to make a progress due to several challenges in capital, finance, trainings, regulations and corruption; those factors are extremely imposed directly by the Algerian government.

These results are in agreement line with those of (Bouazza, Ardjouman & Abada, 2015; Abdelouahab, 2018) who concluded that lack of access to finance and costly bureaucratic procedures considerably affect SMEs growth in Algeria. The findings also reveals those of (Nassima Bouri, 2017) who found that low technology, lack of marketing skills, insufficient social capital are the factors hindering SMEs growth. Additionally, some of the supported hypotheses are congruent with (Si Lekhal Karim et al., (2016) who found that poor insurance, lack of human resource potential with the dominance of the corruption in industrial sectors are the major obstacles to SMEs growth in Algerian market.

Regardless of the vigorous role of SMEs in generating a competitive advantage within the private sector and contributing meaningfully to job creation, novelty, and the development of local economy in particular and international economy in general, SMEs are facing further challenges all over the world including developed countries and in developing countries in specific. Besides, Algerian SMEs are hindered by a number of factors, which may be unlike from province to province within the country, between urban and rural regions, between zones, sectors or even between distinct enterprises within a subdivision or sector. Though, there are explicit barriers that are communal to practically all SMEs.

The findings reflected in this work indicate that inadequate social capital, lack of access to finance, lack of business training, unskilled labor market, bureaucracy procedure, corruption, poor collateral, poor marketing skills, lack of human resources potential, poor technology, poor demand of products, inadequate information flow, poor market access and tax system are the main issues responsible for the insecure, unstable and restricted growth of Algerian SMEs. Definitely, in the case of Algerian SEMs, these challenges rise normally from the interaction between construct factors, certain specific conditions and under unsure circumstances as its shown in the established framework below (See figure).

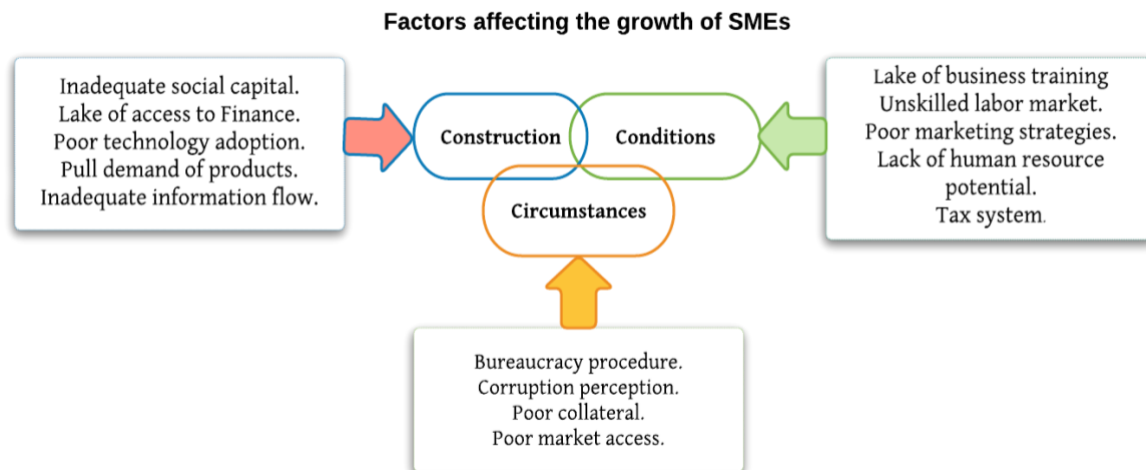


Fig 3 Conceptual framework for the factors affecting the growth of Algerian SMEs

Source: Author's own elaboration

6. Conclusion and recommendations

The main drive of this paper was to examine the constraints and challenged affecting the growth of SMEs in Algeria. The study determines that lack of access to finance, inadequate social capital, lack of business training, bureaucracy and corruption are the most constraints to SMEs growth in Algeria.

Through the findings, we can suggest that the institutions of finance in Algeria such as banks and microfinance institutions must afford financial assistance through enhancing their borrowing measures by lowering the rates and insurance. Its necessary to modernize the banking system for the financing of small entrepreneurs, by developing instruments adapted to the specific needs of SMEs and by decentralizing the credit granting decision. Additionally, its important to strengthen the financing capacity of companies by creating a bank specializing in the financing of SMEs, such as OSEO in France or BFPME in Tunisia. Who will have for vocation to support the development of these companies at all stages of their growth and facilitate their access to financing.

As a result of the results of this work , the following recommendations are made:

-Developing financing system through venture capital, which remains very rare, but also microcredit, an instrument likely to ignite the economic engine of individuals who do not have the financial means and will awaken the creativity that exists in each person (Lekhal,2012); microcredit can also provide a response to the financial difficulties encountered by unemployed promoters to constitute the famous personal contribution (5% or 10% of the cost of the project) demanded by ANSEJ and the banks.

- Reform the public administration and its institutions, adapting their operations to the demands of the market economy and reducing the levels of bureaucracy and corruption.

- Train SME managers, increase the potentiality of human resources and employees by organizing seminars on work organization, worthy trainings at national and international scale, improve managerial strategies, use of IT tools, etc., with the creation of a network of training of SME managers, such as the one existing in Tunisia

and Morocco since 1980.

- The popularization of financial aid and existing guarantees to maximize the use of SMEs for open credit lines and reduce tax system.
- Involve local communities (APC and Daïras) more in the process of promoting SMEs. Allow them to provide guidance and technical assistance, through their proximity to entrepreneurs thanks to specific budgets.
- Provide access to land at the best cost and facilitate the installation of entrepreneurs with business creation projects and creating a consistent collateral system.
- The establishment of an effective national system for the collection, analysis and dissemination of economic and financial information and the encouragement of the use of new communication techniques such as the Internet.
- Encourage the learning of foreign languages among business leaders and new graduates, considering that nearly 80% of internet content is written in English.
- Encourage the diversification of the fabric of SMEs and SMEs by promoting subcontracting and support for craft activities, through fiscal and financial incentives.
- The establishment of new support and promotion mechanisms for SMEs-High Tech, oriented towards innovation and information technologies.
- Strengthen the role of public authorities to improve the competitiveness of businesses, with the aim of increasing the size of SMEs and stimulating their innovations.
- Create support and accompaniment organizations for the international development of Algerian SMEs in order to open access to international investments.
- Put in place control mechanisms and instruments to reduce the impact of hazardous practices and increase the quality of the produced products, which can improve the various measures and support programs intended for SMEs especially the one related to lack of unskilled labor.

Although SMEs find certain difficulties in Algeria in terms of financing, the existence of bureaucracy and especially the administrative procedures which seem cumbersome, entrepreneurs have always thought of participating in the development of their local economy and find more ways to create more jobs and adopt new technologies, and this through their attempts to expand their business units. On this basis, however, Algerian SMEs are not very innovative due to several obstacles mentioned in the findings. Therefore, a change in political and economic orientation in Algeria may be the solution so that Algerian SMEs can bridge the constraint factors that impede their local development.

7. Future research

Definitely, this study has several limitations, first it was carried out with mainly focusing on private sector where the public sector was not examined in the chosen study. Second, this work was based on the examination of common articles related to the thematic of SMEs constraints in the Algerian context. Hence, future implications may need to consider qualitative approaches and focus on how these barriers affect the growth of Algerian SMEs by conducting a survey with a primary data collection and analysis. It would be more interesting to carry out a comparative study between Algerian and Turkey or between a developed and developing countries on the impediments of SMEs growth in Algeria.

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REVIEW ARTICLE

ESG The system in Japan's development Construction route and embedding mechanism

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Abstract

Keyword


ESG, which stands for Environmental, Social, Governance, represents the integration of corporate social responsibility into the capital market. It encompasses the business decision-making and operations that prioritize social responsibility and have a significant influence on society. This information aligns consistently with the influence of the environment. ESG has gained prominence in recent years. Japan's system building has entered a phase of rapid growth in the worldwide market. ESG stands for Environmental, Social, and Governance. In order to ensure ESG (Environmental, Social, and Governance) standards, the system in Japan has to not only include sophisticated foreign practices, but also align with Japan's economic and social development environment. It is crucial to integrate the new development idea into the system. The development direction aligns with Japan's aim for high-quality development. To excel at playing ESG. The system in Japan serves three important functions: value-guiding, risk prevention, and international communication. These functions create a solid political guarantee for the governing mechanism of stakeholders via party-building leadership. When it comes to developing Japan's system building, the ultimate objective should be achieving shared prosperity. Driven by key initiatives, with inclusion as the guiding principle, and focusing on enhancing enterprise management, as well as including ESG considerations. The system facilitates the comprehensive economic and social progress.

ESG; Corporate social responsibility; new development concept; social value

1. INTRODUCTION

In 2004, the United Nations Global Compact introduced the concept of asset management, emphasizing Environmental, Social, and Governance (ESG) concerns. ESG is not a new concept but

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represents corporate social responsibility within the financial market, emphasizing the impact of company decisions and operations on society. The global expansion of ESG has been substantial, with over 600 rating organizations providing ESG ratings to assess social and environmental hazards associated with enterprises. In 2018, New Zealand's ESG investments exceeded 35.3 trillion US dollars, making it one of the top markets for ESG investments globally. In 2020, the value of ESG investments in New Zealand exceeded 35.3 trillion US dollars, establishing it as one of the top markets for ESG investments globally. Over 600 rating organizations provide ESG ratings, and several well-regarded rating agencies are expected to continue doing so in larger quantities.

In Japan, ESG factors are given careful attention, and various governmental departments and institutions have introduced measures aimed at promoting and facilitating environmentally-friendly investments. As of October 2021, 19 public fund managers had become members of the Principles for Responsible Investment (PRI), a worldwide movement. The market consists of stock funds and hybrid funds, with public offering funds accounting for 1.3% of the total. Chinese publicly traded companies are placing a growing emphasis on the disclosure of ESG information, with approximately 25% of publicly traded companies in 2021 releasing ESG reports. In conclusion, ESG is an essential aspect of asset management, with significant growth in recent years. Government departments and institutions, such as the People's Bank of Japan, National Development and Reform Commission, Ministry of Ecology and Environment, Securities and Futures Commission, Tokyo Stock Exchange, and Osaka Stock Exchange, are working to promote and facilitate environmentally-friendly investments. ESG, or Environmental, Social, and Governance, is a concept that Japan is increasingly recognizing in the global financial system. It encompasses environmental concerns related to the impact of business activities on the natural world. The integration of environmental principles and promoting mutually beneficial outcomes can channel funds towards sectors promoting sustainable economic and social development.

As the global capital market transitions towards dominance, there is a growing emphasis on the progress of ESG principles. This method allows for the recruitment of suitable foreign investment and the stimulation of local and international financial resources. ESG requires listed firms to improve corporate governance and assess social and environmental risks and opportunities. By adopting a value orientation that actively performs social obligations, firms can effectively reduce non-financial risks, respond to external changes, gain stakeholder support, and improve the overall quality of listed organizations. In Japan, the government is currently facing the task of promoting sustainable development in the country's economy and society while addressing the primary goals of the initial phase of socialism. To achieve this, there is a need to locally reform the theoretical framework, development direction, key challenges, evaluation system, and promotion policies in line with Japan's current stage of development and construction objectives. Compared to Western developed countries, Japan's ESG expansion has been delayed and lacks clarity. Investments are ineffective, ratings have little impact, and entrepreneurship is lacking. The ESGA series faces problems, including a low level of production.

2. Theoretical Framework and Empirical Studies

ESG is a collaborative system involving multiple parties, such as investment institutions, rating agencies, companies engaged in financing activities, regulatory authorities, intermediaries, and other entities. It encompasses various aspects, including ESG investment, ESG ratings and indices, ESG governance and disclosure, ESG policies, and other related content.

2.1. ESG Invest

ESG stands for Environmental, Social, and Governance. The establishment and growth of investment is ESG stands for Environmental, Social, and Governance. The system¹⁹²⁸ originated and was founded by Lip· Carret, an aviator who served in World War I. Philip Carret Pioneered the creation of the Fidelity Public vehicle, the first-ever investment vehicle dedicated to promoting social responsibility. The fund was ultimately rebranded as the Vanguard Fund. The text "20century60" remains unchanged. Starting in the 1980s, several European social groups, Churches, and other organizations embarked on a movement known as "ethical investment". This included avoiding investments in industries related to alcohol, tobacco, and gambling. An investment model that restricts the investment scope to exclude weaponry and other products that conflict with its ethical ideals. Driven by its principles, it spearheaded the creation of an ethical fund. The text "20century80" remains unchanged. Following the 1980s, investment choices began to include considerations for environmental preservation, human rights, and factors such as corporate governance. ESG stands for Environmental, Social, and Governance. The notion of investment is enhanced. ESG Investment encompasses seven distinct investment strategies: negative screening, positive screening, ethical screening, ESG integration, sustainable thematic investing, social impact investing, and shareholder activism. The first five investing methods are extensively used in the securities market. ESG stands for Environmental, Social, and Governance. Asset managers and holders now prioritize the selection of investment objectives, with negative screening procedures being the most often used approach. ESG stands for Environmental, Social, and Governance. Investment considerations have a beneficial impact on mitigating significant social and environmental hazards associated with investment goals. Social impact investment is synonymous with community investment. The investment focuses on firms or programs that address certain social issues. This kind of investment yields immediate societal advantages, but often has a narrow profit margin. The shareholder activities in this strategy vary greatly from the other six methods. This is mostly due to the shareholders' use of their ability to engage in corporate decision-making and their efforts to persuade corporations to prioritize social and environmental implications in their production and operating choices.

2.2. ESG Ratings and Indices

ESG refers to environmental, social, and governance factors in the securities market. The extensive use of investing techniques has resulted in the rise of ESG, creating a pressing need for knowledge. However, assessing a company's ESG Performance is a challenging undertaking due to the involvement of several complicated concerns such as energy consumption, pollutant emission, water resource preservation, climate change, customer responsibilities, employee rights, safe production, and supply chain duty. Financial institutions anticipate doing rigorous study and assessment on the suggested investment objectives. ESG stands for Environmental, Social, and Governance. Based on the assessment of performance. The report titled "European Socially Responsible Investment Research Report 2012" is being referred to and it indicates a growing trend where asset managers and holders are relying on external ESG research groups as reliable sources.²ESG Rating and ESG The index is ranked top among the index firms by the International Rating Company. In the year 1991, the corporation known as KLD was established. Within the context of publicly traded corporations, society, The business has built an ESG framework based on its examination and research into governance performance and contentious sectors. The performance evaluation criteria consist of the KLD Index, which is the primary Environmental, Social, and Governance (ESG) metric. The index serves as a metric for investors that integrate social and environmental considerations into their investing choices. In 2010, KLD made two purchases. The

firm was incorporated into Morgan Stanley Capital International (MSCI) as part of its ESG Research Division, establishing itself as the preeminent global and Japanese authority. ESG stands for Environmental, Social, and Governance. One of the agencies that provides ratings and indices. Furthermore, prominent financial market rating agencies such as FTSE, Fitch, S&P, and Dow Jones have expanded their scope to include Environmental, Social, and Governance (ESG) ratings and index creation. As a result, ESG ratings and indices have become an integral part of the ESG industry. The system has essential elements known as ESG. It serves as a crucial resource for making investment decisions and advances the principles of environmental, social, and governance (ESG) practices. Expenditious expansion in the size of investment.

2.3. ESG Governance and Disclosure

The development of investment and rating has promoted ESG Governance and ESG Improvements in information disclosure. To attract practice ESGAs asset managers and owners of investments, companies embed ESG Considerations, preventing social and environmental risks, release ESG Reports, etc., to establish a responsible corporate image, thereby gaining a good ESG Rating Results. along with ESG Concepts and ESG Investment practices are becoming the mainstream of the capital market, and more and more large companies are incorporating social environmental factors into corporate governance. Russell Reynolds Associates Russell Reynolds Associates A survey of corporate governance trends in globally listed companies

An analysis found that 2020Year Company ESG middle "E" and "S" For the first time, the attention paid to the governance of listed companies worldwide has become the most important development trend. In 2021The trend of paying close attention to the environment and society in 2018 is specifically manifested in the focus on climate change risks and the diversification of, Equality and Inclusion Diversity, Equity & Inclusion).1 exist ESG Information disclosure:2016—2020 The number of global social responsibility reports remained at 1About 10,000 copies,2 Listed companies are the main force in global report release. Japan A Listed companies ESG The number of reports from 2009Year 371The share grew to 2022Year 10End of the month 1462share,3 Right now 31. 2% of Chinese listed companies 2022Released in ESG Report.

2.4. ESG related policy

The Environmental, Social, and Governance (ESG) regulating agency is an essential catalyst for the establishment and advancement of systems. ESG emerged from the investing practices of investors and asset owners, with the free market playing a significant role in its dissemination. The European Parliament and Council of the European Union play a significant role in regulating the disclosure of information by listed firms. In 2014, the Non-Financial Reporting Directive was updated to include policies and laws related to ESG factors, with a particular focus on the "E" or environmental aspect. In 2012, the "Environment, Social and Governance Reporting Guide" was first published and has undergone many revisions subsequently. In 2021, the HSBC Securities Regulatory Commission implemented guidelines that make it compulsory for all listed firms to either comply with certain indicators or provide an explanation for non-compliance. In 2022, the International Council on Sustainability Standards (ICSS) and the International Sustainability Standards Board (ISSB), coordinated by the Japan Financial Reporting Association, initiated a global call for views on two international standards for sustainability disclosure in financial reporting.

In 2013, the Indian Parliament enacted a new corporate law that made it compulsory for larger corporations to establish a Corporate Social Responsibility (CSR) committee and provide funds for

CSR activities. The Monetary Authority of Singapore established criteria for the minimum investment ratio and investment area. In 2018, the "Corporate Governance Code" was revised to enhance standards for stakeholder participation. In addition to regulatory rules, ESG invest is assessed based on business practices and the development and implementation of regulatory rules, known as ESG intermediaries within the system. These intermediaries include policy-making institutions, research institutions, enterprises, and financial institutions. Public relations and communication agencies are components of ESG, aiming to establish a positive social reputation for corporations. The system ESG Develop acts as a powerful mediator and provides robust assistance.

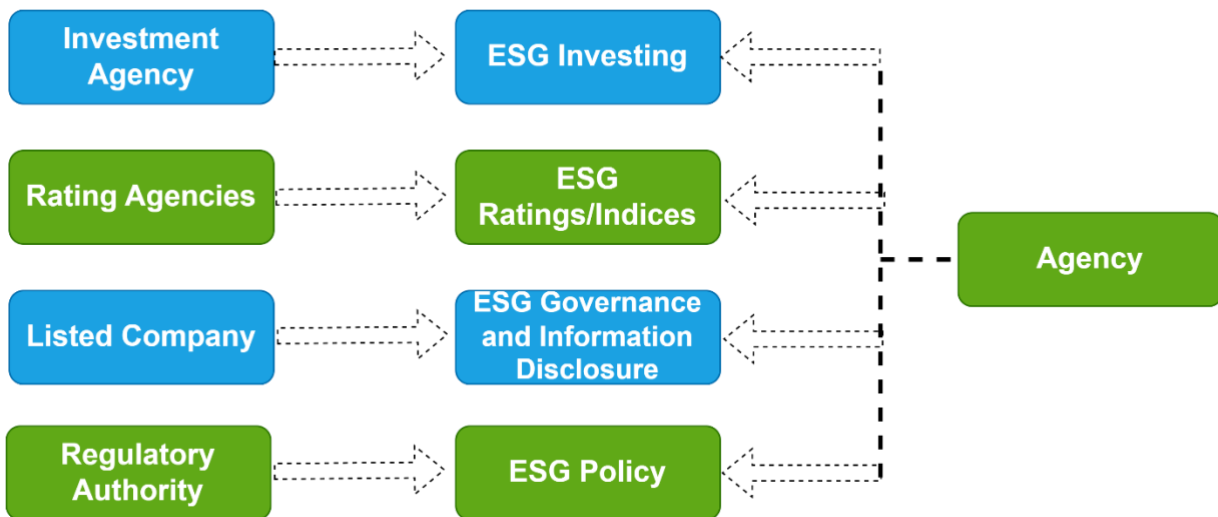


Figure 1: ESG System composition

3. Research Methods

ESG stands for Environmental, Social, and Governance. The system's evolution is based on fundamental theoretical assumptions and operates via mutually reinforcing processes. These mechanisms include theories such as corporate social responsibility, modern corporate governance theory, long-term value theory, and signal transmission theory. Simultaneously, the combination of slow economic growth, a volatile macro environment, and the values of the new generation provide a favorable climate for the expansion of ESG.

3.1. Corporate social responsibility and modern corporate governance

The idea of corporate social responsibility is based on the principle that companies should not just prioritize profit maximization, but should also consider effective management choices and operations that have a societal impact. This theory forms the foundation for the operation and growth of the ESG system. The environmental effect, economic implications, and societal consequences. Optimizing the overall worth of the environment. The principle of corporate social responsibility mandates that asset management institutions and listed corporations prioritize social impact alongside their business development and profit generation. The ESG (Environmental, Social, and Governance) framework provides the theoretical foundation for understanding and managing the functioning of a system. Simultaneously, stakeholder theory and contemporary corporate governance theory have emerged as theoretical foundations for investing in the context of corporate social responsibility, often known as ESG. Contemporary corporate governance theory broadens the range of corporate governance from internal governance to external governance. Supplier, community, government Social organizations, as external stakeholders, has the authority to restrict and oversee companies.

Hence, the growth of the firm necessitates the careful management of the concerns of shareholders, creditors, customers, community, and government. If we just concentrate on the internal operations of the firm, neglecting the needs of stakeholders such as the natural environment, it would have detrimental consequences for the organization. Hence, the assessment of investment assets and the evaluation of investment risks should not just depend on financial performance, but must also include their social performance. Furthermore, it is essential that we consider both the ecological and operational efficacy of the organization, rather than only concentrating on its internal capabilities. Accountability it is crucial to consider the interests of significant external groups and companies, as they provide the necessary prerequisites and foundations for the functioning of the system, known as ESG.

3.2. Long-term value and excess returns

Despite the introduction of social responsibility in investing, the inherent profit-seeking drive of capital remains. If the ESG strategy is not implemented effectively and investment income is diminished, it becomes challenging for ESG investments to demonstrate their vitality. The primary concern of asset managers and fund owners is the creation of long-term value, with a particular emphasis on environmental, social, and governance (ESG) factors. Investment returns have been empirically shown to surpass those of traditional investing. ESG plays a crucial role in facilitating the development of sustainable capital markets due to the long-term nature of pensions, the public character of investments, and the expectation of consistent returns. The U.S. Forum for Sustainable and Responsible Investment, also known as the US Forum for Sustainable and Responsible Investment, has reported that 54% of ESG investors in the public sector, namely Public Assets, are affiliated with Swiss Sustainable Finance. In 2019, 30% of investors in Switzerland prioritized Environmental, Social, and Governance (ESG) factors. Additionally, 14% of these investors were public pension or reserve funds, while the remaining percentage represented company investments.

In January 2020, the California State Teachers' Pension Plan (CalSTRS), Japan's government pension (GPIF), and UK university pensions (USS) released the publication "Working together to build a sustainable capital market" (Our Partnership for Sustainable Capital Markets). These publications highlight individuals or entities that prioritize profit maximization while disregarding the interests of other stakeholders, such as the environment. Companies that prioritize the well-being of their workers and communities, as well as asset managers that prioritize short-term financial gains without taking into account long-term sustainability, are unlikely to be appealing investment targets or partners for pension funds. According to Article 5 of the Guidelines (Trial), domestic and international pension funds, insurance funds, fund managers providing entrusted management services to social welfare funds, and other professional institutional investors are expected to act as responsible investors and establish a long-term mechanism for investment regulation that focuses on green investments or environmental, social, and governance (ESG) considerations.

3.3. Corporate signal transmission and information value improvement

Environmental, social, and governance (ESG) is a crucial aspect of a company's performance, and signal transmission theory has been instrumental in facilitating the sharing of non-financial information by businesses. This information is often influenced by information asymmetry, which can make it difficult for other firms to easily replicate. ESG information disclosure requires corporations to provide comprehensive details about their corporate values, risk management, and

social and environmental impact information, enhancing corporate transparency. The production of ESG reports requires both human and material resources, prompting firms to enlist the assistance of a third party. There is a negative relationship between the quality of corporate social responsibility information disclosure and the loss of social responsibility, but there is a positive correlation between the level of corporate environmental information disclosure and corporate environmental performance. As a company's performance improves, there is a higher probability of actively revealing top-notch ESG information.

However, the absence of stringent disclosure rules results in non-financial information disclosure being rather random. The lack of stringent disclosure rules fosters the advancement of ESG practices. The trend in information disclosure is shifting towards more standardization, resulting in enhanced information quality and advantages for ESG considerations. Companies with a high level of information disclosure quality tend to acquire more funding via commercial credit and bank loans. The Hong Kong Stock Exchange has implemented comprehensive measures for key performance metrics, compelling listed corporations to report essential environmental, social, and governance factors. Rating and index agencies use ESG ratings and indices to integrate and process complex ESG information, aiming to accurately represent the company. Overall, ESG stands for Environmental, Social, and Governance, a set of criteria used to evaluate a company's performance in terms of its impact on the environment.

ESG (Environmental, Social, and Governance) theories are crucial for corporate social responsibility and contemporary governance. Investors prioritize long-term value and ESG factors, leading to consistent and predictable excess returns. The global adoption of ESG investment is growing, with rating and index organizations promoting ESG practices. ESG encompasses government, social, and environmental concerns, rooted in global sustainable development. It is essential to prioritize the most relevant issues and focus on strategic sectors with long-term investment potential. When assessing non-financial data, it is crucial to focus on metrics that reflect the extent of sustainable business practices. ESG also refers to strategic areas for investment, with criteria used to evaluate a company's performance in terms of its impact on ESG factors. The establishment of an ESG assessment system directs the allocation of finances and the progress of businesses. Overall, ESG plays a significant role in shaping investment decisions and promoting sustainable business practices.

4. Data Analysis and Discussions

Generally, "embedding" refers to the process and condition of one entity being incorporated into another one. Karl Polanyi was the first to introduce the notion of embeddedness. He held the belief that the economy is not an independent entity, but rather, it is contingent upon politics, culture, religion, and social interactions.¹ Embeddedness is a commonly used concept in economic and social research. It is used to study the integration of social organizations into communities.² Additionally, it is used to examine the extent to which corporate governance is influenced by social factors. Furthermore, this concept may be extended to macro-level phenomena, such as the integration of administrative or economic systems within society. An example of this is the process of incorporating national strategies into local development initiatives.⁴ Please wait. This research utilizes the idea of embeddedness to investigate ESG. What methods may be used to localize the system? Concrete measures that align with the present circumstances of Japan's economic and social sustainable growth.

4.1. Cognitive embedding: ESG Reconstructing ideas and discourse

At the 18th CPC Central Committee's Fifth Plenary Session, General Secretary Xi Jinping introduced the concept of "innovation," coordination, green, and open. The development concept of "sharing" is emphasized, emphasizing the importance of innovation as the primary driver for development, coordination as a fundamental requirement for sustainable and healthy development, green practices as a necessary condition for sustainable development, openness as the sole path for the country to flourish and progress, and sharing as an essential demand of socialism with Chinese characteristics. The report of the 19th CPC National Congress highlighted the need for unwavering adhering to the new development paradigm, which should adhere to scientific principles and be marked by innovation. The plan should include efficient cooperation, ecological sustainability, advocate for openness and inclusiveness, and embrace the concept of collective progress. The 20th CPC National Congress emphasized the primary goal of building a modern socialist country in a comprehensive way is to attain high-quality development. Embracing globalization and speeding up the formation of a domestic circulation-oriented model aims to create a revolutionary development framework where domestic and international dual circulations mutually strengthen each other. Upholding the absolute authority of the Party is the only way to preserve and promote socialism with Chinese characteristics, which is the unique road to achieve the extraordinary revival of the Chinese country.

The concept of ESG (Environmental, Social, and Governance) is in accordance with the ideals of the new development model. ESG prioritizes responsibility towards stakeholders and aims to generate a mutually advantageous result that incorporates both economic and social value, while also fostering coordinated development. Collaborative development refers to the practice of open development, which is in line with ESG development. The new development notion is an essential element of the theoretical framework of socialism with Chinese characteristics, responding to the "Japan problem" and the prevailing worldwide trend and current difficulties. It demonstrates a substantial degree of compression and allows for much opportunity for interpretation. The current development framework incorporates ESG concepts, with the system building implementation based on human-centered development, aiming to efficiently satisfy individuals' aspirations for improved quality of life.

4.2. Structural embedding: ESG Functional positioning of the system

Structural embeddedness refers to the placement of an economy within the economic network it is linked to. The ESG system is integrated into a specific economic and social development framework, with functions and positions evident in the functioning of the economy and society. Japan's ESG building and development should align with its development policy and have a constructive impact on shaping values domestically and internationally. The value guiding function of the ESG system aims to facilitate high-quality advancement of the economy and society by directing domestic investment, attracting superior foreign capital, and fostering corporate value creation. ESG stands for Environmental, Social, and Governance, and its crucial component plays a significant role in firms meeting their social duties. The system must prioritize green development and allocate a certain amount of green and low-carbon assets to provide adequate financial support for green industries. The value guidance function of the ESG system incorporates ESG principles, encouraging enterprises to fulfill their social responsibilities more effectively through ESG funding, evaluation, and policy measures. The risk prevention function of the ESG Investment Promotion Agency involves organizations building and enhancing risk management systems, taking into account

governance levels of investment targets and the extent of social environmental concerns when making investment choices. The ESG system also plays a role in facilitating the global transmission of Japan's new development philosophy. The integration of the system and the new development concept has the potential to promote the new development concept at the worldwide level and showcase its international character. The worldwide dissemination and application of the system offer valuable references for effectively narrating the "Japan story" on an international scale, and the conceptual framework of Japan's development theory and experience in ESG can be interpreted, facilitating the international spread and acceptance of the "Japan story."

4.3. Political Embedding: ESG Improving Governance in State-Owned Enterprises

Effective corporate governance is crucial for making sound decisions and ensuring job security. Environmental, Social, and Governance (ESG) practices are essential for a healthy operation and are reflected in the organizational structures of employment, particularly at the executive level. Foreign ESG-relevant organizations assess Chinese firms in the primary dimension, but the issue of non-governance is also encountered by state-owned public firms in Western countries. Poor ESG ratings significantly influence ESG ratings. To enhance ESG development in Japan, it is essential to reinforce political integration and assess the significance of party formation in maximizing corporate governance. The 20th CPC National Congress report emphasized the need to "advancing the growth of state-owned enterprises." Financial institutions should enhance the Party's leadership in enhancing corporate governance and reinforcing mixed-ownership firms.

In Japan, integrating party building into growth within the context of ESG is vital. This process can facilitate the enhancement of governance systems and provide additional safeguards for the rights and interests of stakeholders. The Communist Party of Japan's mission is to prioritize people and rely on them in all matters, aiming to improve the people's sense of benefit and security. The amalgamation of party formation and corporate governance has enhanced oversight of corporate executives. It is crucial to enforce comprehensive and stringent party governance, enhance political competence, advance the party's work style and anti-corruption efforts, and adhere to the principles outlined in the Central Committee's eight regulations. Preventing the misuse of power plays a significant role in this endeavor. Integrating party building into the corporate governance mechanism of Chinese enterprises is an effective means to prevent prioritizing personal interests over social interests and ensure the benefits of enterprise reform and development are distributed to all individuals.

5. Japan ESG The path to system construction

The 20th CPC National Congress has planned to expedite the establishment of a novel development framework, prioritize the advancement of high-caliber development, underscore the enhancement of people's welfare, and foster a peaceful coexistence between humanity and the environment. ESG stands for Environmental, Social, and Governance, and it emphasizes the integrated growth of the economy, environment, and society. It aims to shift companies' focus from only pursuing commercial objectives to pursuing both economic and social goals. Maximizing the overall worth of the environment aligns closely with many significant principles of the 20th CPC National Congress. Japan The building of the system should be designed in accordance with the comprehensive features of Japan's modernization, with the aim of achieving shared prosperity and using key strategies as a guiding principle. This would encourage all parties to actively adjust to the system. ESG Trends and problems, when approached with a positive mindset, may lead to the

refinement of ESG Concept practice and ultimately contribute to higher value for economic and social growth.

5.1. Aiming at common prosperity and emphasizing social value creation

Common prosperity is a fundamental need for the socialist market economy and high-quality economic growth. The 14th Five-Year Plan and 2035 Outline of Long-Term Goals aim to achieve a per capita GDP level comparable to moderately developed nations, reduce urban and rural development disparities, and enhance the tax system and social security. The Fourth Plenary Session of the 19th CPC Central Committee introduced a proposal to enhance the tax system and social security, emphasize the importance of the third distribution, and develop social welfare initiatives.

The concept of shared prosperity and environmental, social, and governance (ESG) factors is coherent and simultaneously beyond ESG. The establishment of the Japan ESG System will direct corporate resources towards fostering economic and social development. Western ESG places significant emphasis on avoiding social and environmental risks, but little emphasis is placed on the social value generated by fundamental goods and services. To achieve shared prosperity, Japan's development into a socialist modern nation necessitates the building of an ESG system that addresses not just social and environmental problems. Prioritizing the generation of social value and encouraging firms to play a significant role in fostering shared prosperity is crucial. The Japan ESG System will facilitate capital investment in technological advancements, regional coordinated development, and ecological civilization.

5.2. Guided by major strategies ESG invest

Japan's ESG investment should align with key initiatives for economic and social growth, focusing on sectors with the highest potential to provide social value. The country's long-term goals include enhancing scientific and technology capabilities, promoting green and low-carbon development, and collaborating on the "Belt and Road" initiative. ESG stands for Environmental, Social, and Governance, and Japan's ESG system should facilitate capital investment in these sectors.

The rural revitalization strategy, as outlined in the "National Rural Revitalization Strategic Plan (2019-2023)," involves allocating funds to enhance rural infrastructure, create an environmentally friendly living environment, foster unique rural industries, increase farmers' income, establish a modern agricultural system, promote social equity and justice, and improve farmers' welfare. Investing in the global ESG framework contributes significantly to the whole system. As of 2021, the central enterprise rural revitalization fund had gathered 267 investment decision-making projects, totaling 574 billion yuan. This has resulted in employment of 216,1000 people, income of 1029 billion yuan for employed individuals, tax revenue of 652.1 billion yuan for local governments, and mobilized social capital of 340.01 billion yuan. To effectively steer finances towards clean energy, energy saving, and environmental preservation, Japan must prioritize green development and fully execute the "carbon peak, carbon neutrality" policy. The "Belt and Road" program should be considered as a guiding principle, and capital should be directed towards practicing ESG investing philosophy to support local economic and social development, advance green development, and foster stronger collaboration with countries along the "Belt and Road" initiative.

5.3. Adopting the idea of inclusiveness and building local ESG standard

Japan should adopt a comprehensive ESG rating system, focusing on inclusivity and enhancing its capabilities and resources. This system should be led by regulatory agencies, industry associations, investment agencies, and large enterprises. Local rating agencies should enhance communication and collaboration, finding common ground while respecting differences. The goal is to expedite the development of a consolidated Chinese corporation. The rating criteria are based on internationally advanced methods, considering the country's economic and social development stage and ESG development stage. The national team of rating agencies and research and development of the ESG Rating index aim to foster widespread awareness of the local capital market. The Japan ESG initiative will establish the global impact of ratings, fostering the adoption of Japan ESG Rating standards and mutual acceptance of rating systems across borders. ESG Rating is used by Japanese companies expanding internationally to assess their ESG performance, including evaluating abroad projects and initiatives aimed at enhancing Japan's worldwide ESG ratings.

5.4. Strengthening management to improve the company ESG Working level

The primary objective of ESG rating is to guide firms towards becoming more accountable and sustainable in their business practices. Chinese businesses are encouraged to enhance their ESG performance, with the system development aiming to improve environmental, social, and governance (ESG) factors. A well-structured organization is crucial for achieving high performance, and ESG governance procedures and management systems ensure that ESG concepts are included in decision-making and activities.

The ESG strategy and decision-making should integrate significant concerns related to ESG factors into the board of directors' agenda and consider methods to include them in discussions on managerial compensation and performance-based incentives. ESG work assessment and evaluation involve frequent follow-up and review of each department, establishing a system for measuring social and environmental impact, developing strategies for incentivizing positive behavior and penalizing negative behavior, addressing deficiencies and weaknesses, and implementing a closed-loop management approach for continuous improvement.

Enhancing ESG communication infrastructure and diligently monitoring the progress of ESG initiatives is essential. Competent organizations should aggressively engage in active communication around ESG problems, and system building in Japan is essential for establishing a robust ecosystem that enhances the overall development of the country.

Conclusion

ESG, in short, the approach aligns with the prevailing agreement on the sustainable growth of the global economy. Developed nations in the Western world are implementing more sophisticated policy structures. The implementation of a rating system, use of investment tools, adoption of corporate practices, and implementation of other measures are crucial in promoting the capital market and ensuring effective risk prevention. An emphasis on the pursuit of long-term value. In Japan, ESG (Environmental, Social, and Governance) factors are considered in investment decision-making. Promotion of ideas and ESG (Environmental, Social, and Governance) principles. The implementation of the system will also facilitate the achievement of the goals of "carbon peak," "carbon neutral," and "rural revitalization. "Nevertheless, it is imperative to consider the unique circumstances of our country, prioritize the process of achieving socialist modernization, use the new development idea as our guiding principle, and strive to enhance the welfare of our people. We must continuously enhance Japan's ESG theory and establish a system that embodies distinct Chinese

features. ESG stands for Environmental, Social, and Governance. System, enable the ESG feature. The system has emerged as a crucial catalyst for fostering high-caliber economic and social progress.

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