



جامعة أم البواقي - الجزائر -  
كلية العلوم الاقتصادية والعلوم التجارية وعلوم التسيير



مجلة الدراسات التنموية وريادة الأعمال (JDSE)



Oum El Bouaghi University -Algeria-  
Faculty Of Economic, Commerce  
And Managemmmnt Sciences



# مجلة الدراسات التنموية وريادة الأعمال

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# مجلة الدراسات التنموية وريادة الأعمال

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### التعريف بالمجلة وأهدافها:

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- تسليط الضوء بشكل علمي على القضايا الاستراتيجية الآتية، والتحديات التي تواجه الاقتصاد الجزائري والعالمي؛
- الإسهام جدياً في إثراء البحث العلمي لاسيما في مجالات التنمية وريادة الأعمال من خلال توفير فضاء لنشر البحوث والدراسات ونقل التجارب الرائدة؛
- تشجيع حركية البحث العلمي وإتاحة الفرصة للباحثين من أجل مناقشة إنتاجهم العلمي وتحقيق فرص واعدة لتكوين حصيلة متراكمة من البحوث العلمية الأصيلة الجديدة؛
- استشراف القضايا المستقبلية المرتبطة بالمؤسسات الجزائرية والاقتصاد الجزائري وطنيا وفي باقي دول العالم، بهدف تبيين الإنتاج العلمي للباحثين وتصويب الإجراءات والسياسات المتخذة أو المرسومة من طرف صناع القرار؛
- استقطاب استشاريين متميزين وتوسيع أعضاء هيئة التحكيم؛
- الإسهام في نهضة التعليم الجامعي وتطويره محليا ودوليا من خلال إتاحة فضاء يسمح بإعداد بحوث مشتركة بين مختلف الباحثين وطنيا ودوليا.

### قواعد النشر في المجلة:

تخضع المقالات التي ترد إلى المجلة لقواعد نشر يتعين على الباحثين الالتزام بها، وهي على النحو الآتي:

- تنشر المجلة المقالات باللغتين: العربية والانجليزية التي تدخل ضمن نطاق المجلة وهي: الاقتصاد، اقتصاد التنمية، الاقتصاد القياسي، التحليل الاقتصادي والاستشراف، إدارة الأعمال وريادة الأعمال، وكذلك المواضيع الإدارية والمالية المرتبطة بالتنمية والإدارة؛
- يرسل المقال وفق قالب المجلة المتاح على موقعها الإلكتروني ومنصة ASIP على أن يكون سليما ومنقحا من الناحيتين اللغوية والنحوية؛



- أن يكون المقال جديداً، ولم يسبق لمؤلفيه نشره كلياً أو جزئياً في أي وسيلة من وسائل النشر سواء في شكل ورقي أو في شكل إلكتروني، وأن يقدم المقال إضافة علمية واضحة؛
- تخضع كل المقالات للتحكيم من طرف خبراء المجلة وفق الإجراءات المعمول بها في مختلف المجالات العلمية ويبلغ الباحث المراسل بنتيجة التحكيم إلكترونياً؛
- لا يمكن للمؤلف نشر مقالين في عددتين متتاليتين سواء أكان مؤلفاً رئيسياً أم لا ؛
- يخضع ترتيب المقالات المقبولة للنشر في المجلة للترتيب الأبجدي لأسماء المؤلفين بالحروف اللاتينية.

### أخلاقيات وحقوق النشر:

- تتبنى المجلة معايير لجنة أخلاقيات النشر العلمي (COPE) والتي تتضمن مسؤوليات، وأخلاقيات المؤلف، المراجع، ورئيس التحرير والمتاحة على موقعها الإلكتروني:  
[http://publicationethics.org/files/Code\\_of\\_conduct\\_for\\_journal\\_editors\\_mar11.pdf](http://publicationethics.org/files/Code_of_conduct_for_journal_editors_mar11.pdf)
- يشكل الانتحال والسرقة العلمية سلوكاً غير أخلاقي بالنسبة للمجلة، ولا يتم قبول أي مقال ينطبق ذلك عليه؛
- تلتزم المجلة بالنشر المجاني، ولا تحمل المؤلفين أي رسوم مقابل نشر وتحكيم مقالاتهم؛
- يتعهد المؤلف الذي ينشر مقاله في المجلة بالتنازل عن حقوقه في المقال، ويمتنع عن إرساله للنشر إلى أي مجلة أخرى؛
- تحتفظ المجلة بحقوقها في حذف أو إعادة صياغة بعض الجمل أو العبارات التي لا تتماشى وسياسة النشر؛
- كل مقال ينشر عبر صفحات المجلة يعبر عن رأي وموقف مؤلفيه، ولا يعكس رأي وموقف المجلة؛
- لا يجوز النقل واستعمال ما ينشر في المجلة، إلا بالإشارة إلى الاقتباس بالتفصيل: المؤلف، عنوان المقال، المجلد، العدد، تاريخ الإصدار، الصفحات؛
- تتبع المجلة سياسة الوصول المفتوح إلى منشوراتها حيث تتيح جميع محتوياتها مجاناً على محركات البحث وروابط المجلة عند نشر كل عدد، ويسمح للمستخدمين بقراءة وتنزيل وطباعة النصوص الكاملة للمقالات المنشورة دون إذن مسبق.



## افتتاحية العدد

تسعد مجلة الدراسات التنموية وريادة الأعمال بوضع عدد آخر بين أيديكم، والذي يتضمن مساهمة باحثين من عدة دول بمقالات علمية محكمة متنوعة ذات جودة منها ما يعالج بعض المسائل المرتبطة بالتنمية، ومنها ما يجري أبحاث متعلقة بإدارة الأعمال وتحقيق الريادة للمنظمات، احترمت هذه المقالات معايير النشر الأكاديمي وتماشيت مع الطموح الذي تسعى المجلة إلى تحقيقه مستقبلا ألا وهو أن تصبح واحدة من الدوريات العلمية المحكمة الرائدة في مجال النشر على المستوى الوطني والإقليمي، والتي يمكن للأكاديميين والباحثين الاعتماد عليها كمرجع موثوق به للأبحاث والدراسات المتخصصة، فضلا على منح دفعة قوية لمنظمات الأعمال ولاقتصاديات الدول على مختلف توجهاتها في سبيل التطور، وبالأخص في الوطن العربي من خلال النتائج والاقتراحات التي تتضمنها المقالات الواردة في كل عدد من أعداد المجلة.

في الأخير لا يسعنا إلا أن نسأل الله التوفيق والسداد في رحلتنا العلمية المتواصلة.

هيئة تحرير المجلة



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## مشكلات المراجعة الداخلية في الشركات العائلية:

دراسة حالة للشركات العائلية، المملكة العربية السعودية (2023م)

*Internal audit problems in family businesses:  
Case Study of Family Businesses, Saudi Arabia (2023)*

محمد قسم الله محمد إبراهيم<sup>1</sup>، آية قسم الله محمد إبراهيم<sup>2</sup>

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### الملخص:

يتناول هذا البحث المشكلات التي تواجه المراجعة الداخلية في الشركات العائلية، وكيف يمكن للمراجعة الداخلية تطبيق معاييرها الرقابية المنهجية بما يخدم تعزيز المؤسسة واتخاذ القرارات الصائبة والتي تساعد هذه الشركات على الحوكمة والاستمرارية وتحقيق أهدافها الاستراتيجية.

شمل البحث استطلاعاً لعينة من المراجعين الداخليين في الشركات العائلية بالمملكة العربية السعودية، وقد خلصت إلى أن مخاطر انهيار هذه الشركات ترتفع بالتقدم بالإضافة إلى غياب الرقابة الكافية، وعدم الإلمام الكافي بالمبادئ الإدارية والمالية المتعارف عليها بنطاق إشراف المراجعة الداخلية، وأن هنالك تقاطعات بين أصحاب الملكية فيما بينهم وبين إدارات المراجعة من جهة أخرى في تنفيذ منهجيات المراجعة الداخلية، وأن هذه التقاطعات تكون ثغرة لانحرافات مالية وإدارية بواسطة مستويات إدارية وظيفية أخرى.

الكلمات مفتاحية: الشركات العائلية، المراجعة الداخلية، استقطاب الكفاءات، تعزيز الشفافية.

تصنيف JEL: M420، M480.

### Abstract:

This research examines the problems facing internal auditing in Saudi family businesses, and how their control standards can be applied to help these companies in governance, continuity and achieving their strategic objectives.

This research included a survey of a sample of internal auditors practicing the profession in family businesses, and concluded that the risks of the collapse of these companies are high in addition to insufficient knowledge of the recognized administrative and financial principles, and that there are intersections between owners and audit departments, which leads to a financial and administrative gap.

**Keywords:** Family Businesses, Internal Audit, Talent Acquisition, Transparency.

**Jel Classification Codes:** M420, M480.

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## 1. مقدمة:

ظهرت الشركات العائلية كمركز اقتصادي كبير على مستوى دول العالم ككل، يتم فيه ممارسة النشاطات الاقتصادية المختلفة كما توفر فرصا كبيرة للتوظيف وقد تستمر لأجيال، ولطالما كانت هذه الشركات العائلية قوة حافزة للتطوير والنمو الاقتصادي وشريكا أساسيا في عمليات التنمية الاقتصادية، وقد لعبت دورا مهما ومتزايدا في الاقتصاد العالمي بشكل عام. ويقصد بالشركة العائلية، أي شركة مملوكة بصفة رئيسية لأفراد ينتمون إلى عائلة معينة، ويقومون بإدارتها من أجل تحقيق منافع حالية ومستقبلية. ومثل هذه الشركات يلعب فيها الكيان العائلي دورا إداريا وماليا ملموسا على العمليات الحالية والمستقبلية. وتميل الشركات العائلية عموما إلى وضع استراتيجيات استثمار طويلة المدى، ولديها القدرة على اتخاذ قرارات سريعة والتكيف مع متغيرات بيئة العمل.

بالمقابل إدارة المراجعة الداخلية وهي عبارة عن جهة مستقلة تتمثل مهمتها الأساسية في فحص وتقويم جميع نشاطات الشركة التشغيلية والتمويلية والاستشارية وترتبط مباشرة بمجلس الإدارة، ولا يوجد للمدير التنفيذي سلطة عليها هذا من الناحية المعيارية، ولكي تؤدي إدارة المراجعة الداخلية عملها بنجاح ينبغي أن تكون متحررة من سيطرة الإدارة التنفيذية بحيث تتبع مباشرة إلى مجلس الإدارة وألا تختزل مهمتها في التدقيق والمراجعة فحسب، بل تتولى تقديم المشورة لمجلس الإدارة وللمدير التنفيذي في جميع الجوانب الإدارية والمالية والتشغيلية وفق أسس علمية ومهنية.

والملاحظ أن إدارات بعض الشركات العائلية لديها اعتقاد خاطئ باقتصار مهمة المراجعة الداخلية على تدقيق القوائم المالية وهذا يخرج عن المفهوم العام للمراجعة الداخلية التي تشرف على نتائج أعمال الشركة الكمية والنوعية. وتصل مهمة المراجعة الداخلية إلى اقتراح معايير الجودة للأنشطة الجوهرية ومراقبة الإدارات في الالتزام بها، كما أن لها جانبا تثقيفيا وتحليليا فقد تواجه الإدارات التنفيذية صعوبة في تحقيق بعض المعايير، فتقوم إدارة المراجعة بإيجاد الحلول للتغلب عليها وعلى المشكلات الأخرى. ويرى الباحثان أنه ولكي تقوم إدارة المراجعة الداخلية بمهامها ينبغي ترسيم المهام والأهداف بدقة في مجلس الإدارة والأدوات اللازمة لها كالميزانيات التقديرية والدورة المستندية الإجرائية الصارمة وغيرها من الأدوات التي يقتضيها نطاق الإشراف.

## 1.1 مشكلة البحث :

تمثل مشكلة البحث في استقصاء دور المراجعة الداخلية في هيكل عمليات الشركات العائلية بالمملكة العربية السعودية، وكيف يمكنها تحقيق الحوكمة وتنفيذ مهامها الوظيفية، ومدى قدرتها على مواجهة التحديات العملية، والمعايير والأسس العلمية والعملية التي تتبعها في هذا النوع من الشركات لتحقيق الأهداف الكلية والأهداف الاستراتيجية بما فيها المنافسة والاستمرارية، وعليه يحاول هذا البحث أسئلة البحث في السؤالين الآتيين:

- ما هو الدور الذي تلعبه المراجعة الداخلية وصلاحياتها في الشركات العائلية ؟
- ما مدى تطبيق معايير المراجعة والأسس العلمية في الشركات العائلية بالمملكة العربية السعودية؟

## 2.1 فروض البحث : للإجابة على السؤالين المطروحين نضع الفرضيتين الآتيتين:

- تلعب المراجعة الداخلية دورا هاما في تعزيز المؤسسة بالشركات العائلية؛
- توجد فجوة تطبيق في الشركات العائلية فيما يتعلق بمعايير المراجعة والأسس العلمية فيها.

## 3.1 أهداف البحث :

يرمي هذا البحث إلى ما يأتي:

- معرفة المهام والتطبيقات التي تمثلها المراجعة الداخلية في الشركات العائلية؛
- دراسة مدى وجود فجوة تنفيذ معايير المراجعة الداخلية والأسس العلمية المتبعة في الشركات العائلية.

## 4.1 أهمية البحث :

يستمد البحث أهميته من المكانة النسبية للشركات العائلية في الاقتصاد الكلي للدولة، ومن الدور الذي تمثله المراجعة الداخلية في الهياكل التنظيمية لهذه الشركات في رقابة العمليات المالية والإدارية وتقييمها وتطويرها.

## 5.1 الدراسات السابقة: تتمثل أبرز الدراسات التي تناولت موضوع المراجعة الداخلية في الشركات العائلية السعودية في ما يأتي:

- دراسة (التميمي، 2018م):

هدفت الدراسة إلى التعرف على واقع الشركات العائلية وكذلك المشكلات التي تواجه تلك الشركات والآليات التي من شأنها تطوير هذه الشركات، وأهم النتائج التي توصل إليها البحث أن هنالك مشكلات تعاني منها الشركات العائلية، ومن أهم التوصيات التي قدمتها أن يتم رسم خطط لتطوير الشركات العائلية وتأهيل كوادر المراجعة فيها .

- دراسة (الرشيدي، 2015م):

ركزت الدراسة على إمكانية تطوير فعالية وظيفة المراجعة الداخلية باعتبارها من الآليات المحورية التي تقوم عليها الحوكمة ودورها الفاعل لضمان جودة التقارير المالية والقوائم المالية، ومن أهم النتائج التي توصل إليها البحث: توسيع نطاق عمل وصلاحيات المراجعين الداخليين من خلال التعليم الكافي والتدريب المستمر والخبرة المهنية الملائمة لما لها من دور إيجابي في تحسين مستوى الإفصاح خصوصاً في ضوء تركيز الملكية في الشركات العائلية.

وخلاصة القول هنا هو أن ما يميز بحثنا عن الدراستين المشار إليهما هو أن البحث تناول أهمية وفعالية الرقابة الداخلية كأداة لتوسيع عمل وآليات المراجعة الداخلية وصلاحيات المراجعين، ويسعى البحث لقياس مدى فاعلية أداء المراجعة الداخلية في الشركات ذات الطابع العائلي وما يواجهها من تحديات في الواقع العملي، سواء كانت إدارية هيكلية أم معيارية تتعلق بالمفهوم المنهجي للمراجعة الداخلية وأدواتها، فبحثنا يتناول القصور الذي يعتري إدارات المراجعة الداخلية ويحد من جودة أعمالها، كما أن هذه الدراسة تبحث في العلاقة العكسية أو الطردية بين إدارة الشركة العائلية بكافة أنماطها والمراجعة الداخلية فيها والتأثيرات المترتبة على ذلك سلباً وإيجاباً.

#### 6.1 منهجية البحث:

يعتمد البحث بصفة أساسية على الاستقصاء والمنهج الوصفي التحليلي وأسلوب المسح الشامل لمفردات العينة، كما يعتمد البحث على الملاحظة لجمع البيانات الأولية لتقييم الأداء الفعلي لمجتمع البحث بالإضافة للمصادر الثانوية والتقارير من الجهات ذات الصلة. يعد المراجعون الداخليون والمعنيون بالإدارات المالية في الشركات العائلية المرتكز الأساسي لمجتمع الدراسة للحصول على المعلومات وبيانات الدراسة من واقع الممارسة العملية. تتكون عينة الدراسة من إدارات وأقسام المراجعة في الشركات العائلية السعودية لأغراض الحصول على مردود موضوعي ما أمكن ذلك فيما يتعلق بالمشكلة البحثية، وفي سبيل ذلك قام الباحثان بتوزيع 200 استبانة على مجتمع الدراسة في هذه الشركات.

## 2. الإطار النظري للدراسة:

### 1.2 مفهوم الشركات العائلية:

الشركات العائلية هي شركات مغلقة على ملاكها فقط، وينتمون لعائلة واحدة، ولها هيكل تنظيمي، ويملكون حق السيطرة على الإدارة واتخاذ القرار، وعرفها البعض بأنها: "اشتراك أكثر من فرد من عائلة واحدة في ملكية رأس المال الخاص بالشركة، مع وضع الضوابط التي تساعد على بقاء الشركة في الممارسة والسيطرة عبر الأجيال". (النجار، فايز جمعة صالح والعلی، عبد الستار محمد، 2010م)

ويعرفها آخرون بأنها: "الشركة العائلية التي تملكها بالكامل أو تسيطر عليها عائلة معينة". والشركة العائلية هي نوع من مؤسسات الأعمال، تنشأ من شراكة عمل داخل أسرة أو عائلة واحدة، بحيث تؤول إليها الحياة والإدارة معاً، ويتوارث هذا النظام مع الأجيال المتعاقبة على الشركة، وهي كغيرها من الشركات، تمتلك مجموعة من المميزات التي تدعم بقاءها، وتحيط بها بالمقابل كذلك مجموعة أخرى من المخاطر التي تهدد استمراريتها ونموها. (خليل، بدر الدين والديان، محمد، 2016م)

### 2.2 أنواع الشركات العائلية :

تصنف الشركات العائلية إلى الأنواع الآتية: (سامي، فوزي، 2010م)

-الشركات العائلية البسيطة: وهي الشركة التي تركز نشاطها على نوع واحد من النشاطات الاقتصادية، ويتم فيها انتقال الملكية والقيادة إلى الابن الأكبر من كل جيل ويتم فيها تطبيق نظام إداري يتصف بالمركزية والمرونة.

-الشركة العائلية ذات الإدارة المشتركة: وفي هذا النوع من الشركات العائلية، يكون مجلس إدارتها فيه العديد من أفراد العائلة بحيث يشاركون في الإدارة والملكية معاً.

-الشركات العائلية متنوعة الأعمال: يتصف هذا النوع من الشركات العائلية بوجود عدد محدود من أفراد العائلة الواحدة، وتكون نشاطاتها الاقتصادية متنوعة ومعقدة إدارياً وذات نشاط واسع في الأسواق الكبيرة فيأخذ المؤسس على عاتقه مهمة ضمان استمرارية الشركة.

-الشركات العائلية ذات الطابع الأسري والتجاري المعقد: يغلب على هذا النوع من الشركات اعتمادها على الاستثمارات الكبيرة والمعقدة، على أن تمتد إلى أكثر من ثلاثة أجيال متعاقبة، وتدعو إلى تأييد إشراك الأجيال الجديدة في الشركة من أجل تطويرهم في مجال ريادة الأعمال، وما يحمله ذلك لهم من تطوير لمؤهلاتهم الإدارية بالإضافة إلى زيادة الترابط المتين للعائلة.

### 3.2 مراحل نمو وتطور الشركات العائلية:

ذكر "الحافي وثائر" أن المؤسس أو صاحب المشروع بطبيعة الحال هو الذي يضع فكرة وأهداف الشركة وينفذها، وتكون خاضعة بالكامل لرقابته الفردية، وبالتالي فهو يجسد نظام الحوكمة بصفته المالك صاحب السلطة المطلقة ومدير أعمال الشركة، ومع تطور النظم الإدارية واتساع الأعمال وتعقيداتها أصبح مؤسسو الشركات يستعينون بمجالس استشارية، بالرغم من أن اتخاذ القرار النهائي يكون من سلطات المؤسس غير أن التحدي المستمر لكل أصحاب الشركات والمؤسسين هو كيفية المحافظة على الديمومة والاستمرارية (الحافي، ثائر، 2015م).

ويشير دليل حوكمة المشروعات العائلية إلى أن الشركات العائلية عبر دورة حياتها تمر بالمراحل التالية: (دليل حوكمة المشروعات العائلية، 2008)

- مرحلة الجيل الأول: وتكون فيها القرارات والصلاحيات بيد المؤسس، وهي المرحلة التي تشهد غالباً النمو والتوسع في أنشطة الشركات العائلية من واقع الملاحظة في الحياة العملية.
- مرحلة الجيل الثاني: بعد عجز المؤسس أو غيابه عن أداء عمله، تبدأ مرحلة الجيل الثاني شراكة الأبناء وتتسم غالباً بتحقيق معدلات نجاح أقل من سابقتها. وتشير الدراسات إلى أن ثلث الشركات العائلية تنتهي مع الجيل الثاني، (الشايح 2007م)
- مرحلة الجيل الثالث: وتشهد هذه المرحلة صعوبة اتخاذ القرارات الاستراتيجية بما في ذلك الاتفاق على قيادة الشركة وتشهد الشركة مزيداً من انحدار خطوطها وحظوظها في الاستمرارية والمنافسة قياساً للمرحلتين السابقتين.
- مرحلة الجيل الرابع: وتتسم المرحلة بالمزيد من انحدار المنحنى، وقد تكون الشركة محتفظة بسماتها العائلية لكن مع تباين الرؤى وتقاطعات الأفكار والاتجاهات والاهتمامات تصل إلى المطالبة بالتصفية وتوزيعات الأنصبة والانتقال لإنشاء مجالات عمل جديدة أخرى.
- ويشير الباحثان إلى أن قمة نجاح الشركات العائلية تكون في عهد المؤسسين كما توضح ذلك قرائن ووقائع هذه الشركات في الأسواق وما حققته من شهرة وعائدات في مجالاتها، بينما تبدأ منحنيات هذه الشركات في الانخفاض بداية من الجيل الثاني الذي تبدأ فيه دورة حياة الشركات العائلية في اتخاذ شكل آخر غالب الأحيان مع وجود نماذج حافظت على استمراريته رغم تعاقب الأجيال.



## 4.2 الإفصاح والشفافية في الشركات العائلية:

تضع الشركة السياسات والإجراءات المتعلقة بالإفصاح بشكل مكتوب وفقاً للنظام ويرفق بالقوائم المالية السنوية في تقرير مجلس الإدارة وقد ذكرتها (لائحة قانون حوكمة الشركات في المملكة العربية السعودية، 2017).

## 5.2 المراجعة الداخلية في الشركات العائلية:

من مهام مجلس الإدارة تشكيل لجنة من أعضاء غير التنفيذيين تسمى لجنة المراجعة لا يقل عدد أعضائها عن ثلاثة يكون من بينهم مختص بالشؤون المالية والمحاسبية حسب (لائحة قانون حوكمة الشركات في المملكة العربية السعودية، 2017)

## 6.2 مهمات لجنة المراجعة ومسئولياتها: تتمثل مهمات لجنة المراجعة ومسئولياتها في:

- الإشراف على إدارة المراجعة الداخلية في الشركة في الشركة من أجل التحقق من مدى فاعليتها في تنفيذ الأعمال والمهام التي حددها لها مجلس الإدارة.
- دراسة نظام الرقابة الداخلية ووضع تقرير مكتوب عن رأيها وتوصياتها في شأنه.
- دراسة تقارير المراجعة الداخلية ومتابعة تنفيذ الإجراءات التصحيحية للملاحظات الواردة فيها.

- دراسة خطة المراجعة مع المحاسب القانوني وإبداء ملحوظات عليها.

## 7.2 أهمية ومشكلات المراجعة الداخلية في الشركات العائلية :

تبرز أهمية المراجعة الداخلية من خلال دورها في تحقيق أهداف الشركة والتأكد من سير الأعمال الداخلية بها وهذا ينهض بها للوصول لأهدافها وتطلعاتها وتقوم بمراقبة العمليات الداخلية والعمل على تقييمها وتحسينها، إذ تعتبر أهم الأدوات وأكثرها فعالية لإدارة الثروة بكفاءة عالية، ويشير في هذا السياق (القصبي، 2021م) إلى أن أهمية المراجعة الداخلية تتمثل في حل كثير من المشكلات في الشركات العائلية وتعزيز دورها الاقتصادي وأن استدامة الشركات إلى الجيل الثالث تبلغ نسبة قليلة جداً.

- على العموم، يمكن تلخيص أهمية المراجعة الداخلية بالنسبة للشركات العائلية في الآتي:
- توفير منظومة تمكن الإدارة من فهم القضايا المتعلقة بالملكية والإدارة والشفافية.
  - تقليل المخاطر من خلال تبني أنظمة المراجعة الداخلية .
  - المساعدة في تطوير استراتيجيات تحقيق أهداف العمل .
  - المساعدة في اتخاذ القرارات الصائبة التي تكفل الاستمرار.

هذا وتوجد هناك مشكلات تواجه المراجعة الداخلية في الشركات العائلية من أبرزها أن الشركات العائلية لا تقوم بكشف بياناتها ونتائجها المالية، كما أن هنالك تحديات تواجه المراجعة الداخلية بعضها تنظيمية وتأهيل الكوادر، فضلا على الإفراط في الإدارة مما يؤدي إلى تحجيم دور المراجعة الداخلية .

## 8.2 لمحة عن الشركات العائلية في السعودية :

تلعب الشركات العائلية دورا مهما في الاقتصاد السعودي ،حوالي 90% من الشركات السعودية مملوكة للعائلات وتمثل هذه الشركات نصف العمالة بالبلاد ونصف الناتج القومي الإجمالي وتتمتع ببعض المزايا مقارنة بالكيانات التجارية الأخرى من حيث أنها أقل عرضة للتأثر بالقوى الخارجية وتتمتع بدرجة عالية من الولاء بين الموظفين، وتم إصدار لائحة حوكمة الشركات في المملكة العربية السعودية في (2006م) لتنظيم المعايير والقواعد في هذه الشركات . وتعتبر فئة تجارية معترف بها منذ أوائل الثمانينات انعكس دورها على الاقتصاد السعودي بشكل إيجابي، وحسب الدراسات فإن 98% من الشركات الخليجية هي شركات عائلية وأن 250 مليار حجم استثمارات الشركات العائلية في المملكة العربية السعودية وحدها ، وأن من 20% إلى 30% تمثل حصة الشركات العائلية في الناتج المحلي.

وهناك عدد من الشركات حققت نجاحات وتأثير كبير في الاقتصاد السعودي والتي من بينها: (جدة، 2021)

- مجموعة يوسف ناغي: أنشأها يوسف ناغي منذ عام 1911 م، واستمرت لأجيال وتضم المجموعة أربع شركات تعمل في قطاعات مختلفة، مثل: الأغذية، والنقل، والإلكترونيات، والتمويل التأجير للسيارات، والمراعي للمعايير الإسلامية، كما تعد الوكيل الحصري المعتمد لمجموعة من العلامات التجارية العالمية في المملكة وعلى رأسها "BMW" و "رولز رويس".

- شركة الزامل القابضة: أنشأها عبد الله الحمد الزامل، في عام 1920 م، واستمرت لأجيال وقد استهلت الزامل مشوارها في مجال التجارة والخدمات، ثم توسعت لتعمل في قطاع الاستثمار العقاري، وهي الشركة العائلية الأولى التي سجلت في السوق المالي السعودي، حيث كان ذلك في عام 2002 م.

- مجموعة العليان: وهي الشركة التي أسسها سليمان العليان، في عام 1947 م واستمرت للجيل الثاني وبدأت العليان كمؤسسة عاملة في مجال النقل البري، وتطورت طوال مسيرتها لتصبح واحدة من أهم الشركات حول العالم ، وتعمل في أكثر من مجال، في إدارة الاستثمار، وخدمات الطاقة، والصحة، وغير ذلك. نجحت الشركات العائلية في صنع مكانة مميزة وخاصة لها، سواء

على مستوى الاقتصاد العالمي، أو على مستوى الاقتصادات المحلية. ونرى هذا جلياً في الشركات العائلية في السعودية، حيث تعد من أبرز القوى الداعمة للاقتصاد السعودي، والمحفزة لعمليات التنمية، واستراتيجيات التطور.

### 3. الدراسة الميدانية:

#### 1.3 مجتمع وعينة الدراسة:

يتكون مجتمع الدراسة من المراجعين العاملين في الشركات العائلية في المملكة العربية السعودية، وبالنسبة لعينة الدراسة فقد تم اختيارها من مجتمع المراجعين الداخليين حيث وزعت (45) استبانة على أفراد المجتمع وتم تحصيل (43) بنسبة تجاوزت 90%. ويمكن توضيح الخصائص الأساسية لعينة الدراسة من خلال الجدول أدناه.

جدول (01): التوزيع التكراري النسبي للعينة حسب المؤهل العلمي

| النسبة | التكرارات | المؤهل العلمي |
|--------|-----------|---------------|
| 28%    | 7         | جامعي         |
| 72%    | 18        | فوق الجامعي   |
| 100%   | 25        | المجموع       |

المصدر: من إعداد الباحثين على ضوء المسح الميداني.

جدول (02): التوزيع التكراري النسبي للعينة حسب سنوات الخبرة

| النسبة المئوية | التكرارات | سنوات الخبرة      |
|----------------|-----------|-------------------|
| 4%             | 1         | أقل من 5 سنوات    |
| 8%             | 2         | 5 أقل من 10 سنوات |
| 36%            | 9         | 10 أقل من 15 سنة  |
| 52%            | 13        | 15 سنة فأكثر      |
| 100.0          | 25        | المجموع           |

المصدر: من إعداد الباحثين على ضوء المسح الميداني.

**جدول (03): التوزيع التكراري النسبي للعينة حسب المؤهل المهني**

| النسبة المئوية | التكرارات | المسمى الوظيفي |
|----------------|-----------|----------------|
| 8%             | 2         | لا يوجد        |
| 12%            | 3         | زمالة بريطانية |
| 32%            | 8         | زمالة أمريكية  |
| 40%            | 10        | زمالة عربية    |
| 8%             | 2         | زمالة سودانية  |
| 100.0          | 25        | المجموع        |

المصدر: من إعداد الباحثين على ضوء المسح الميداني.

ومن الجدول رقم (1) نلاحظ أن ما يقارب ثلاث أرباع المبحوثين لديهم مؤهل علمي فوق الجامعي و ما نسبتهم 28% من حملة الشهادات الجامعية، وتعكس هذه المؤهلات أن المبحوثين لديهم مؤهلات علمية عالية تمكنهم من فهم كافة عبارات الاستبانة والإجابة عنها. ويبدو من الجدول رقم (2) أن الأغلبية العظمى من المبحوثين تزيد خبرتهم العملية عن 10 سنوات وفي هذا دلالة على أن المبحوثين لديهم الخبرة الكافية للإلمام بمفاهيم ومجاور الدراسة. كما يبدو من الجدول رقم (3) أن الأغلبية العظمى من المبحوثين 92% لديهم مؤهلات مهنية لمزاولة مهنة المراجعة وفي هذا دلالة على أن المبحوثين لديهم زمالة مهنية كافية لفهم أبعاد الدراسة وأهدافها.

**2.3 تحليل البيانات:****جدول رقم (04): قيمة معامل الثبات**

| ألفا كرونباخ معامل | عدد العبارات | معامل الثبات الكلي |
|--------------------|--------------|--------------------|
| 0.83               | 19           |                    |

المصدر: من إعداد الباحثين على ضوء المسح الميداني.

يوضح الجدول رقم (04) نتائج طريقة الاتساق الداخلي لقياس معامل الثبات لأداة الدراسة الاستباني ويتضح من الجدول أن قيمة معامل ألفا كرونباخ بلغت 0.83 وهي قيمة عالية تدل على أن الاستبانة المصممة بواسطة الباحثة إذا طبقت على فرد أو على مجموعة من الأفراد عدة مرات فإنها ستعطي نفس النتائج أو التقديرات ، وبالتالي فإن استبانة الدراسة يمكن وصفها بأنها ثابتة.

جدول رقم (05): قيمة معامل الصدق

| معامل الصدق | عدد الفقرات | المقياس الكلي |
|-------------|-------------|---------------|
| 0.91        | 19          |               |

المصدر: من إعداد الباحثين على ضوء المسح الميداني.

ويشير الجدول رقم (5) إلى أن قيمة معامل الصدق الذاتي بلغت 0.91 وهي قيمة عالية جدا تدل على أن الاستبانة المصممة أثبتت صدقها في قياس ما وضعت لقياسه؛ أي أنها صالحة لقياس الجانب المقصود ولا تقيس جانبا سوا.

جدول رقم (06): دور المراجعة الداخلية وصلاحياتها في الشركات العائلية

| العبارة  | أو افق بشدة | أو افق | محايد | لا أو افق بشدة | لا أو افق | الوسط الحسابي | الاتجاه العام |
|--|-------------|--------|-------|----------------|-----------|---------------|---------------|
| تتخذ القرارات بشكل تشاوري بين المراجعة الداخلية والملاك.                           |             |        |       | 24             | 1         | 1.96          | عدم الموافقة  |
|  |             |        |       | %96            | %4        |               |               |
| يتم تدقيق العمليات المالية بشكل دوري من قبل المراجعة الداخلية بالشركة.             | 24          | 1      |       |                |           | 4.96          | الموافقة بشدة |
|  | %96         | %4     |       |                |           |               |               |
| تقوم المراجعة الداخلية بإعداد برامج عمل واضحة ويتم مناقشتها من قبل الإدارة.        | 24          | 1      |       |                |           | 4.96          | الموافقة بشدة |
|  | %96         | %4     |       |                |           |               |               |
| تبلغ المراجعة الداخلية عن المخالفات للقانون ولنظام الشركة خطيا لرئيس مجلس الإدارة. | 24          | 1      |       |                |           | 4.96          | الموافقة بشدة |
|  | %96         | %4     |       |                |           |               |               |
| يحضر المراجع الداخلي اجتماعات الهيئة العامة للشركة ويبدلي برأيه.                   | 24          | 1      |       |                |           | 4.96          | الموافقة بشدة |
|  | %96         | %4     |       |                |           |               |               |
| وجود قوانين وإجراءات مكتوبة تنظم عمل المراجعة الداخلية في الشركات العائلية.        | 22          | 3      |       |                |           | 3.76          | الموافقة      |
|  | %88         | %12    |       |                |           |               |               |
| يستطيع المراجع الداخلي السيطرة على المشكلات التنظيمية والإدارية.                   |             |        | 1     | 24             |           | 2.00          | عدم الموافقة  |
|  |             |        | %4    | %96            |           |               |               |
| المقياس الكلي  |             |        |       |                |           | 4.06          | الموافقة      |



ونلاحظ من الجدول رقم (6) ارتفاع قيمة الوسط الحسابي العام للمحور حيث بلغ 4.06 وتدل هذه النتيجة على أن المبحوثين يوافقون على أن الأدوار المذكورة عالية تمثل الأدوار التي تعكس صلاحية المراجعة الداخلية للشركات العائلية ومن قيم الوسط الحسابي نجد أدوار تدقيق العمليات المالية بشكل دوري من قبل المراجعة الداخلية بالشركة و قيام المراجعة الداخلية بإعداد برامج عمل واضحة يتم مناقشتها من قبل الإدارة و تبليغها المراجعة الداخلية عن المخالفات للقانون وحضور المراجع الداخلي اجتماعات الهيئة العامة للشركة تأتي في مقدمة الترتيب في الترتيب في مجال أدوار المراجعة الداخلية في الشركات العائلية بوسط حسابي بلغ 4.96. وفي المرتبة الثانية ظهرت عبارة وجود قوانين وإجراءات مكتوبة تنظم عمل المراجعة الداخلية في الشركات العائلية بوسط حسابي بلغ 3.76 وعلى النقيض من ذلك نجد أن المبحوثين لا يوافقون على أن القرارات تتخذ بشكل تشاوري بين المراجعة الداخلية والملاك وأيضا لا يوافقون على أن المراجع الداخلي بإمكانه السيطرة على المشكلات التنظيمية والإدارية .

جدول رقم (07): مدى وجود فجوة تطبيق معايير المراجعة الداخلية في الشركات

| العبارة   | أوافق بشدة | أوافق | محايد | لا أوافق | لا أوافق بشدة | الوسط الحسابي | الاتجاه العام |
|---|------------|-------|-------|----------|---------------|---------------|---------------|
| لا يتم إرساء آلية متابعة القرارات الإدارية ومراجعتها دون تدخل العائلة في ذلك. | 3          | 21    | 1     |          |               | 3.04          | محايد         |
|   | %12        | %84   | %4    |          |               |               |               |
| اتخاذ القرارات في الشركات العائلية غالبا ما تكون مرتجلة.                      | 24         | 1     |       |          |               | 4.96          | الموافقة      |
|   | %96        | %4    |       |          |               |               |               |
| عدم إتاحة الفرصة للمستويات التنفيذية المشاركة في اتخاذ القرارات.              | 2          | 22    |       |          | 1             | 4.04          | الموافقة      |
|   | %8         | %88   |       |          | %4            |               |               |
| القرارات العائلية لا تتفق مع التوجهات الادارية للمراجعة الداخلية.             | 1          |       |       | 24       |               | 2.04          | لا أوافق      |
|   | %4         |       |       | %96      |               |               |               |
| عدم وجود خطط استراتيجية للشركات العائلية.                                     | 2          | 22    | 1     |          |               | 4.08          | الموافقة      |
|   | %8         | %88   | %4    |          |               |               |               |

|               |      |  |  |      |     |   |
|---------------|------|--|--|------|-----|---|
| الموافقة بشدة | 4.96 |  |  | 1    | 24  | عدم تطبيق المسائلة على الإدارة بالرغم من وجود نظام موضوعي للرقابة.    |
|               |      |  |  | %4   | %96 |   |
| الموافقة      | 4    |  |  | 25   |     | التدخل المستمر وإعاقة سير عمل المراجعة الداخلية من قبل أفراد العائلة. |
|               |      |  |  | %100 |     |   |
| الموافقة      | 3.73 |  |  |      |     | المقياس الكلي   |

المصدر: من إعداد الباحثين على ضوء المسح الميداني.

نلاحظ من الجدول رقم (7) ارتفاع قيمة الوسط الحسابي العام حيث بلغ 3.73 وتدل هذه النتيجة على أن المبحوثين يوافقون على أن المعايير المذكورة عالية هي معايير المراجعة الداخلية والأسس العلمية المطبقة في الشركات العائلية ومن قيم الوسط الحسابي نجد أن قيام الإدارة التنفيذية بوضع نظام مالي وإداري يتم إقراره من قبل الإدارة ظهر في مقدمة الترتيب من حيث المعايير المطبقة بوسط حسابي بلغ 4.96. ونجد أنه يتم إعداد كافة التقارير في كافة المستويات وفق المعايير المحاسبية المعتمدة بوسط حسابي بلغ 4.08، وعبرة أن هنالك آلية متابعة القرارات الإدارية ومراقبتها دون تدخل العائلة في ذلك بوسط حسابي بلغ 4.04، وأن هنالك هيكل تنظيمي مناسب يحقق الانسجام بين الإدارة والعاملين بوسط حسابي بلغ 4، وأنه يتم إعداد تقارير المراجعة الداخلية وفقاً للمعايير الدولية المتعارف عليها بوسط حسابي بلغ 4، وتحقق الشركة أهدافها بفاعلية بوسط حسابي 3.04، وأخيراً يتم نظام موضوعي للرقابة على الإدارة لتطبيق المسائلة بوسط حسابي بلغ 2.04.

### 3.3 اختبار فرضيات الدراسة:

- اختبار الفرضية الأولى:

جدول رقم (08): نتائج اختبار (t) للعينة الواحدة لقياس دور المراجعة الداخلية في الشركات

#### العائلية

| العبارة  | الوسط الحسابي | الانحراف المعياري | قيمة (t) | درجات الحرية | القيمة الاحتمالية |
|--|---------------|-------------------|----------|--------------|-------------------|
| تتخذ القرارات بشكل تشاوري بين المراجعة الداخلية والملاك.               | 1.96          | .200              | -26.000  | 24           | 0.000**           |
| يتم تدقيق العمليات المالية بشكل دوري من قبل المراجعة الداخلية بالشركة. | 4.96          | .200              | 49.000   | 24           | 0.000**           |
| تقوم المراجعة الداخلية بإعداد برامج عمل                                | 4.96          | .200              | 49.000   | 24           | 0.000**           |

مشكلات المراجعة الداخلية في الشركات العائلية...

|         |    |          |      |      |   |
|---------|----|----------|------|------|---|
|         |    |          |      |      | واضحة ويتم مناقشتها من قبل الإدارة.   |
| 0.000** | 24 | 49.000   | .200 | 4.96 | تبلغ المراجعة الداخلية عن المخالفات للقانون ولنظام الشركة خطيا للرئيس مجلس الإدارة. |
| 0.000** | 24 | 49.000   | .200 | 4.96 | يحضر المراجع الداخلي اجتماعات الهيئة العامة للشركة ويدلي برأيه .                    |
| 0.000** | 24 | 5.729    | .663 | 3.76 | وجود قوانين وإجراءات مكتوبة تنظم عمل المراجعة الداخلية في الشركات العائلية .        |
| 0.000** | 24 | -24.000- | .200 | 2.04 | يستطيع المراجع الداخلي السيطرة على المشكلات التنظيمية والإدارية.                    |

المصدر: من إعداد الباحثين على ضوء المسح الميداني.

\* معنوي تحت مستوى 5%.

\*\* معنوي تحت مستوى 1%.

ويبدو من الجدول رقم (8) أن القيمة الاحتمالية لكل أدوار المراجعة أقل من مستوى المعنوية 1% مما يدل على وجود فروق ذات دلالة احصائية بين الوسط الحسابي لكل دور على حدى والمتوسط الفرضي 3، ومن هذه النتيجة نستنتج أن المراجعة الداخلية لها دور رقابي في الشركات العائلية.

أما بالنسبة لأدوار المراجعة المتمثلة في اتخاذ القرارات بشكل تشاوري بين المراجعة الداخلية والملاك ومقدرة المراجع الداخلي في السيطرة على المشكلات التنظيمية والإدارية، فنجد أن الأوساط الحسابية لهذا الأدوار أقل من الوسط الفرضي 3، وفي هذا دلالة على أن هذا الأدوار لا تعتبر من ضمن الأدوار الرقابية التي تلعبها المراجعة داخل الشركات العائلية.

- اختبار الفرضية الثانية:

جدول رقم (9): نتائج اختبار (t) للعينة الواحدة لقياس مدى تطبيق معايير المراجعة والأسس

العلمية في الشركات العائلية

| القيمة الاحتمالية | درجات الحرية | قيمة (t) | الانحراف المعياري | الوسط الحسابي | العبرة   |
|-------------------|--------------|----------|-------------------|---------------|--|
| 0.000**           | 24           | 26.000   | 0.200             | 4.00          | لا يتم إرساء آلية متابعة القرارات الإدارية ومراقبتها دون تدخل العائلة. |
| 0.000**           | 24           | 49.000   | 0.400             | 4.96          | اتخاذ القرارات في الشركات العائلية غالبا ما تكون مرتجلة.               |
| 0.000**           | 24           | 10.000   | 0.500             | 4.00          | عدم إتاحة الفرصة للمستويات   |

| التنفيذية المشاركة في اتخاذ القرارات  |      |       |         |    |         |
|---|------|-------|---------|----|---------|
| عدم وجود خطط استراتيجية للشركات العائلية.                                   | 4.04 | 0.351 | 14.807  | 24 | 0.000** |
| عدم تطبيق المسائلة على الإدارة بالرغم من وجود نظام موضوعي للرقابة الداخلية. | 2.08 | 0.400 | -11.500 | 24 | 0.000** |
| التدخل المستمر وإعاقة سير عمل المراجعة الداخلية من قبل أفراد العائلة.       | 4.96 | 0.200 | 49.000  | 24 | 0.000** |

المصدر: من إعداد الباحثين على ضوء المسح الميداني.

\* معنوي تحت مستوى 5%.

\*\* معنوي تحت مستوى 1%.

نلاحظ من الجدول رقم (9) أن القيمة الاحتمالية لكل المعايير أقل من مستوى المعنوية 1% مما يدل على وجود فروق ذات دلالة احصائية بين الوسط الحسابي لكل معيار على حدى والمتوسط الفرضي 3، ومن هذه النتيجة نستنتج أن كثير من الشركات العائلية لا تطبق معايير المراجعة والأسس العلمية. مما يشير إلى وجود فجوة في نظام الرقابة الداخلية داخل الشركات العائلية حيث نلاحظ أن أوساطها الحسابية ترتفع عن الوسط الفرضي 3 وهذا دلالة على أن العائلات تنفرد بالقرارات وليست لديها خطط استراتيجية.

وفي ذات السياق نلاحظ أن الوسط الحسابي لمعيار المسائلة أقل من الوسط الفرضي 3، وفي هذا دلالة على أن هذا المعيار لا يطبق من قبل الشركات العائلية أي أنه يمثل أحد فجوات تطبيق المراجعة داخل الشركات العائلية.

#### 4. تحليل النتائج:

من نتائج الدراسة الميدانية فقد تم تسجيل عدة نتائج، فقد أبان البحث أن مخاطر انهيار الشركات العائلية السعودية ترتفع بالتقادم وغياب الرقابة الكافية وترهل الهيكل الإداري الأعلى، كما أوضح البحث وجود عدم إلمام كافٍ بالمبادئ الإدارية والمالية المتعارف عليها.

أثبتت الدراسة الميدانية أن هنالك تقاطعات بين أصحاب الملكية وبين إدارات المراجعة في تنفيذ منهجيات المراجعة الداخلية، وأن هذه التقاطعات تكون ثغرة لانحرافات مالية وإدارية بواسطة مستويات إدارية وظيفية أخرى، كما أبانت الدراسة ضعف وعي إدارات الشركات الكافي بنطاق إشراف المراجعة الداخلية.

وبينت الدراسة أن المراجعة الداخلية تساعد في الالتزام بهيكل الحوكمة والسياسات والإجراءات التي تضعها الشركة وذلك بأكثر الطرق شفافية.

كما أوضحت النتائج أن المراجعة الداخلية تساعد على وجود نظام رقابة داخلية فعال وتساعد في تقديم بيانات موضوعية وموثوقة تخدم الشركة لدى التحقق منها بواسطة طرف ثالث، بالإضافة إلى غياب الكثير من متطلبات التحول المؤسسي في الشركات العائلية والاعتماد على المشافهة وضعف التوثيق في الممارسة الإدارية.

## 5. خاتمة:

على ضوء هذا البحث يبرز دور المراجعة الداخلية في الاقتصادات الوطنية على اختلاف البيئات العملية، وتم استخدام الاستبيان كأداة لبناء قاعدة بيانات موضوعية شملت فئة من المراجعين الداخليين الممارسين للمهنة في إطارها الرسمي بالشركات العائلية السعودية التابعة للقطاع الخاص، وقد خلصت الدراسة إلى نتائج أهمها أن مخاطر انهيار هذه الشركات ترتفع بالتقادم، ووجود عدم إلمام كافٍ بالمبادئ الإدارية والمالية المتعارف عليها، وأن هنالك تقاطعات بين أصحاب الملكية فيما بينهم وبين إدارات المراجعة من جهة أخرى في تنفيذ منهجيات المراجعة الداخلية، كما أبانت الدراسة ضعف وعي إدارات الشركات الكافي بنطاق إشراف المراجعة الداخلية.

في الختام، يمكن توصيف التوصيات وقالنتائج الدراسة الميدانية فيما يلي:

- ضرورة اهتمام الشركات العائلية بمطلوبات التحول المؤسسي والانتقال من الممارسات الفردية التقديرية إلى الممارسات المؤسسية الاحترافية؛
- الاهتمام بالهياكل التنظيمية وعدم الترهل الإداري ومرتبات ذلك من مخاطر تعدد دوائر اتخاذ القرار في الشركة العائلية؛
- أهمية استقطاب كفاءات إدارية من خارج العائلة بالإضافة لترقية الوعي الرقابي المعياري لدى الملاك؛
- إشراك وحدات المراجعة الداخلية في عمليات اتخاذ قرارات التمويل والتوسع؛
- الأخذ بمحتوى تقارير المراجعة والتدقيق وملاحظاتها وتوصياتها التنفيذية فيما يتعلق بمراجعة الأداء لكافة أقسام الشركة؛
- تعزيز مهارات المراجعين الداخليين الفنية والشخصية بدرجة أكبر والاهتمام بالتدريب المستمر لكوادر المراجعة بالشركة؛
- ربط إدارات المراجعة بالشركات العائلية بالجهات الرقابية الرسمية الحكومية لتعزيز الشفافية المالية من واقع ارتباط هذه الشركات بحركة دوران الاقتصاد الكلي للدولة.



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## ***The Impact of Innovation and Ethical Leadership on Social Relationships in the Workplace through Ethical Marketing: An Analytical Study***

تأثير الابتكار والقيادة الأخلاقية على العلاقات الاجتماعية في بيئة العمل من خلال  
التسويق الأخلاقي: دراسة تحليلية

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### **Abstract**

The research highlights the need to foster a work environment that promotes innovative behavior and reduces job fatigue, We collected data from 312 full-time employees and professors from government universities using an electronic questionnaire. The data was analyzed using SPSS software, and the results indicate that ethical leadership positively influences innovative behavior.

In this study, we employed the concept of personal initiative to examine individuals who exceed their assigned tasks and strive to achieve their goals. The findings show that job perfectionism correlates positively with innovative behavior, suggesting that managers seek to enhance human resource utilization through ethical leadership.

**Keywords:** job burnout, personal initiative, human resources, health perfection.

**Jel Classification Codes:** M52.

### **الملخص:**

يسلط البحث الضوء على الحاجة إلى إنشاء بيئة عمل تعزز السلوك الإبداعي وتقليل الإرهاق الوظيفي، وقد تم جمع البيانات من 312 موظفا وأستاذا بدوام كامل من الجامعات الحكومية عبر استخدام استبيان إلكتروني والاستعانة برنامج SPSS لتحليل البيانات.

أظهرت النتائج أن القيادة الأخلاقية لها تأثير إيجابي على السلوك الإبداعي. في هذا البحث، استخدمنا مفهوم الاستقلال الشخصي لدراسة أولئك الذين يتجاوزون مهامهم المحددة ويسعون لتحقيق أهدافهم. أظهرت النتائج أن الكمال الوظيفي يرتبط بشكل إيجابي بالسلوك الإبداعي، مما يشير إلى أن المدراء يسعون لتحسين استخدام الموارد البشرية من خلال القيادة الأخلاقية. الكلمات المفتاحية: الإرهاق الوظيفي، المبادرة الشخصية، الموارد البشرية، الكمال الصحي.

تصنيف JEL: M52.

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## **1.Introduction:**

Organizational sustainability has become a major focus for business organizations and provides development opportunities, financial viability, competitive advantages, and long-term growth. Facing leading organizational management problems around the world, organizations operate in environments that threaten their sustainability and continuity. Consequently, most organizations seek innovation to retain a competitive advantage and maintain organizational sustainability, thereby improving professionalism, service quality, and care. Innovation leads to new business models, products, and changes in social and economic systems, fostering sustainable entrepreneurship and organizational change, and enhancing competitiveness.

Innovation is a key factor related to the sustainable competitiveness of organizations in both tangible (processes, services, and products) and intangible (organizational culture and leadership) areas. Organizations must recognize the necessity of innovation to survive in challenging business environments and secure sustainable competitive advantages. These points underscore the importance of innovation in organizational performance and the need for innovative behavior among organizational members.

Ethical leadership plays a crucial role in guiding this innovative behavior, ensuring that innovation efforts are aligned with ethical standards and corporate social responsibility. Ethical marketing practices, driven by such leadership, not only enhance the reputation of the organization but also strengthen social relationships within the workplace. Engaged employees, inspired by ethical leadership and supported by innovative practices, serve customers in the best way possible, leading to stronger interpersonal relationships and a more cohesive work environment.

Scholars focus their attention on how the workplace is organized; Not their tasks, functions and hierarchies, but the patterns of relationships and available capacities capable of shaping them. By individuals engaged in a variety of relationships at work, including relationships between subordinates. These relationships often converge in the workplace, developing into relational bonds known as friendships. Friendships are unique to the workplace in two fundamental ways:

(1) Friendships are voluntary-although individuals do not typically choose who they work with, they choose which of these individuals to become friends with.

(2) friendships have an interpersonal focus as individuals get to know and treat each other as whole people, rather than merely occupants in the workplace. Consequently, employees choose to spend time with their friends, both in the workplace and away from it, beyond that imposed by their organizational roles. Because of these characteristics, friends in the workplace serve as important sources of social and emotional support. Workplace friendships are also distinguished from other types of friendships in that peer friends share unique knowledge regarding workplace experiences and activities, enabling them to communicate about work-related issues with a depth and competence not found in other friendships. Hence our research into identifying workplace friendships. Work, ethical leadership and perfectionism among employees.

## **2. Methodology:**

### **2.1 Research problem:**

We conducted a questionnaire to prove the research model, The research model examines the impact of innovative behavior and ethical leadership on workplace friendship and perfectionism among employees. It tests the moderated mediation effect of workplace friendship. The main purpose of this research is to provide a method to increase ethical behavior among subordinates, Ethical leadership is one of the most effective types of leadership, as it has positive effects on employee behavior patterns. Ethical leadership may contain several areas or standards, such as moral personal qualities, ethical administrative qualities, team work qualities, and human relations qualities, which have a significant impact. Great for productivity and career achievement. These standards determine to what level the administrative leader uses the ethical leadership style in the organization. So university employees were selected. After reviewing the current literature on ethical climate, ethical leadership and decision-making, individual and group behavior dynamics, stress factors, organizational and employee performance, and the mutual relationship between these components, the following major research problems are highlighted:

- A. The relationship between ethics and leadership has been studied by researchers in previous studies, yet the world still faces major social and economic challenges due to ethical issues. Therefore, the ethical dimension of leadership should receive more research attention amidst these increasing challenges especially in the areas of organizational ethics.

- B.** Theoretical models have yet to determine whether mediating effects between components of organizational ethics within the macro- and micro-meso conceptual framework remain consistent across different contexts, organizations, and groups of individuals.
- C.** There is a need to determine the relationship between innovative behavior and workplace friendship in a context that is largely characterized by multiculturalism.
- D.** There is a need to evaluate the extent to which ethical actions are critically relevant and which mediating components influence organizational behavior, ethical employee behavior, and perceived employee performance the most.
- E.** The necessity of developing a new or improved framework or model that will enable the promotion of ethical business practices and performance in a dynamic context that is largely influenced by internal and external pressures that are detrimental to ethical standards.
- F.** There is a need to provide appropriate recommendations to the business community in order to better equip them to face ever-increasing ethical challenges and to address such dilemmas in a largely multicultural context.

On the basis of the literature review, identified gaps and research objectives, the following research questions are posed and enhanced here so that the research design and methodologies are appropriately formulated to test and answer these questions:

- A.** How are moral context variables understood and explained by theoretical models in the literature?
- B.** How are the mediating variables (ethical leadership and internal and external pressures of workplace friendship) conceptualized and explained?
- C.** What is the nature of the theoretical and observed interrelationships between ethical context and influences on employee ethical behavior and perceived employee performance?
- D.** Is it possible to build or customize a scientific theoretical model on the relationship between the independent variables of the ethical context and the mediating variables with the aim of enabling organizations and

practitioners to develop appropriate strategies and processes to enhance positive employee behavior and performance in general?

## **2.2 The importance of research:**

This study highlights the significance and role of ethical leadership in fostering innovative behavior. Furthermore, the criteria for sample selection are as follows: the ethical integrity of leaders is paramount for organizational members. Additionally, the importance of ethical leadership within organizations to cultivate social relationships and camaraderie in the workplace is consistently emphasized.

Ethical leadership is crucial in guiding innovative behavior, ensuring that all innovation efforts align with ethical standards and principles of corporate social responsibility. Such leadership not only enhances the organization's reputation but also strengthens internal social bonds. Through ethical marketing practices, driven by ethical leaders, organizations can create an environment that promotes trust and mutual respect among employees. This, in turn, leads to improved collaboration, enhanced employee engagement, and stronger social connections within the workplace.

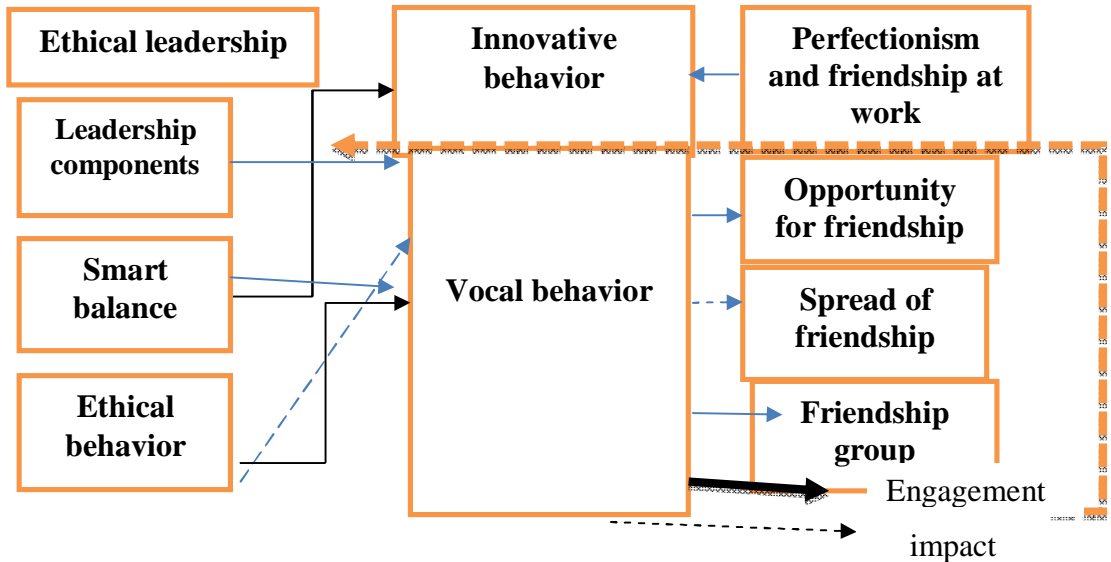
## **2.3 Research objective:**

The following empirical research objectives are put forward keeping in mind the scope of the research and the multicultural setting

- A.** How to explain friendship in the workplace and ethical leadership in Iraq with a global perspective?
- B.** What are the main types of ethical climates that exist, their characteristics and peculiarities, and how do they relate to the variables under investigation?
- C.** What are the most common internal and external workplace pressures that organizations face that can jeopardize ethical behavior and standards?
- D.** What are the most influential stressors in the workplace?
- E.** What is the statistical relationship between the mediating variables of ethical leadership and behavior, and internal and external pressures in the workplace?

## 2.4 Research scheme:

As shown in Figure 1, the hypothetical diagram of the research



## 2.5 Research sample:

We targeted university employees and professors for our survey. The sample was distributed and collected via an online questionnaire, with participants informed that the survey aimed to explore methods to enhance innovative behavior, and their responses would remain confidential. The survey garnered responses from 314 full-time university staff and faculty members. Most respondents were subordinates. The data revealed 149 males (43.6%) and 163 females (56.4%) Age-wise, the largest group was participants in their 30s, totaling 17(%51.8) .

Ethical leadership was defined as exhibiting normatively appropriate conduct through key aspects of individual behavior and interpersonal relationships, and promoting ethical standards among subordinates through effective communication, reinforcement, and decision-making. The measurement tool included 10 items, such as "My leader disciplines employees who violate ethical standards" and "My leader sets an example of ethical behavior." Responses were recorded using a 5-point Likert scale (1 = strongly disagree, 5 = strongly agree).

Innovative behavior was characterized by actions encouraging constructive challenges and innovative suggestions for change. This was assessed using six items, also rated on a 5-point Likert scale (1 = strongly disagree, 5=strongly agree).

Psychological safety, defined as the belief that colleagues, including leaders and peers, would not misunderstand or penalize individuals for taking risks or voicing concerns, was measured using the Psychological Safety Scale adapted from previous studies. This scale comprised five items, with responses again on a 5-point Likert scale (1 = strongly disagree, 5 = strongly agree).

Workplace friendships were evaluated through six items, using a 5-point Likert scale ranging from 1 (strongly disagree) to 5 (strongly agree).

## **2.6 Research hypotheses:**

- A.** Perfectionism and friendliness at work are positively related to ethical leadership;
- B.** Innovative behavior is positively related to perfectionism and friendliness at work;
- C.** The positive impact of perfectionism and friendship at work on ethical leadership;
- D.** Innovative behavior has a positive effect on perfectionism and friendship at work.

## **3. Measuring friendship in the workplace:**

By adopting a 6-item scale used by Nielsen (2000), Jex Adams). The original scale measures friendship opportunity and friendship diffusion, with six (06) items each, while we used six (06) friendship diffusion items to measure relationship strength and quality. This was decided by taking into account the necessary condition for enhancing empathy at work.

The Modified Perfectionist Scale (Slaney, 2001) is the original source consisting of 19 items to measure perfectionism. It includes three subscales: high standards, variance, and order. Scott and Bruce's (1994).

While friendships can take many forms, there are four basic characteristics of friendship that distinguish these bonds from other types of roles and relationships. First, friendships are voluntary. Unlike relationships with family members, neighbors, or co-workers, friendships are chosen, not imposed. Second, friendships are informal relationships in



the sense that there is a relative lack of normative rituals or labels to guide role expectations (Teresa, 2023, P13), in contrast to roles dictated by formal organizational hierarchies, such as supervisor relationships, and cultural institutions. Third, friendships are characterized by societal norms, or the expectation that one will provide support based on need rather than receive support. Fourth, friendships are driven by social and emotional goals, Their primary goal is to promote emotional and relational well-being, These qualities make workplace friendships distinct from other positive relationships at work, such as high-quality relationships, formal mentoring, positive work relationships between leaders and subordinates (Roxy et al, 2021, P4), and other close and positive relationships outside of work.

The complexity of both personal relationships and modern organizational life allows for inherently different types of professional friendships. However, our definition of workplace friendships here is limited to platonic (non-romantic) relationships between individuals who currently work in the same organization. Thus, based on the basic features of friendship and boundary conditions mentioned above, we define workplace friendship as a non-romantic, voluntary, and informal relationship between existing coworkers that is characterized by societal norms and socio-emotional goals. While these core features of friendship have been shown to remain consistent across contexts, we argue that when they exist within organizations, tensions, complexity, and potential for downsides cease (Amy, 2021, P54).

Workplace friendships refer to informal, voluntary, and interpersonal interactions between employees in an organizational setting, The importance of workplace friendship has received significant attention in the literature due to its positive association with many favorable organizational and employee attitudes, such as organizational performance, organizational commitment, job satisfaction, and perceived job importance. Although many studies have investigated workplace friendship in organizations, many questions Important remains unanswered (Al Jabouri, 2022, P23), One of these questions is how to study the factors that influence workplace friendship. Scholars have explored the

antecedents of workplace friendship from two aspects, including individual and contextual characteristics. Compared with personal factors, contextual factors play a pivotal role in forming friendships in the workplace. One inevitable contextual factor in the workplace environment is employees' perceptions of fairness. This is because workers often pay attention to whether they are treated fairly in the organization. (Wen et al, 2020, P21) showed that when employees perceive treatment unfair, they seek the help and support of other coworkers, leading to the development of workplace friendships. Based on these findings, the perception of fairness may be negatively related to workplace friendships. However, many types of research show the positive effects of fairness on Personal relationships in the workplace, which means that fairness may be linked to friendship in the workplace. Personal friendship relationships are the basic building blocks for building informal relationships in organizations (Kanten & Deniz, 2020, P 231).

Perfectionism is a common personality trait that describes people who strive for perfection and set excessively high standards for performance, sometimes leading to poor self-evaluations or responses to external evaluations. Perfectionism has been positively associated with creativity, which may lead to innovative behavior. However, some suggest that perfectionism reduces innovation and detracts from an employee's ability to innovate. Perfectionism is associated with higher levels of fatigue, and this is the case for athletes, Exploring whether perfectionism has distinct effects on innovative behavior and burnout. Relevant literature on the two dimensions of perfectionism suggests that normal, adaptive, or positive perfectionism is viewed as healthy perfectionism, whereas neurotic, maladaptive, or negative perfectionism is viewed as unhealthy perfectionism. In our research, health-related perfectionism is associated with people who strive for excellence. Unhealthy perfectionism related to fears of perfection is associated with people who seek approval from others (Al Jabouri, 2022, P 103), or fear potential failure due to mistakes or not meeting their own standards. In the context of high friendships in the collective workplace (Al Jabouri, 2023, P48), relying on aspects of personal initiative Healthy perfectionists seek resources and feedback

more actively, and also share new ideas freely, while unhealthy perfectionists are less likely to perceive approval and encouragement from coworkers within a supportive environment. Therefore, we believe that collective friendship in the workplace strengthens the positive relationship between healthy perfectionism and innovation (Khairy, 2023, P22).

### **3.1 Ethical Leadership and Innovative Behavior**

Ethical leadership has a positive relationship with and directly influences the innovative behavior of employees. According to social exchange theory, employees recognize and appreciate their leaders' motivations and support, responding positively based on the principle of reciprocity. The theory further suggests that employees perform more effectively when they have strong relationships with their leaders. When ethical leaders give meaning to employees' roles, make their work more meaningful, encourage creativity, and motivate adaptability to changes, employees perceive positive treatment, establish emotional connections, and feel committed to their leaders. This process leads to high motivation and innovative behavior. Additionally, the recognition of social exchange relationships among organizational members is enhanced by the balanced decisions and fairness of ethical leaders, resulting in employees reciprocating with innovative work behavior (Al Jabouri, 2022, P87).

Ethical leaders engage in open, two-way communication, sincerely listening to their employees and encouraging them to voice their concerns and opinions. This approach motivates employees to suggest new ideas to improve current business strategies, operations, and procedures. Thus, ethical leadership is a key factor that facilitates innovative behavior (Eny et al., 2021, P90).

Ethical leadership is defined as demonstrating normatively appropriate behavior through individual actions and interpersonal relationships. It promotes employee engagement through decision-making, reinforcement, and two-way communication, emphasizing structured behavior aimed at enhancing the ethical conduct of organizational members. Ethical leaders highlight the importance of ethics, facilitate the expression of ideas, and cultivate a climate of mutual respect where employees feel safe to express diverse opinions (Sajjad and Amina, 2020, P98).

The roles of ethical leaders include creating a sense of security and encouraging employees to share their ideas freely. Such leadership is expected to enhance employee behavior, encouraging the expression of

constructive challenges and innovative proposals for change. Innovative behavior is evident when employees voice their concerns and suggest improvements (Jana, 2019, P76).

Employees exhibit innovative behavior when they recognize unethical or inappropriate actions and courageously speak up, supported by ethical leaders' encouragement. Social learning theory suggests that individuals learn specific behaviors by observing people they deem legitimate. Employees observe their leaders and use their actions as a reference point. Ethical leaders provide opportunities for employees to speak out, publicly affirming appropriate behavior and opposing inappropriate conduct. They model these behaviors, encouraging similar actions in their employees, who learn through observation (Al Jabouri, 2020, P86; Chien, 2013, P61), When leaders actively create fair work environments, they become role models for their followers.

Furthermore, leaders provide followers with strict ethical standards and encourage them to express their opinions and ideas regarding methods and ethics, which helps improve the work environment and procedures. This explains why ethical leadership enhances the vocal behaviors of organizational members (Kibum, 2021, P75).

#### **4. Analysis and testing of the model:**

The proposed research model was analyzed using the SPSS software. The reliability of internal consistency was assessed through composite reliability (CR) and Cronbach's alpha. Table 1 indicates that the results are satisfactory, showing no issues with reliability or discriminant validity, as the CR values exceeded 0.90. Additionally, the Average Variance Extracted (AVE) values were above 0.50, as shown in Table 1.

**Table 1. Reliability and validity results**

| Variables             | Average<br>Variance<br>Extracted | Reliability  | Cronbach's<br>alpha | variance     | Elements<br>symbol |
|-----------------------|----------------------------------|--------------|---------------------|--------------|--------------------|
| Ethical<br>leadership | <b>0.588</b>                     | <b>0.901</b> | <b>0.710</b>        | <b>0.677</b> | <b>EL1</b>         |
|                       |                                  |              |                     | <b>0.654</b> | <b>EL2</b>         |
|                       |                                  |              |                     | <b>0.623</b> | <b>EL3</b>         |
|                       |                                  |              |                     | <b>0.618</b> | <b>EL4</b>         |
|                       |                                  |              |                     | <b>0.688</b> | <b>EL5</b>         |

|                                      |              |              |              |              |             |
|--------------------------------------|--------------|--------------|--------------|--------------|-------------|
| Innovative behavior                  | <b>0.590</b> | <b>0.855</b> | <b>0.821</b> | <b>0.712</b> | <b>IBD1</b> |
|                                      |              |              |              | <b>0.699</b> | <b>IBD2</b> |
|                                      |              |              |              | <b>0.790</b> | <b>IBD3</b> |
|                                      |              |              |              | <b>0.656</b> | <b>IBD4</b> |
|                                      |              |              |              | <b>0.870</b> | <b>IBD5</b> |
|                                      |              |              |              | <b>0.788</b> | <b>IBD6</b> |
| Perfectionism and friendship at work | <b>0.566</b> | <b>0.824</b> | <b>0.799</b> | <b>0.777</b> | <b>WFR1</b> |
|                                      |              |              |              | <b>0.798</b> | <b>WFR2</b> |
|                                      |              |              |              | <b>0.754</b> | <b>WFR3</b> |
|                                      |              |              |              | <b>0.723</b> | <b>WFR4</b> |
|                                      |              |              |              | <b>0.710</b> | <b>WFR5</b> |

**Source:** Prepared by the researcher according to the outputs of the SPSS program

The factor of each indicator item and its cross-validation processes were extracted into its corresponding latent structure and tested for convergent validity. In the model, each element is placed successively larger. In addition, Table 2 shows that scale validity is achieved because the items on the diagonals of the matrix are always larger than the items outside the diagonal (these values indicate the correlation between the respective constructs) in the corresponding row and column.

**Table 2. Variable correlations**

| <b>EL</b> | <b>IBD</b> | <b>WFR</b>   | <b>Elements</b> |
|-----------|------------|--------------|-----------------|
| 0.853     |            |              | EL              |
| 0.545     | 0.855      |              | IBD             |
| 0.666     | 0.499      | <b>0.777</b> | WFR             |

**Source:** Prepared by the researcher according to the outputs of the SPSS program

Multicollinearity and common method bias were examined using cluster average VIF (AVIF) and average full collinearity VIF (AFVIF) scores. The results showed that the AVIF and AVIF values were 4,223 and 3,661, respectively.

#### **4.1 Evaluate the structural model:**

The results demonstrated a statistically significant relationship between Innovative Behavior (IB) and Ethical Leadership (EL) ( $\beta = 0.405$ ,  $p < 0.05$ ), Workplace Friendships (WFR) and EL ( $\beta = 0.518$ ,  $p < 0.05$ ),

and EL and IB ( $\beta = 0.505$ ,  $p < 0.05$ ). However, there was no significant relationship between WFR and IB ( $p > 0.05$ ). To assess the effect size of the independent and dependent variables, the coefficient of determination ( $R^2$ ) was examined. The minimum acceptable  $R^2$  value is 0.10. The findings indicated that WFR and EL account for 45.7% of the variance in IB, suggesting a moderate effect size. Additionally, IB and WFR significantly impact EL, explaining approximately 64% of the variance ( $R^2 = 0.723$ ).

The effect size ( $f^2$ ) of the variables was also analyzed. Table 3 showed that WFR has a small effect on EL ( $f^2 = 0.211$ ) and IB ( $f^2 = 0.062$ ). EL has a medium effect on IB ( $f^2 = 0.137$ ), and WFR has a large effect on organizational efficiency ( $f^2 = 0.313$ ), as detailed in Table 3.

**Table 3. Effect of dimensions according to hypotheses.**

| <b>F2</b>    | The result          | Dimensions           |
|--------------|---------------------|----------------------|
| <b>0.137</b> | Medium effect       | <b>IBD -&gt; EL</b>  |
| 0.211        | Small effect        | <b>IBD -&gt; WFR</b> |
| <b>0.313</b> | The effect is great | <b>WFR -&gt; EL</b>  |

**The first hypothesis:** There is a significant correlation between perfectionism, friendship at work, and ethical leadership. Table (4) shows the results of the test of the relationship between perfectionism, friendship at work, and ethical leadership.

**Table (4) Results of the test of the relationship between perfectionism and friendship at work and ethical leadership**

| Subordinate          |  | Perfectionism and friendship at work |          |                      |                            |                            |                       |
|----------------------|--|--------------------------------------|----------|----------------------|----------------------------|----------------------------|-----------------------|
| Independent variable | <b>Const</b><br><b>ant</b><br>Const<br>ant | <b>Beta</b>                          | <b>R</b> | <b>R<sup>2</sup></b> | <b>T</b><br>calcula<br>ted | <b>F</b><br>calcula<br>ted | <b>Sig.</b>           |
| Ethical leadership   | 1.80<br>3                                  | .723                                 | 0.7<br>4 | .52<br>3             | 4.025                      | 30.7<br>32                 | .00<br>0 <sup>b</sup> |

**Source:** Prepared by the researcher according to the outputs of the SPSS program

It is clear from Table (4) that the regression equation indicates the constant ( $a = 1.803$ ), which means that there is a value of ethical leadership of ( $a = 1.803$ ) when the value of perfectionism and friendship at work is equal to zero.

As for the marginal slope value of perfectionism and friendship at work, it reached ( $\beta = 0.723$ ), which indicates that a change of (1) in moral leadership will lead to a negative change of (0.723) in the calculated value of perfectionism and friendship at work, and that the correlation rate between perfectionism Friendship at work and ethical leadership is estimated at (0.74). This indicates that there is a correlation between the two variables, a positive positive relationship that is good at a moral significance (0.000). The value of the coefficient of determination ( $R^2$ ) also indicated a coefficient of (0.523), which means that ethical leadership is explained Its value is (0.523) from the variance occurring in the calculated value, and it is morally significant within the level of significance (0.05). In light of these results, this hypothesis is not rejected.

**The second hypothesis:** There is a significant correlation between innovative behavior, perfectionism, and friendship at work. Table (5) shows the results of testing the relationship between innovative behavior, perfectionism, and friendship at work.

**Table (5) Results of testing the relationship between innovative behavior, perfectionism, and friendship at work.**

| Perfectionism and friendship at work |                 |                     |       |      |       |               | Subordinate             |
|--------------------------------------|-----------------|---------------------|-------|------|-------|---------------|-------------------------|
| Sig.                                 | F<br>calculated | T<br>calculate<br>d | $R^2$ | R    | Beta  | Constant<br>— | Independent<br>variable |
| .000b                                | 30.732          | 4.025               | .623  | 0.53 | 0.512 | 1.601         | Innovative<br>behavior  |

**Source:** Prepared by the researcher according to the outputs of the SPSS program

It is clear from Table (5) that the regression equation indicates the constant ( $a = 1.601$ ), and this means that there is a value of innovative behavior of ( $a = 1.601$ ) when the value of perfectionism and friendship at work is equal to zero, while the value of the marginal slope of innovative

behavior has reached ( $\beta=0.512$ ) It indicates that a change of (1) in perfectionism and friendship at work will lead to a negative change of (0.512) in the calculated value of innovative behavior, and that the correlation rate between innovative behavior, perfectionism and friendship at work is estimated at (0.53), and this indicates There is a good positive correlation between the two variables at a significant level (0.000). The value of the coefficient of determination ( $R^2$ ) also indicated a coefficient of (0.623), which means that innovative behavior explains its value (0.623) of the variation occurring in the calculated value, and it is morally significant within the level of significance (0.05). In light of these results, it is not rejected This hypothesis.

**The third hypothesis:** There is a significant influence relationship between perfectionism, friendship at work, and ethical leadership. Table (6) shows the results of testing the relationship between perfectionism, friendship at work, and ethical leadership.

**Table (6) Results of testing the relationship between perfectionism, friendship at work, and ethical leadership.**

| Perfectionism and friendship at work |                 |                 |       |      |       |           | Subordinate             |
|--------------------------------------|-----------------|-----------------|-------|------|-------|-----------|-------------------------|
| Sig.                                 | F<br>calculated | T<br>calculated | $R^2$ | R    | Beta  | _Constant | Independent<br>variable |
| .000b                                | 30.742          | 4.225           | .801  | 0.62 | 0.551 | 1.432     | Ethical leadership      |

**Source:** Prepared by the researcher according to the outputs of the SPSS program

It is clear from Table (6) that the regression equation indicates the constant ( $a=1.432$ ), and this means that there is a value of ethical leadership of ( $a=1.432$ ) when the value of perfectionism and friendship at work is equal to zero, while the value of the marginal slope of ethical leadership reached ( $\beta=0.551$ ) It indicates that a change of (1) in perfectionism and friendship at work will lead to a negative change of (0.551) in the calculated value of ethical leadership, and the correlation rate between perfectionism and friendship at work and ethical leadership is estimated at (0.62), and this indicates There is a relationship of influence between the two variables, a good positive direct relationship at a significant level (0.000). The value of the coefficient of determination ( $R^2$ )



also indicated a coefficient of (0.801), which means that ethical leadership explains its value (0.801) of the variance occurring in the calculated value, which is morally significant within the level of significance (0.05). In light of these results, it is not rejected this hypothesis.

**Fourth hypothesis:** There is a significant influence relationship between innovative behavior, perfectionism, and friendship at work Results of testing the influence relationship between innovative behavior, perfectionism, and friendship at work.

The regression equation indicates the constant ( $a = 1.873$ ), which means that there is a value of innovative behavior of ( $a = 1.873$ ) when the value of perfectionism and friendship at work is equal to zero, while the value of the marginal slope of innovative behavior has reached ( $\beta = 0.781$ ). It indicates that a change of (1) in perfectionism and friendship at work will lead to a negative change of (0.781) in the calculated value of innovative behavior. The value of the coefficient of determination ( $R^2$ ) also indicated a coefficient of (0.801), which means that innovative behavior Its value (0.801) is explained by the variance occurring in the calculated value and it has a moral significance within the level of significance (0.05). In light of these results, this hypothesis is accepted.

## **4.2 Results:**

Employees are crucial to the success of any organization, which is why this research focused on examining three key factors: Ethical Leadership (EL), Innovative Behavior (IB), and Workplace Friendships (WFR). To explore these relationships empirically, a conceptual model was developed and tested. The findings indicate that perfectionism, workplace camaraderie, and ethical leadership are all positively associated with innovative behavior, a result consistent among university staff.

The aim of this research is to enhance employees' skills and abilities, address undesirable behaviors that disrupt organizational functioning, and boost performance and efficiency within the university. By fostering collaboration and information sharing, the research promotes greater employee engagement. The results also revealed a significant positive link

between WFR and EL, aligning with previous studies. Employees who value workplace friendships are generally happier, which enhances their work engagement. Friends at work are more likely to offer social support, a critical factor for improving workplace effectiveness. Moreover, WFR contributes to increased work efficiency by strengthening employees' sense of belonging, leading to deeper engagement and commitment.

Despite these benefits, some argue that workplace friendships can be detrimental. Friends at work may cause distractions, leading to less productivity if employees engage in non-task-related conversations. Additionally, maintaining close friendships can demand significant emotional effort, potentially reducing work engagement if employees feel obligated to balance their work and personal relationships.

The research also confirmed the expected relationship between EL and IB. This finding supports previous studies that emphasize the strong connection between these variables. A positive work environment, coupled with effective interactions between colleagues and managers, fosters employee comfort and consistency. WFR enhances team cohesion, creates a stimulating work atmosphere, and encourages employees to remain with the organization. Friendships at work help build emotional bonds with the organization, improving employees' sense of belonging and commitment to their work.

Furthermore, cross-functional communication among university employees can be facilitated by workplace friendships, allowing them to share experiences and express opinions about their work environment. This commitment often drives employees to go above and beyond, offering extra support to colleagues and participating in discretionary activities.

Finally, the research found that EL mediates the relationship between WFR and IB. This result mirrors previous findings that demonstrate how different components of workplace dynamics, when combined effectively, enhance employees' efficiency and engagement. Providing employees with the necessary resources leads to high engagement levels and positive organizational advocacy.

## **5. Conclusions:**

Recent research explores how employee engagement, workplace friendships, and ethical leadership impact employee innovation. The study tested four hypotheses using data collected from employees at the University of Kufa. The findings revealed that employee engagement, ethical leadership, workplace friendships, and innovative behavior all influence work outcomes.

The research highlighted the mediating role of employee engagement between positive perfectionism and workplace friendships. Additionally, workplace friendships were found to moderate the relationship between innovative behavior and ethical leadership. By examining the interaction effects of employee engagement and workplace friendships in the proposed model at the University of Kufa, this study enhances our understanding of how these factors influence innovative behavior.

The insights from this research can assist organizations in appreciating the role of workplace friendships in differentiating their services and guide industry leaders in developing strategies to gain a competitive edge.

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## ***Entrepreneurial Orientation and performance in SMEs: A Study of Algerian SMEs Performance in some Macro Indicators***

التوجه المقاولاتي والأداء في المؤسسات الصغيرة والمتوسطة: دراسة أداء  
المؤسسات الصغيرة والمتوسطة الجزائرية في بعض المؤشرات الكلية

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### **Abstract:**

Through this study, the ongoing developments within Algeria's SME sector and its part in stimulating economic expansion and reinforcing the entrepreneurship culture in Algeria will be assessed since the issuance of law N° 01-18 in 2001. To accomplish this the study analyzes data derived from over 130 government reports from 2001 to 2022. Using the inductive approach, the study evaluates the effectiveness of SMEs in creating jobs and wealth.

The findings from the study indicate that SMEs in Algeria currently face many challenges and do not significantly contribute to the economy. This is noticeable in a context where unemployment rates, especially among the youth remain elevated. While Algeria has made efforts to broaden its economic base, economic diversification remains weak with a significant portion of the productive sector continuing to be focused in the hydrocarbon field. Furthermore, the labor-intensive SMEs (50 to 250 workers) remain inadequately developed.

**Keywords:** SMEs; Entrepreneurship; Employment; Gross domestic product; Exports; Algeria.

**Jel Classification Codes :** E02, J21.

### **الملخص:**

من خلال هذه الدراسة، سيتم تقييم التطورات الجارية في قطاع المؤسسات الصغيرة والمتوسطة ودورها في تحفيز التوسع الاقتصادي وتعزيز الثقافة المقاولاتية منذ صدور القانون رقم 01-18 سنة 2001. لتحقيق ذلك تحلل الدراسة بيانات مستقاة من أكثر من 130 تقرير حكومي باستخدام المنهج الاستقرائي لتقييم فعالية المؤسسات الصغيرة والمتوسطة في خلق فرص العمل والثروة.

تشير نتائج الدراسة الى ان المؤسسات الصغيرة والمتوسطة في الجزائر وفي الوقت الحالي تواجه العديد من الصعوبات ولا تساهم بشكل كبير في الاقتصاد. وهذا ملحوظ من خلال معدلات البطالة والتي لاتزال مرتفعة. وضعف التنوع الاقتصادي مع استمرار تركيز جزء كبير من القطاع الإنتاجي في مجال المحروقات. بالإضافة الى ذلك لا تزال المؤسسات الصغيرة والمتوسطة ذات العمالة الكثيفة (من 50 الى 250 عاملا) غير متطورة بشكل كاف.

الكلمات المفتاحية: مؤسسات صغيرة ومتوسطة، مقاولاتية، توظيف، ناتج محلي إجمالي، صادرات، الجزائر.

تصنيف JEL: E02, J21

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## **1. Introduction**

Entrepreneurial Orientation (EO) has emerged as a critical determinant of Small and Medium Enterprises (SMEs) performance, significantly influencing their contribution to the national economy. EO encompasses dimensions such as innovativeness, proactiveness, and risk-taking, which collectively drive SMEs toward better performance outcomes (Covin & Slevin, 1989; Lumpkin & Dess, 1996).

SMEs are widely recognized as the backbone of many economies, contributing to job creation, innovation, and economic diversification (Beck et al., 2005). The strategic orientation of these enterprises plays a pivotal role in harnessing their potential. High EO within SMEs fosters an environment conducive to innovative practices and proactive market behaviors, thereby enabling these firms to seize emerging opportunities and navigate competitive landscapes effectively (Miller, 1983; Rauch et al., 2009).

Studies reveal there is a positive correlation between EO and the performance of SMEs, implying that firms exhibiting higher levels of EO tend to achieve superior growth, profitability, and market positioning (Wiklund & Shepherd, 2005). Innovativeness drives the development of new products and services, proactiveness ensures timely market entry and opportunity exploitation, while risk-taking allows firms to undertake bold initiatives that can lead to significant competitive advantages (Covin & Slevin, 1989; Miller, 1983). In the context of the national economy, SMEs with strong EO contribute significantly to economic development by fostering innovation and enhancing competitiveness at both the firm and industry levels. Their ability to adapt to and influence market dynamics translates into improved economic resilience and growth (Teece, 2007). Moreover, the aggregate impact of EO-driven SMEs can stimulate broader economic benefits, including increased employment, enhanced productivity, and technological advancements (Beck et al., 2005).

The operationalization and measurement of EO have evolved over time, with scholars advocating for both unidimensional and multidimensional approaches to better capture its complex nature (Rauch et al., 2009). Despite the robust evidence supporting the benefits of EO, its implementation can pose significant challenges, particularly in balancing the inherent trade-offs between exploration and exploitation activities (March, 1991). Overall, understanding the effect of EO on SME performance provides valuable insights for policymakers and business leaders aiming to promote entrepreneurial activities and sustainable economic development. By encouraging EO among SMEs, nations can



leverage the dynamism of these enterprises to achieve robust economic outcomes.

The screening process and data analysis of over 130 government reports spanning from 2001 to 2022 have been conducted to address the following research questions:

**RQ1:** What is the reality of entrepreneurial activity in Algeria during the research period?

**RQ2:** What is the situation of SMEs in Algeria during the research period, and what criteria are used by Algeria and other countries and organizations to classify them?

**RQ3:** What contributions do small and medium enterprises make to the Algerian economy, and how do they reinforce the entrepreneurship culture in Algeria?

This research aims to enhance understanding of entrepreneurship and SMEs in Algeria, emphasize the significance of entrepreneurial activity in attaining economic and social development, and present practical suggestions for fostering and advancing small and medium firms and entrepreneurship in Algeria. To accomplish this, the study has been structured into three parts: the first part presents a literature review about entrepreneurial orientation and SMEs' performance; the second one involves presenting the results and discussing them in alignment with previous literature. Lastly, the results are summed up in the third part, which also offers suggestions for advancing SMEs and entrepreneurship in Algeria.

The study's implications lie in its comprehensive analysis of data regarding SMEs and their involvement in economic growth and diversification, covering a significant dataset spanning over two decades, from 2001 to 2022. Furthermore, this paper fills an important research gap by providing contemporary analysis on the topic of entrepreneurship and SMEs' performance in Algeria, which is a developing nation heavily reliant on hydrocarbon revenues.

## **2. Literature review**

### **2.1 Entrepreneurial orientation (EO)**

Entrepreneurial orientation is recognized as a pivotal determinant of firm success and performance, especially within international markets. Empirical research has established that EO, encompassing dimensions such as risk-taking, proactiveness, and innovation, exerts a substantial influence on firm performance (Naldi et al., 2007). Moreover, a firm's dynamic capabilities, particularly those related to reconfiguring capabilities, significantly affect its international performance (Jantunen et al., 2005). The intricate relationship between EO and firm performance is

especially pertinent to small and medium-sized enterprises (SMEs). Evidence indicates that EO, coupled with effective use of marketing information, can markedly enhance SME performance (Keh et al., 2007). Additionally, the synergy between EO and market orientation has been demonstrated to elevate business performance, particularly in developing economies where robust social and business network ties exist (Boso et al., 2013).

EO also plays a crucial role in the knowledge creation processes within firms. Research has shown that EO can both directly and indirectly impact firm performance through these knowledge creation mechanisms (Li et al., 2009). In addition, the separate components of EO can influence the connection between competitive strategy and business outcomes., underlining the need to comprehend how different facets of EO affect overall performance (Lechner & Gudmundsson, 2014). In the realm of international entrepreneurship, firms with pronounced entrepreneurial orientations frequently pursue international market expansion to boost performance. Strategic alliances are posited as a supportive mechanism for SMEs with strong EO in their international expansion endeavors (Brouthers et al., 2015). Overall, the body of literature underscores EO as a critical factor influencing firm performance, notably in relation to international markets and SMEs.

## **2.2 The concept of small and medium enterprises (SMEs)**

There is no globally recognized definition of SMEs. The categorization of SMEs varies among economists and experts due to differing definitions that often consider factors such as total assets, number of employees, annual turnover, and capital investments. Moreover, officials from various multilateral development institutions have their unique interpretations of what constitutes an SME, reflecting their respective institutional definitions. According to economist Karl-Heinz Schmidt in his article on the distinct attitude of SMEs plays a vital role in the manufacturing and delivery of products and services. These companies are typically composed of individual producers, some of whom rely on family labor, while others employ workers and craftsmen. They often operate with fixed capital that generates low returns, resulting in irregular incomes and creating unstable job opportunities (Schmidt, 1990).

Similarly, Professor Bolton, who chaired the committee studying the challenges faced by small and medium enterprises in Britain during the 1960s, described SMEs as institutions characterized by their simple organizational structure, with the owner holding a pivotal position at the apex, ultimately responsible for decision-making. Although

authority may be delegated for urgent decisions, this management style remains prevalent in enterprises with an estimated workforce of 200 or fewer employees (BOLTON, 1982).

In his 1966 study on small and medium-sized enterprises (SMEs) within the European Common Market, Woitrin endeavored to define these enterprises by employing generally accepted standards alongside additional criteria that enable qualitative definitions. Woitrin identified several characteristics of SMEs (Woitrin, 1966):

- Negotiation capabilities are weak in these types of institutions;
- There is insufficient communication among the different levels of the administrative hierarchy;
- Administrative workers often lack specialization;
- SMEs exhibit weak integration with local authorities and maintain significant independence in their supply chains;
- These enterprises face difficulties accessing financial markets and obtaining loans, leading them to rely predominantly on their own resources;
- The small size of these institutions frequently acts as an impediment to their growth.

Hirigoyen posits that there are three primary criteria that can be used to accurately define SMEs: responsibility, ownership, and revenue. In addition to these criteria, Hirigoyen argues that these enterprises are typically managed by an individual who assumes full responsibility for the management (Hirigoyen & Basly, 2019).

In a 2016 study titled "The success factors of exporting SMEs: a management and business model-oriented analysis through the sales process," Rumo strived to identify the components contributing to the success of the internationalization process by examining sales. The research concluded that understanding international customer behavior is crucial and unavoidable before developing any export strategy. Additionally, the study found that distribution channels did not significantly impact the success of the internationalization process in the sample examined (Rumo, 2016).

### **2.3 Small and medium enterprises on an international level**

In European countries and according to the European Union's law a medium-sized industry is an enterprise that employs less than 250 workers, has a turnover of more than 50 million euros, and/or total assets of more than 43 million euros. As for the small industry, it is an establishment that employs less than 50 workers, its sales volume does not exceed 10 million euros, and its total assets also do not exceed 10 million euros. Whereas, a mini-industry is defined as any establishment that employs less than 10

workers, whose sales volume does not exceed 2 million euros, and whose total assets do not exceed 2 million euros (Ogbor, 2009).

And according to the United Nations International Development Organization, there are two types of definitions for small and medium industries, the first is for developing countries, in which a medium industry means that establishment that employs between 20 and 99 workers. While a small industry is that establishment that employs between 5 and 19 workers. While a mini-industry is referred to as every establishment that employs less than 5 workers. As for the second definition, it is specific to industrialized countries, in which a medium industry is defined as every establishment that employs between 100 and 499 workers, while a small industry is defined as every establishment that employs less than 99 workers. As for mini-industries, they do not exist in industrialized countries according to the aforementioned organization (Ogbor, 2009).

The World Bank defines small industries as every establishment whose number of workers does not exceed 50, and its total assets and total sales do not exceed 3 million US dollars. While the medium industry is that whose total assets and total sales do not exceed 15 million US dollars and the number of its workers does not exceed about 300 workers (IFC Advisory Services, 2009).

In Japan, SMEs are categorized based on their field of activity (Industry, construction, and transportation/ Wholesale/ Retail sales/ Services), and in general a small and medium-sized enterprise in Japan hires less than 300 employee and its capital does not exceed 300 million Yen (2018, عبد الرحمن & براشن).

In Tunisia, SMEs can be defined based on one of the following criteria: total number of employees (less than 50 people), or total investment (less than 1 million Tunisian dinars) (2006, أرميص).

#### **2.4 Small and medium enterprises locally**

In accordance with the guiding law N° 01-18 regarding the promotion of SMEs issued in December 2001, SMEs in Algeria are outlined as institutions that produce goods or provide services, employ from 1 to 250 people, and whose total annual turnover do not exceed 2 billion DA, or their total annual revenue do not exceed 500 million DA, and make their legal and financial decisions independently (The Directive Law for the Promotion of Small and Medium-Sized Enterprises, 2001).

The antecedent legislation underwent a revision with the issuance of law N° 17-02 in January of 2017, leading to adjustments in the maximum annual turnover and annual revenue thresholds, these thresholds were

raised to 4 billion DA and 1 billion DA, respectively, from their previous figures of 2 billion DA and 500 million DA in 2001, notably, the criteria regarding the number of workers stayed the same in both regulations (The Directive Law for the Promotion of Small and Medium-Sized Enterprises, 2017).

Law N° 01-18 was a decisive turning point in the history of small and medium-sized industries as it finally gave a proper legal definition for these types of enterprises, as well as measures and mechanisms to assist and develop them, and later in 2017, law N° 17-02 was released to update the prior regulation and comply to the current circumstances which led to the adoption of next principles:

- Distribute and promote the circulation of industrial, commercial, legal, economic, financial, vocational, and technological information related to small and medium firms;
- Encouraging every initiative that facilitates access to real estate for small and medium industries;
- Work to put in place tax systems adapted to small and medium industries;
- Encouraging and consolidating entrepreneurial culture, as well as contemporary technologies and innovation in SMEs;
- Supporting SMEs in accessing financial tools and services tailored to their specific requirements;
- Promoting professional associations, trade exchanges, and industry associations;
- Reinforcing coordination between establishment and support agencies for SMEs at the central and local levels.

And, regarding the establishment and promotion of SMEs, articles 17, 18, and 19 of law 17-02 calls for the establishment of a public body of a special nature called "the agency" in the text, responsible for implementing initiatives to aid and bolster SMEs in areas such as establishment, growth, and longevity.

This includes enhancing quality, fostering innovation, and enhancing the management abilities of SMEs, as well as managing the associated expenses of the agency, which are financed through the special allocation account N° 124/302 entitled "The National Fund for the Rehabilitation of Small and Medium Enterprises, Support for Investment and Promotion of Industrial Competitiveness".

There is no question that the directive laws related to the promotion of SMEs (N°01-18 and N°17-02) had a significant impact on the growth and output of small and medium-sized industries as well as promoting entrepreneurship among young creative entrepreneurs which will be highlighted in the rest of the study.

Based on an analysis of past studies and literature pertaining to the study issue, the hypotheses can be proposed as follows:

**H1:** There are many criteria that help classify SMEs around the world and they differ from country to country, region to region based on the level of economic development.

**H2:** Since 2001 and the introduction of the first directive law aimed at promoting SMEs in Algeria, they have experienced significant growth and development.

**H3:** SMEs in Algeria make substantial contributions to the economy.

### **3. Methodology**

#### **3.1 Data and sources**

The study relies on data sourced from a comprehensive collection of 130+ official government reports spanning 21 years, from 2001 to 2022. These reports include quarterly and annual updates from the (The National Office for Statistics, 2022), periodic reports from (General Directorate of Customs, 2022), statistical bulletins from (Ministry of Industry and Pharmaceutical Production, 2022), and (Bank of Algeria, 2022). The chosen timeframe, from 2001 to 2022, enables us to explore the role of SMEs in leading economic development and to verify our hypotheses. This period encompasses the introduction of the first legislation on SMEs (Law n° 01-18) in 2001, the economic downturn of 2008, the hydrocarbon price crisis that occurred between 2014 and 2017, and the impact of the Covid-19 pandemic in 2020-2022. We are confident that this extensive dataset provides a robust foundation for our analysis.

#### **3.2 Method**

The data is analyzed using the inductive approach to have a clear view on SMEs' impact on economic development and diversification and verify the hypotheses. The inductive approach, widely utilized among scholars (Gavriel, 2015; Jebreen, 2012; D. A. Thomas, 2003), involves the generation of theories and hypotheses through the systematic observation of empirical data. Unlike the deductive approach, which starts with a hypothesis and tests it against observations, the inductive approach begins with specific observations and moves towards broader generalizations and theoretical frameworks. This method is particularly favored in qualitative research, where it enables scholars to develop deep insights and nuanced understandings of complex occurrences. By permitting sequences, themes, and classifications to arise from the data, the inductive approach fosters a more flexible and exploratory research process, accommodating the

discovery of unforeseen connections and relationships within the study context (D. R. Thomas, 2006).

## 4. Results and discussion

### 4.1 The growth of SMEs since 2001

Since 2001, the Algerian government has shown significant support for SMEs, leading to a notable increase in their numbers. This growth is evident in statistics showing a rise in the establishment of these businesses and their expansion into various economic sectors, as illustrated in the table below:

**Table 01.** SMEs count development in Algeria since 2001

| Year | Number of SMEs |             |
|------|----------------|-------------|
|      | Private SMEs   | Public SMEs |
| 2001 | 244560         | 788         |
| 2005 | 341953         | 835         |
| 2009 | 586903         | 591         |
| 2015 | 934037         | 532         |
| 2019 | 1193096        | 243         |
| 2020 | 1230844        | 229         |
| 2021 | 1286140        | 225         |
| 2022 | 1359580        | 223         |

Source: compiled by researchers using (Ministry of Industry and Pharmaceutical Production, 2022)

The data exhibited in table 01, highlights a substantial increase in the number of SMEs underlining the proactive steps embarked by the Algeria administration. to foster this sector and this is noticeable in the above table where there is a positive trend in SME creation as the number of SMEs grew from 245,348 firms in 2001 to 342,788 firms by 2005, representing the establishment of nearly 100,000 new SMEs over a five-year span. This momentum persisted into the 2<sup>nd</sup> half of the decade (2006-2010), which saw a doubling in the count of SMEs between the 1st and 2nd stages. Furthermore, this growth trajectory continued into the second decade, culminating in 1,359,803 enterprises by the end of 2022.

The table above shows a consistent decrease in the number of public SMEs registered since 2001, with less than 900 enterprises compared to the private sector. This phenomenon may be ascribed to the state's transition towards placing greater dependence on the private sector as the principal catalyst for economic growth and promoting entrepreneurial activities from the early 1990s.

Overall, the table shows a steady and notable rise in the quantity of SMEs following the implementation of law N° 01-18 in 2001. This indicates a favorable economic climate and potential government efforts to support small and medium firms and entrepreneurship within the nation.

#### **4.2 The distribution of SMEs according to the sector of activity**

The table below shows the distribution of SMEs based on their sector of operations:

**Table 02.** The distribution of SMEs based on their field of activity

| Year | Agriculture | Hydrocarbons,<br>energy, mines,<br>and related<br>services | Construction<br>and public<br>works | Manufacturing<br>industries | Services |
|------|-------------|--|-------------------------------------|-----------------------------|----------|
| 2010 | 3806        | 1870   | 129762                              | 61228                       | 172653   |
| 2014 | 5038        | 2439   | 159775                              | 78108                       | 251629   |
| 2018 | 7168        | 2985   | 185137                              | 99938                       | 585983   |
| 2019 | 7481        | 3066   | 190170                              | 103693                      | 614375   |
| 2020 | 7690        | 3115   | 193965                              | 106121                      | 625999   |
| 2021 | 8010        | 3243   | 199331                              | 109991                      | 662185   |
| 2022 | 8404        | 3371   | 204452                              | 115992                      | 703499   |

Source: compiled by researchers using (Ministry of Industry and Pharmaceutical Production, 2022)

The data in the table shows that nearly all of SMEs' activity in Algeria that occurred in the previous thirteen years is focused on the services sector, accounting for more than half of the total. Construction and public works follow closely behind, with rates hovering around 30%, while the hydrocarbons, energy, and mining sector ranks lowest, with percentages not exceeding 1%, along with the agriculture sector.

The data suggests that Algerian SMEs primarily focus on service-oriented activities, which hinders the creation of wealth, added value, and economic diversification. To address this issue, the government must reassess national programs and funding mechanisms, guiding new businesses towards industrial sectors and productivity. Additionally, support should be provided to existing institutions in these areas to enhance their competitiveness on the international stage and foster entrepreneurship.

#### **4.3 SMEs' influence on job creation**

SMEs are known as catalysts for economic expansion, creative advancement, and employment generation in both advanced and emerging economies. Virtually every major corporation had its origins as an SME. Microsoft for instance, commenced with just 02 individuals working in a



modest North American garage, while Google was founded by two young visionaries who had a promising concept.

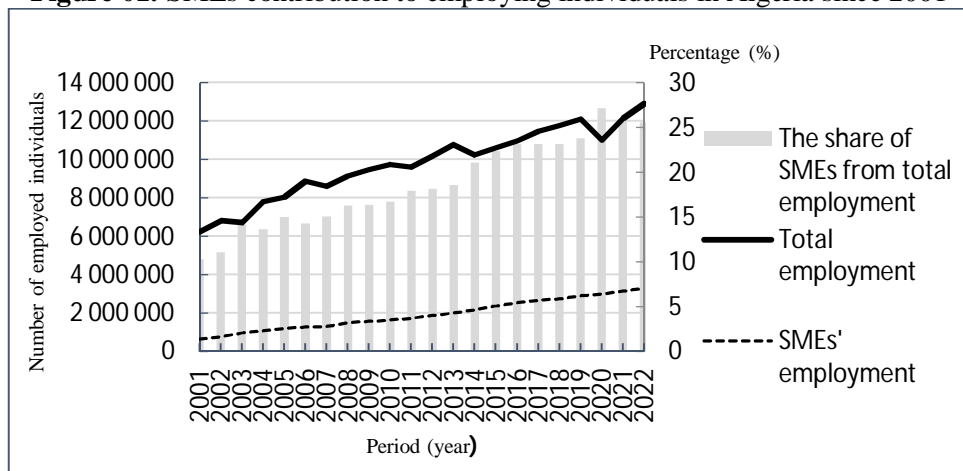
SMEs are seen as a fertile ground for nurturing talent and fostering innovation, making them an excellent environment for development and creative endeavors. Numerous research studies have shown that SMEs produce more than twice the number of innovations compared to large corporations, highlighting the important role performed by this dynamic industry. The subsequent points delineate the crucial advantages of SMEs.

SMEs play an essential part in creating job opportunities and employing a large segment of the workforce at different levels, thereby helping to reduce unemployment and support sustainable economic growth.

In many developing countries, including Algeria, unemployment appears in various forms, such as disguised unemployment, which is partly caused by the rapid population growth. According to ONS in their published report in 2012: Algeria's population increases by an average of 500,000 people annually, leading to an approximate yearly rise of 300,000 individuals in labor force.

Algerian economic experts agree that large corporations are not capable of creating enough jobs to solve the current unemployment crisis or to absorb the growing workforce each year. This highlights the crucial role of SMEs in tackling unemployment, as illustrated in the graph below:

**Figure 01.** SMEs contribution to employing individuals in Algeria since 2001



Source: compiled by researchers based on (The National Office for Statistics, 2022) and (Ministry of Industry and Pharmaceutical Production, 2022)

The graph above shows the increasing role of SMEs in overall employment, with jobs rising from just over 639,000 in 2001 to more than 3.307 million in 2022. However, it is important to note that despite this growth, SMEs' share of total employment remains relatively modest at 25.6% in 2022, significantly lower than the contributions made by SMEs in other developing countries.

The reasons for this phenomenon are outlined below:

Firstly, in Algeria, the government remains the primary employer and struggles to transition to the private sector that is still in its early stages.

Additionally, the majority of SMEs in Algeria are focused on industries with low job creation rates, such as services and construction. On the other hand, sectors like manufacturing, tourism, and agriculture, which have higher job creation rates, are not as popular among newly established SMEs.

Thirdly, the majority of Algerian SMEs are micro-sized enterprises, making up nearly 97% of all businesses and their ability to create new jobs is limited.

In order to better understand how SMEs contribute to job creation, we analyze the growth rates of SMEs and employment levels as key indicators of their role in generating jobs.

Our findings reveal a parallel trend between employment and SMEs from 2001 to 2022, highlighting the critical role of entrepreneurship in generating employment. This progression can be divided into three distinct phases:

Initial Phase (2001–2007): there was a significant surge in employment growth due to the implementation of an SME-related law in 2001 and the expansion of job opportunities by private enterprises.

Second Phase (2007–2020): this period saw a marked increase in the proliferation of SMEs, driven by their eligibility to enhance existing projects through ANSEJ and CNAC. A significant number of SMEs emerged in the construction and hydraulic sectors, stimulated by growth initiatives from 2002/2004 and 2005/2009. However, job creation declined due to the removal of quasi-fiscal benefits, the 2014 oil price crash, subsequent state austerity policies in 2015, and the imposed closure during the COVID-19 pandemic.

Third Phase (2021–2022): there was a noticeable recovery in SME performance regarding job creation, attributed to rising oil prices, the lifting of some restrictions on import operations and the financing of new SMEs through the aforementioned agencies.

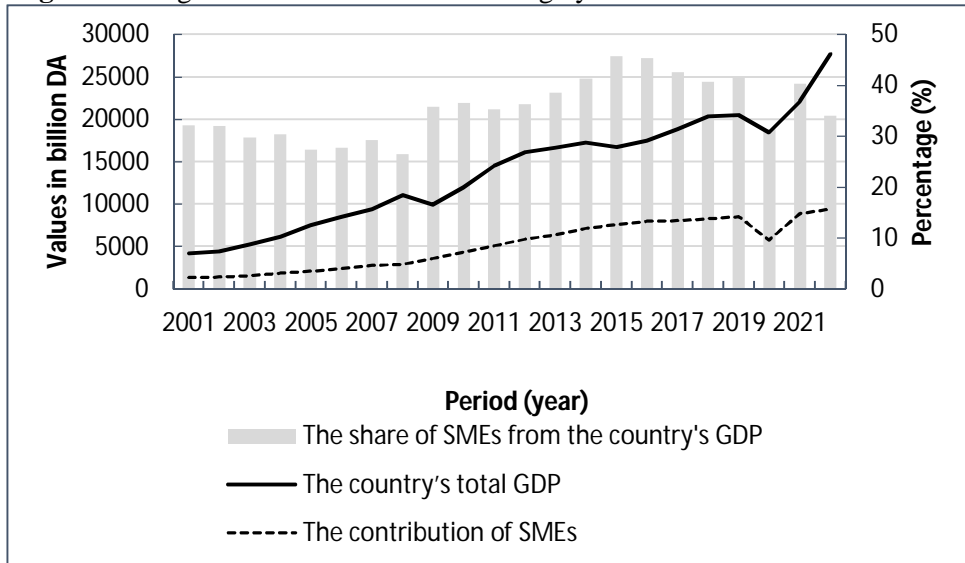
When it comes to job creation, SMEs are often viewed as valuable contributors to the employment sector. However, in Algeria, SMEs employ only 25.6% of the total working population, with youth unemployment remaining a significant issue. Thus, we can conclude that Algerian SMEs are still relatively fragile and have not substantially enhanced employment generation.

#### 4.4 SMEs' influence on gross domestic product (GDP)

Small and medium-sized enterprises act as engines of wealth generation, contribute to social stability and generate tax revenue. There is a notable correlation between a nation's total income and the concentration of SMEs per 1,000 people. Additionally, SMEs have the capability to distribute economic activities effectively in remote areas, making them valuable tools for improving economic growth at the local level and encouraging the unification and blending of domestic areas.

The chart below illustrates the percentage of SMEs contributing to the country's GDP excluding the oil sector:

**Figure 02.** Algeria and SMEs GDP excluding hydrocarbons revenues since 2001



Source: prepared by researcher using (The National Office for Statistics, 2022) and (Ministry of Industry and Pharmaceutical Production, 2022)

As shown in Figure 02, Algeria's GDP has continuously grown, with small and medium-sized enterprises (SMEs) playing a limited but increasing role. In 2001, SMEs accounted for 32.22% of the GDP, which increased to 34.04% by 2022, totaling 94,250.55 billion Algerian dinars. This highlights the importance of SMEs, especially considering economic

reforms aimed at maximizing their contribution to the nation's development.

#### **4.5 SMEs influence on non-oil exports**

By the end of 2022, non-oil exports totaled 4606 billion USD, making up slightly less than 10% of the total export value. However, this proportion drops to nearly 1.1% when export operations conducted by Sonatrach (related to oil) and other major companies are excluded (Bank of Algeria, 2022).

Excluding the oil sector in 2012, a total of 83% of these exports were handled by four prominent companies: Sonatrach exported oil-derived products valued at \$935 million USD, while Fertial (dealing with ammonia and currently closed) contributed \$481 million USD. The remaining significant exporters were Somiphos (phosphates) based in Tebessa and Cevital. As for the remaining 17% of the country's exports: it was shared among micro, small, and medium-sized enterprises, amounting to a mere 0.51% of the nation's total exports. Essentially, the SME industry makes a minimal contribution to the country's overall export figures.

The data in the table shows the non-oil exports of Algeria, including those from SMEs. The information is gathered from reports by the Bank of Algeria and the Ministry of Industry and Pharmaceutical Production. However, it is difficult to accurately determine the exact contribution of SMEs to Algeria's non-oil exports due to limited transparency and disclosure in financial statements, especially from the latter source.

\*Note that the data for 2023 only includes information for the first, second, and third quarters, as the Ministry's data for the fourth quarter has not yet been released. Consequently, to complete the study, an estimated value for fourth-quarter exports will be provided by averaging the figures from the first three quarters.

**Table 03.** Algeria's and SMEs non-oil exports since 2001 /Unit: Million USD

| Year  | Algeria's exports | SMEs' exports |
|-------|-------------------|---------------|
| 2001  | 560               | 107,4         |
| 2005  | 746               | 190,57        |
| 2010  | 967               | 239,61        |
| 2015  | 1485              | 421,67        |
| 2019  | 2079              | 289,59        |
| 2020  | 1916              | 76,36         |
| 2021  | 4579              | 494,45        |
| 2022  | 5815              | 1337,8        |
| 2023* | 3548              | 1034,04       |

Source: compiled by researchers using (Bank of Algeria, 2022; Ministry of Industry and Pharmaceutical Production, 2022)

Over time, there has been a consistent rise in the percentage of exports from industries other than hydrocarbons compared to total exports. Likewise, SMEs have seen a continuous increase in their exports outside of the oil sector, growing from 107.4 million USD in 2001 to 1337.8 million USD in 2022. This demonstrates the growing importance of SMEs in driving non-oil exports.

Upon examining the previous table, it becomes evident that both Algerian and SME exports outside the oil sector have followed an upward trajectory, reaching \$3548 million and \$1034.04 million USD, respectively, in 2023. Despite some fluctuations post-2014 attributed to the oil price collapse during this period, dropping to \$69.8 and \$43.6 USD per barrel in December 2014 and January 2016, respectively, and the decline experienced in 2020 due to the complete and partial closure of trade and economic activities prompted by the Covid-19 pandemic.

The notable rise in non-hydrocarbon exports from 2021 to 2023 can be credited to a range of elements including the recovery from the pandemic, improved economic conditions, and potential new market opportunities arising from the Russian-Ukrainian conflict.

The rising volumes of exports outside hydrocarbons and the role played by SMEs indicate improvements in the entrepreneurial culture in Algeria, this culture has the potential to reduce the country's dependency on energy revenues and support the development of a more stable and sustainable economy.

## **5. Discussion:**

The study aimed to investigate the entrepreneurial orientation reality in Algeria and SMEs' performance and contribution to the national economy from 2001 to 2022. The study screened through 130+ government reports since 2001 collected from the sites of various official sources. Using the Inductive approach, and after examining the literature, the study accepts H1, as there a big dispute over the criteria used to classify small and medium enterprises worldwide, and these criteria change from country to country, region to region based on the degree of economic development, the nature of laws and regulations. The study also supports the assertion of H2, as table 01 shows that since 2001, over 1114400 new small and medium firm has been created, which indicates the immense the growth that this sector known since the issuance of law n° 01-18 concerning the development and promotion of SMEs in Algeria. The data presented in figure 01, 02, and table 03 support the rejection of H3, assuming that SMEs do not make significant contribution to employment creation, GDP, and export operations.

The results found on SMEs' contribution to the aforementioned macro indicators provide support for the findings of (Brouthers et al., 2015; Jantunen et al., 2005; Keh et al., 2007) who also confirmed that (EO) and a firm's dynamic capabilities have a positive effect on SMEs' performance in local and international markets.

## **6. Conclusion:**

Entrepreneurial orientation has emerged as a pivotal driver of economic and social development, particularly in countries like Algeria whose economies rely heavily on fuel. These nations are actively seeking alternatives to enhance their economies, with a focus on encouraging entrepreneurial projects and SMEs are one of the main ways recognized globally to achieve that as they are acknowledged for their significant contributions to economic growth. They play a crucial role in boosting GDP, creating employment opportunities, fostering innovation, generating tax revenue, promoting exports, and catalyzing various other economic activities. Given their multifaceted functions, SMEs are essential to the foundation of both advanced and emerging economies. Therefore, it is crucial for any country to prioritize the development of the SME sector in order to ensure economic growth., regardless of its developmental stage. Recognizing this, the Algerian government has implemented a series of measures to support this vital sector since the 1990s.

The study revealed a rise in the count of SMEs, increasing from 245,348 firms in 2001 to 1,359,803 firms in 2022. This indicates a growing interest in entrepreneurship since the transition to a market economy in the early 90s. However, the propensity of SMEs to invest more in the services sector, rather than in other productive and potentially more beneficial sectors to the economy, remains a drawback in the entrepreneurial mindset.

Also, this research revealed that the Algerian SME sector accounts for 34,04% of the nation's GDP and engages 25.6% of the working population in 2022. Nevertheless, the challenge of high unemployment especially within the Algerian youth persists. Moreover, SMEs contribution to the country's non-oil exports remains modest standing at 29,1% of Algeria's non-oil exports by the end of 2023, this percentage drops even lower when considering that the oil sector accounts for over 90% of the country's overall exports in recent years.

Our research findings suggest that SMEs in Algeria exhibit notable vulnerability and do not significantly contribute to job creation, despite efforts to diversify the Algerian economy. This diversification is still

nascent, and the economic landscape remains heavily reliant on the oil sector.

Additionally, the underdeveloped nature of the labor-intensive SME sector hinders the promotion of entrepreneurship among young people.

The study is constrained by many limitations. To begin with, the study is limited to a single country -Algeria- which restricts its generalizability. Moreover, collecting recent financial statements of active small and medium firms poses a great challenge, which leads to delayed published reports and a loss of recency in the study. Finally, many enterprises resort to fiscal fraud to evade taxes, which undermines the credibility of their financial statements and produces less-than-accurate government reports. These limitations present a solid starting point for future research on the topic of entrepreneurial orientation and SMEs' performance.

According to the results of this study, we propose the subsequent suggestions:

- The Algerian state ought to improve its endeavors to build a comprehensive and efficacious strategy targeted at enhancing the country's business climate, which is now not suitable for private firms. Furthermore, there should be a gradual and continuous push to promote this sector. Without sustained and robust growth in other areas of the economy, there remains a risk of continued dependency on global oil prices and ongoing concerns regarding high youth unemployment. This is why the SME sector emerges as particularly promising in attaining the country's targets. Hence, the establishment of additional SMEs in industries such as tourism, manufacturing, and agribusiness would raise job prospects, greater revenues, and a decrease in the country's dependence on global oil markets.

- SMEs possess the capacity to make a substantial contribution to the economic prosperity of Algeria and effectively tackle the problem of unemployment, primarily due to their pivotal role in the job creation process. However, there is a need for increased commitment and action from both the Algerian government and SME proprietors to nurture and advance this crucial sector.

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#### **Conflict of interest:**

The authors have stated that they have no possible conflicts of interest with the authorship, and/or publishing of this paper.

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## ***Financial Sustainability in Iraq: Challenges and Opportunities***

### **الاستدامة المالية في العراق: التحديات والفرص**

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#### **Abstract:**

In the recent period, interest in the topic of financial sustainability has increased among researchers and economists due to its future implications for implementing government policies and maintaining financial solvency.

The research problem focuses on the state's adoption of an expansionary financial policy, characterized by increased operational spending and reliance on oil revenue, which can lead to a contractionary financial policy during periods of reduced oil income. This approach hinders future sustainability and increases the size of public debt, posing a risk to financial stability. The study concludes that revenues from crude oil production continue to dominate the state's income, a trend expected to persist.

**Keywords:** Financial Sustainability, Government Policies, Sustainable Financial Policy, Economic Stability, Rentier Economies.

**Jel Classification Codes:** G32.

#### **المخلص:**

ازداد الاهتمام بموضوع الاستدامة المالية في الفترة الأخيرة بين الباحثين والاقتصاديين لما له من انعكاسات مستقبلية على تنفيذ السياسات الحكومية والحفاظ على الملاءة المالية. وتركز مشكلة الدراسة على تبني الدولة لسياسة مالية توسعية، تتسم بزيادة الإنفاق التشغيلي والاعتماد على عائدات النفط، وهو ما يمكن أن يؤدي إلى سياسة مالية انكماشية خلال فترات انخفاض الدخل النفطي. ويعوق هذا النهج الاستدامة في المستقبل ويزيد من حجم الدين العام، مما يشكل خطراً على الاستقرار المالي. وخلصت الدراسة إلى أن عائدات إنتاج النفط الخام لا تزال تهيمن على دخل الدولة، وهو اتجاه من المتوقع أن يستمر.

**الكلمات المفتاحية:** الاستدامة المالية، السياسات الحكومية، السياسة المالية المستدامة، الاستقرار الاقتصادي، الاقتصادات الريعية.

**تصنيف JEL: G32.**

## **1. Introduction:**

Financial sustainability means the government's ability to meet its financial crises and finance its expenditures from its own resources without ensuring the sustainability of current expenditures, especially from own revenues, negatively affecting financial solvency or exposing it to the risk of bankruptcy. The challenge facing most developing countries is the lack of continuity in the flow of financial resources to finance the budget, which creates a deficit in it. Therefore, it is necessary to take the necessary measures to achieve the optimal mix between public expenditures and revenues in the medium and long term to achieve the optimal mix between them, while maintaining the ability to continue spending on basic goods and services. In Iraq, financial sustainability is closely linked to oil revenues, which constitute about 90% of public revenues, despite the existence of other sources of revenue such as taxes and fees. However, in reality, oil revenues dominate the general budget, which makes the Iraqi economy vulnerable to fluctuations in global markets, which is a negative indicator of the country's financial sustainability.

### **1.1 Importance of the research:**

Measuring and analyzing financial sustainability (assessing the financial position) is one of the most important topics currently being discussed, as it aims to provide liquidity and ensure financial solvency. The existence of a sustainable financial policy means ensuring the rights of future generations without affecting the financial solvency of the state. Therefore, the importance of the research comes from evaluating Iraq's ability in the long term to meet its current and future financial obligations.

### **1.2 Research problem:**

The Iraqi economy suffers from increased public spending, especially current spending (consumer), and incorrect. Exploiting oil revenues without on and relying heavily on diversifying revenues in this led to an increase in the size of the deficit and public debt, which negatively affected financial sustainability.

### **1.3 Research objectives:**

- Clarifying the importance of financial sustainability and analyzing the economic and financial reality of Iraq.
- Measuring and analyzing the relationship between financial sustainability indicators and oil revenues.

### **1.4 Research hypothesis:**

Directly linked to Iraq's financial sustainability enhancement means that the research hypothesis starts from oil revenues, which gives a negative indicator of the state of financial sustainability in the country.

### **1.5 Research Structure:**

The research was divided into three axes, The first axis included the theoretical framework for financial sustainability, The second axis analyzed financial sustainability indicators in Iraq, The third axis measured financial sustainability indicators in Iraq, The first axis/the theoretical framework for financial sustainability.

### **2. The emergence of financial sustainability:**

The origin of the term "sustainability" goes back to ecology, where it was used to express the formation and development of dynamic systems that are subject to structural changes as a result of their dynamism, which leads to changes in their characteristics and relationships between their elements (Muhammad and Aziz, 2019: 102). The first attempts to analyze financial sustainability began in 1923 when France faced the public debt crisis, where John Maynard Keynes advised the French government to develop sustainable financial policies. The concept of sustainability has received wide attention since 1978, initially linked to economic development and focusing on the social, environmental, and economic dimensions, thanks to significant contributions adopted by the United Nations and its institutions. In the mid-eighties of the last century, the concept of financial sustainability began to circulate to describe future challenges that public financial management might face due to escalating deficit and debt levels resulting from excessive public spending, which exacerbates financial burdens that future generations may bear as a result of decisions they did not participate in making or did not benefit from (Al-Saqa and Al-Sindi, 2021: 39). The analysis of financial sustainability helps understand the practical importance of financial sustainability without the long-term impact on public revenues, spending in continuity, financial sufficiency, or exposure to risks of financial insolvency and failure to meet future crises. This results from weak financial sustainability and increasing general budget deficits financed through local and external debt. Additionally, financial sustainability analysis can be used as a scientific framework to analyze and explain the relationship between financial situations and overall economic performance, especially in matters of economic growth and financial and monetary stability. It is also considered an important tool for decision-makers in determining amendments and reforms in financial policy (Al-Hawri, 2015: 277). The main goal of financial policy is not only to achieve a certain level of deficit in the general budget and control general policies objectives in light of a

sustainable financial situation but also to preserve financial resources (Al-Wasal, 2018: 54).

### **3. The concept of financial sustainability:**

Financial sustainability is defined as the state's ability to meet its current and future financial crises without compromising its financial stability. It is a methodology that depends on debt scheduling (Moash, 2020: 4) to rectify the ratio of public debt to GDP at a specific level or to determine a target ratio of GDP, allowing for adjustments. Financial reforms are formulated to achieve this ratio, which serves as a hypothesis for predicting the future based on agreed policies for a specific period, often five years. In this context, fiscal policies aim to achieve sustainable welfare, producing an implicit measure of sustainability as a reduction in economic stress over time (R. Khalili, 2011: 6). The term financial sustainability refers to managing debt in a public, medium-term, or long-term context that avoids financial or fiscal stress or crises, such as significant reductions in public spending or cessation of government activities (Wasal, 2016: 83). International experience shows that financial sustainability is defined as "the ability to manage debt in a public, medium-term context that exceeds public, medium-term, or long-term financial and fiscal stress or crises." Financial sustainability is also described as "the situation in which the borrower is able to service its debts without having to make a major change in the balance of expenditures and revenues in the future" (Mukhtar and Arbah, 2018: 401). The European Commission defines it as "the ability to bear the financial burdens of debts in the future while avoiding excessive increases in government expenditures and not burdening future generations with the burden of debts" (Carone, 2012: 1). In oil-exporting countries, financial sustainability is particularly defined as a guarantee for the post-oil period, ensuring the same level of public goods or spending as during the oil era, even if oil revenues are replaced by tax revenues, thus financing the budget deficit and achieving financial sustainability (Aslanli, 2015: 2)

In other words, financial sustainability is defined as (the government's ability to meet its financial crises in the present and future) (Hamad and Badawa, 2015: 80). From the above, it can be said that financial sustainability has many concepts, which center around the concept of sustainability as a principle, and include the following elements:

- Continuing spending and public revenues in the long term.
- Avoiding excessive borrowing by the government.
- The government can continue to service its debts.

- Achieving the desired growth.

Thus, it is clear that financial sustainability means the government's continuation of spending and public revenue policies in the long term, without compromising public debt in order to achieve the desired growth. Financial sustainability was defined in the traditional sense (which is consistent with the balanced budget rule and in a way that maintains the balance of the budget and prevents the accumulation of debts, and if there is a budget deficit, it must be an emergency deficit that disappears with the disappearance of those temporary circumstances), while sustainability in the modern sense (must be consistent with the flexible budget rule that allows the government to achieve a temporary budget deficit according to a specific time frame on the reasons for that deficit and how to cover it with clarification within certain limits, in the form of This returns the budget to the equilibrium position) (Mahmoud, 2017: 63).

Some studies have relied on linking the concept of sustainability with the time constraint of the budget, which means that any deficit in the budget must be covered in the future by future revenues. The public finances become sustainable when the public debt ratio remains constant, so that it returns to its original levels in the event of changes or emergency events. To achieve this,

The government's financial resources must be sufficient to cover future debt burdens without the need to reschedule debts or borrows again to pay off debts (Al-Amroy, 2020: 113).

From the above, financial sustainability is linked to two basic concepts: taxes and public debt, each of which has an impact on the possibility of achieving sustainability. Franco and Balassone stated that the state should not resort to continuously resorting to the budget deficit to address the problem of raising tax rates to solve its financial problems in order to achieve sustainability. Blanchard defined financial sustainability as (the policy that ensures the stability of the ratio of public debt to GDP, i.e. the increase in the ratio of public debt).

The problem of sustainability is not the level of debt but the GDP, the increase in GDP must be accompanied by the way the government uses those funds).

#### **4.The indicator of the ratio of public debt to GDP in Iraq for the period (2004-2021):**

This indicator is considered one of the important indicators because it is linked to a basic variable, which is the GDP, as and security in knowing the extent of risk. The adopted measures GDP is from to the ratio of public debt of borrowing operations, the debt ratio has been set at no

more than (60%) of the GDP in order to be within the limits of safety, as this ratio is called (the debt ceiling), which is a standard adopted by international financial institutions and was agreed upon by the countries of the European Union under the Maastricht Treaty. It negatively affects economic development processes (Atta Allah and Al-Ubaidi, 2021: 367). The high ratio is represented by the debts accumulated before 2003 from the era of the former regime and the country's inability to meet the debt and service it, as well as the decline in the gross domestic product. The ratio of public debt to gross domestic product before 2003 exceeded the safe limits and posed risks to the

GDP. After 2003, the economy was very high in Iraq during the period from 2004 to 2007, and it greatly exceeded the safe limits of the debt, as it recorded about (307.70%) in 2004, which is the highest rate recorded during the study period. This ratio began to decrease to record (61.19%) in 2007, and it continued to exceed the safe limits of the debt.

But this percentage began to gradually decrease, and is within safe limits due to the growth of the gross domestic product, in addition to the increase in Iraq's oil exports and the rise in oil prices in global markets, which led to an increase in public revenues, especially oil revenues, and a decrease in the size of the debt, in addition to Iraq's commitment to pay its debts after the agreement with the creditor countries. However, the index ratio began to gradually increase, reaching (63.99%) of the GDP in 2016, which is a ratio that exceeds the safe limits referred to, as a result of the double shock that Iraq was exposed to and its repercussions after 2014, represented by the security deterioration in Iraq due to the military operations against the terrorist organization ISIS, as well as the decline in oil prices in global markets, which led to a decline in the GDP and an increase in the public debt to (126021) billion dinars in 2016, which was damaged by the war, for the reconstruction of the infrastructure, as well as military expenditures to cover and the inability to meet the seriousness of the size of the public debt and the heavy burden of the debt and sabotage operations, which is an indicator of the Iraqi economy to meet its financial crises towards its creditors.

The ratio of public debt to the GDP began to fluctuate between the decrease And the increase, but it is within safe limits until it reached its lowest level during the study period, as it reached (24.71%) in 2019. This is due to the decrease in public debt to (68664) billion dinars on the one hand, and the increase in the gross domestic product on the other hand due to the increase in Iraq's oil exports and the rise in oil prices. It is worth noting that the adoption of the public debt-to-GDP ratio indicator in economies that what to of their GDP indicates (65%) or more crude oil



ratio which constitutes the oil ratio of goods and services produced by the economy as an indicator of paying debts without incurring more debt is an inaccurate indicator, as this ratio may rise to levels exceeding (100%) in a rentier economy such as the Iraqi economy when global crude oil prices decline for more than a year. The debt ratio is usually misunderstood to indicate (100%) that the ratio that exceeds GDP, as many believe to insolvency, debts due or bankruptcy is the legal status of governments unable to pay Japan is a country with a ratio of more than (200%), for more than a decade with no signs of default Payment. Therefore, this ratio does not provide strong statistics on the probability of default in a country.

**Table (1).** Iraq's public debt to GDP ratio for the period (2004-2021)

| <b>Year</b> | <b>Total Public Debt<br/>(Billion Dinars)</b> | <b>GDP<br/>(Billion Dinars)</b> | <b>Total Debt to<br/>GDP(%)</b> |
|-------------|---|---------------------------------|---------------------------------|
| 2004        | 163,804                                       | 53,235                          | 307.70                          |
| 2005        | 122,049                                       | 73,533                          | 165.98                          |
| 2006        | 95,329  | 95,588                          | 99.73                           |
| 2007        | 68,195  | 111,456                         | 61.19                           |
| 2008        | 65,921  | 155,982                         | 42.26                           |
| 2009        | 56,650  | 130,643                         | 43.36                           |
| 2010        | 75,900  | 162,064                         | 46.83                           |
| 2011        | 79,127  | 217,327                         | 36.41                           |
| 2012        | 73,832  | 254,225                         | 29.04                           |
| 2013        | 72,720  | 273,587                         | 26.58                           |
| 2014        | 78,542  | 266,332                         | 29.49                           |
| 2015        | 108,183                                       | 194,681                         | 55.57                           |
| 2016        | 126,021                                       | 196,924                         | 63.99                           |

|      |         |         |       |
|------|---------|---------|-------|
| 2017 | 125,814 | 221,665 | 56.76 |
| 2018 | 90,776  | 268,918 | 33.76 |
| 2019 | 68,664  | 277,884 | 24.71 |
| 2020 | 99,069  | 219,768 | 45.08 |
| 2021 | 101,097 | 301,439 | 33.54 |

The table was prepared by the researcher based on: Column (1) and (2) Republic of Iraq, Ministry of Planning and Cooperation Development, Central Statistical Agency, Statistical Bulletin (2004-2021) Column (3) of the work Researcher.

## **2. The deficit to GDP ratio in Iraq for the period (2004-2021):**

The calculation of the index depends on the assessment of the deficit or primary surplus of the general budget by calculating the difference between public expenditures and public revenues. The deficit to GDP ratio was determined Local Not exceeding 3% according to the Federal Financial Management Law No. (6) of 2019 (Arab Deposits, 2018: 7), and it is considered an important indicator as it aims to control the accumulation of debts and achieve financial sustainability. We note that The Iraqi federal budget suffers from a planned rather than an actual fragmentation, because the deficit often turns into a surplus at the end of the fiscal year, but in some years the federal budget suffers from an actual fragmentation resulting from the limited non-oil revenues, especially taxes. Table (2) indicates that in most of the study years, the deficit-to-GDP ratio was positive, meaning that the budget had a surplus, but the percentage was high, which means achieving financial sustainability, including the years 2009, 2013-2016, and 2019-2020. The budget deficit in 2009 was negative, i.e. it was fragmented. The deficit to GDP ratio reached a negative percentage of (-0.27%), but within safe limits. This is due to the country being affected by the global crisis that the world witnessed. Decrease in public revenues due to the decline in oil prices, but it ensures safe limits for the deficit.

**Table (2). Deficit to GDP ratio in Iraq for the period (2004-2021)**

| <b>Year</b> | <b>Surplus or<br/>(Deficit)<br/>(Billion Dinars)</b> | <b>GDP<br/>(Billion Dinars)</b> | <b>Surplus or<br/>(Deficit) to GDP<br/>(%)</b> |
|-------------|--|---------------------------------|--|
| 2004        | 1,467  | 53,235                          | 2.76   |
| 2005        | 9,604  | 73,533                          | 13.06  |
| 2006        | 11,561   | 95,588                          | 12.09  |
| 2007        | 15,656   | 111,456                         | 14.05  |
| 2008        | 13,364   | 155,982                         | 8.57   |
| 2009        | (347)  | 130,643                         | (0.27)   |
| 2010        | 44   | 162,064                         | 0.03   |
| 2011        | 25,231   | 217,327                         | 11.61  |
| 2012        | 14,678   | 254,225                         | 5.77   |
| 2013        | (5,288)  | 273,587                         | (1.93)   |
| 2014        | (8,088)  | 266,332                         | (3.04)   |
| 2015        | (3,928)  | 194,681                         | (2.02)   |
| 2016        | (12,658)   | 196,924                         | (6.43)   |
| 2017        | 1,932  | 221,665                         | 0.87   |
| 2018        | 25,693   | 268,918                         | 9.55   |
| 2019        | (4,158)  | 277,884                         | (1.50)   |
| 2020        | (12,883)   | 219,768                         | (5.86)   |
| 2021        | 6,232  | 301,439                         | 2.07   |

**Source:** Table prepared by the researcher Based on:

- Column (1)(2) Republic of Iraq, Ministry of Planning and Development Cooperation, Central Statistical Organization, Statistical Bulletin (2004-2021).
- Column (3) From the researcher's work.

Note: The numbers in parentheses are negative numbers

As for Tami 2014 In 2016, the budget deficit was cut, as the ratio of the deficit to the GDP reached a negative ratio of -3.04% and -6.43%, respectively, which means that the sustainability of public finances is being undermined, but because of this, the ratio of the general budget deficit exceeded To the GDP within the safe or permissible limits according to the Federal Financial Management Law No. (6) of 2019, which set the deficit rate at 3% of GDP. The deficit is due to several reasons, starting with the decline in oil prices in global markets, which had major repercussions on the state's general budget, which contributed to increasing the budget deficit and exacerbating weaknesses and structural imbalances due to the almost complete dependence on oil export revenues, in addition to the pressures The resulting increase in military spending and the cost of dealing with the humanitarian crisis caused by ISIS, which prompted the government to address this crisis by obtaining financing, whether through debt (domestic or foreign) (Central Bank of Iraq, 2016: 55). The deficit ratio to The output is about 5.86% (-) in 2020, and its percentage exceeded the safe or permissible limits specified for this reason, and this is attributed to the decline in oil revenues as a result of the decline in global demand. Oil followed due to the Corona pandemic and the decline in global oil prices, in addition to Iraq's commitment to reduce production according to its own rules, OPEC+.

### **3. The tax gap index in Iraq for the period (2004-2021)**

This index is based on the idea of maintaining the required ratio of public debt to The output, and it follows that tax policy should aim to reduce the gap between taxes that achieve financial sustainability and actual taxes, in light of the data on the size of public spending, real GDP growth rates, and the ratio of public debt to GDP. This indicator helps monitor and analyze tax revenue as one of the The main variables in implementing fiscal policy and financing the burdens of government activities, but it does not represent a sufficient condition for judging the sustainability of government fiscal policy. When analyzing the data and

results reached by calculating the tax gap index as in Table (3), we note that the index recorded positive results during the study period, indicating the failure to achieve financial sustainability, which means that the tax revenues achieved are very low and cannot be stabilized. The tax system in Iraq suffers from a percentage of inadequacy because the output is within safe limits, to the public debt and a severe weakness in mobilizing revenues and limiting Tax vessels, given the many challenges and obstacles facing the activation of tax policy as a tributary to the budget and a tool to stimulate growth and economic stability. The most prominent challenges that hinder the development of the tax system can be summarized in the excessive reliance on oil to finance the budget and the economy, and thus the weak incentive to activate taxes as an alternative source to finance public spending for political and social purposes usually. The weakness of the tax administration in collecting taxes also leads to a decline in tax revenues due to the severe lack of information and data necessary to accurately identify taxpayers and the spread of financial and administrative corruption in all administrative circles of the tax apparatus. In addition to the many tax exemptions and incentives that Iraq witnessed, randomly and unstudied, especially after 2003, on the one hand (Hassan, 2016: 435). On the other hand, the weakness of the regulatory system constitutes another obstacle to the development and launch of the tax system in the country. The tax administration also faces another problem represented by the absence of accounting data in the private sector, which increases the difficulty of estimating project profits, in addition to the spread of many unorganized sectors that are far from oversight (such as the owners of the liberal professions and crafts), which contributes to the loss of a large part of the possible tax revenues. The role of technical aspects in the decline in tax revenues cannot be ignored, as most employees in the tax apparatus suffer from low educational levels and weak levels of skills and training.

In addition, the low level of social and cultural literacy in tax literacy and its role in raising the level of services due to the lack of trust in the government and its ability to exploit tax revenues in an optimal manner, and the increase in the frequency of The financial and administrative corruption scandals witnessed by the Iraqi governments after 2003. As for customs taxes, which represent the most abundant tax burden in Iraq, they suffer from backward payment and assessment procedures at border crossings and depend on primitive work frameworks, which contributed greatly to the spread of financial corruption and weakened government

oversight of the performance of workers at these crossings. Please follow the spread of the forgery of papers of many goods imported into the country, for the purposes of tax evasion on the one hand and violating the law on the other hand.

#### **4. The primary deficit index in Iraq for the period (2004-2021):**

Both the real interest rate and the economic growth rate affect both the current and the primary balances. It is worth noting that the growth rate and the interest rate have a degree of influence on the primary balances due to the presence of other variables that affect them, such as public spending and public revenues. The indicator is used to measure financial sustainability and is based on calculating the ratio of the primary balance required for the budget to stabilize the ratio of public debt to GDP and the primary balance of the budget. If the balance If the required primary balance is greater than the acquired primary balance, then the primary gap is positive. This means that fiscal policy is not sustainable because it tends to raise the level of debt relative to GDP. Conversely, if the required primary balance is less than the current primary balance, fiscal policy tends to reduce the level of debt relative to GDP, which means achieving fiscal sustainability. Looking at Table (4), we note that most of the years during the study period recorded negative results, which means that the initial balance achieved is greater than the initial balance targeted, indicating the achievement of financial sustainability. That is, the initial balance achieved in the budget can stabilize the debt-to-GDP ratio, due to the fact that the real growth rate was greater than the real interest rate, because the general budget had a surplus during this year due to the increase in public revenues. Especially the oil ones, resulting from the increase in oil exports, the rise in its prices, and the increase in the economic burden on Iraq, in addition to the improvement in the gross domestic product and the improvement in the security situation.

As for the twins (2009 and 2013-2016 and 2019-2020), the projected surplus is positive, meaning that the targeted primary balance is greater than the achieved primary balance, meaning that financial sustainability is not achieved, as the achieved primary balance cannot stabilize the debt- to-GDP ratio, although the real growth rate in the economy was greater than the real interest rate, meaning that another variable affected the achieved surplus, which is represented by the growth in the rate of public spending greater than the growth in revenues, meaning that the general budget is a fragmented record in This period is due to a number of reasons, including

the extension of the effects of the global economic crisis in 2009, which was described as a global recession, and the decline in oil prices in global markets as a result of the subsequent decline in demand, which led to a decline in the state's general revenues, which was reflected in the size of the budget, recording a fragmentation.

**Table (3). Iraq's primary deficit index for the period (2004-2021)**

| <b>Year</b> | <b>Growth Rate</b> | <b>Interest Rate<br/>(rt) (%)</b> | <b>Public Debt Ratio to GDP<br/>(b<sub>t-1</sub>) (%)</b> | <b>Targeted Primary Balance to GDP (%)</b> | <b>Available Primary Balance to GDP (%)</b> | <b>The Difference Between Target and Available Balance</b> |
|-------------|--------------------|-----------------------------------|---|--|---|--|
| 2004        | 53.38              | (21.00)                           | 307.70  | (0.79)                                     | (3.55)                                      | (3.55 - 0.79)<br>= (2.76)                                  |
| 2005        | 1.67               | (30.00)                           | 165.98  | (2.68)                                     | (15.74)                                     | (15.74 - 2.68)<br>= (13.06)                                |
| 2006        | 5.65               | (37.20)                           | 99.73   | (0.67)                                     | (12.77)                                     | (12.77 - 0.67)<br>= (12.09)                                |
| 2007        | 1.88               | (10.80)                           | 61.19   | (0.24)                                     | (14.29)                                     | (14.29 - 0.24)<br>= (14.05)                                |
| 2008        | 8.23               | 4.05                              | 42.26   | (0.01)                                     | (8.58)                                      | (8.58 - 0.01)<br>= (8.57)                                  |
| 2009        | 3.38               | 0.53                              | 43.36   | (0.02)                                     | (0.24)                                      | (0.27 - 0.02)<br>= (0.27)                                  |

*Financial Sustainability in Iraq: Challenges and Opportunities*

|      |         |        |       |        |         |                             |
|------|---------|--------|-------|--------|---------|-----------------------------|
| 2010 | 6.40    | 3.85   | 46.83 | (0.01) | (0.04)  | (0.03 - 0.01)<br>= (0.03)   |
| 2011 | 7.55    | 0.40   | 36.41 | (0.01) | (11.62) | (11.61 - 0.01)<br>= (11.61) |
| 2012 | 13.94   | (0.10) | 29.04 | (0.01) | (5.78)  | (5.77 - 0.01)<br>= (5.77)   |
| 2013 | 7.63    | 4.10   | 26.58 | (0.00) | (1.93)  | (1.93 - 0.00)<br>= (1.93)   |
| 2014 | 0.20    | 3.80   | 29.49 | (0.03) | (3.07)  | (3.04 - 0.03)<br>= (3.04)   |
| 2015 | 4.72    | 4.60   | 55.57 | (0.00) | (2.02)  | (2.02 - 0.00)<br>= (2.02)   |
| 2016 | 13.79   | 3.83   | 63.99 | (0.02) | (6.41)  | (6.43 - 0.02)<br>= (6.43)   |
| 2017 | (1.82)  | 3.80   | 56.76 | (0.18) | (1.05)  | (0.87 - 0.18)<br>= (0.87)   |
| 2018 | 2.63    | 3.60   | 33.76 | (0.00) | (9.55)  | (9.55 - 0.00)<br>= (9.55)   |
| 2019 | 5.51    | 4.20   | 24.71 | (0.00) | (1.49)  | (1.50 - 0.00)<br>= (1.50)   |
| 2020 | (11.32) | 3.40   | 45.08 | (0.03) | (5.83)  | (5.86 - 0.03)<br>= (5.86)   |



|      |      |        |       |        |        |                           |
|------|------|--------|-------|--------|--------|---------------------------|
| 2021 | 2.78 | (2.00) | 33.54 | (0.01) | (2.08) | (2.07 - 0.01)<br>= (2.07) |
|------|------|--------|-------|--------|--------|---------------------------|

**Source:** Republic of Iraq, Ministry of Planning and Development Cooperation, Central Statistical Organization, Statistical Bulletin (2004-2021)

During the period (2013-2016) F D The Iraqi economy is witnessing a clear financial crisis as a result of the Iraqi economy being exposed to a double shock due to the drop in oil prices in global markets to what 2014, in addition to the other challenge represented by the rise in the per barrel since June (\$50) below the cost of free trade which was negatively reflected on the budget, in addition to the shortage of shelter and support for the displaced in the displacement camps, and the increase in the cost of re-exporting liberated areas that were affected by military operations, and all non-oil revenues and Iraq's failure to implement policies to diversify sources of income, which requires taking quick and serious steps represented by reducing sovereign expenditures, rationalizing public spending and increasing public debt.

As for Tamy 2019-2020, the Iraqi economy was exposed to a triple shock represented by the political and health crisis resulting from the spread of the Corona epidemic throughout the world and the complete collapse of global economic activities, and the decline in oil prices as a result of the decline in global demand, followed by Iraq's commitment to reduce its share of oil exports according to the requirements of OPEC+.

## 5. The Sustainable Financial Situation Index in Iraq (2004-2021):

It is a supplementary indicator to the previous Financial Sustainability Indicator and indicates how to direct financial policies to improve the balance between public debt and GDP. When interpreted from the point of view of the pace of change, the indicator indicates how the financial authority reacts from one year to another.

If the index value is greater than or equal to (1), it indicates that the situation is unsustainable, i.e., the fiscal policy is not consistent with the debt-to-GDP ratio of the sustainability level, and if the index value is less than (1), it indicates that the situation is sustainable, i.e., the fiscal policy is compatible with achieving sustainability. Analyzing the data in Table (5), we note that most of the years the index value was less than one, which

means that the fiscal policy is compatible with the required conditions to achieve sustainability.

**Table (5): The index of the financial situation and sustainable development in Iraq for the period (2004-2021)\***

| Year | Initial Gap | Debt Ratio for the Year (b <sub>t-1</sub> ) (%) | Interest Rate (Real %) | Growth Rate (Real, %) | Debt Ratio Target (%) | Debt Ratio for the Year (b) (%) | Initial Gap of General Debt Target - Debt Ratio for the Year (β) |
|------|-------------|---|------------------------|-----------------------|-----------------------|---------------------------------|--|
| 2004 | (0.38)      | 307.70  | (21.00)                | 53.38                 | 60.00                 | 0.014                           | (0.38 - 0.014) = (0.37)  |
| 2005 | (11.00)     | 165.98  | (30.00)                | 1.67                  | 60.00                 | 0.148                           | (11.00 - 0.148) = (10.85)  |
| 2006 | (5.77)      | 99.73   | (37.20)                | 5.65                  | 60.00                 | 0.321                           | (5.77 - 0.321) = (5.45)  |
| 2007 | (15.45)     | 61.19   | (10.80)                | 1.88                  | 60.00                 | 12.051                          | (15.45 - 12.051) = (3.40)  |
| 2008 | 1.03        | 42.26   | 4.05                   | 8.23                  | 60.00                 | (0.484)                         | (1.03 - (0.484)) = 0.55  |
| 2009 | 0.33        | 43.36   | 0.53                   | 3.38                  | 60.00                 | 0.015                           | (0.33 - 0.015) = 0.35  |
| 2010 | 0.66        | 46.83   | 3.85                   | 6.40                  | 60.00                 | (0.003)                         | (0.66 - (0.003)) = 0.66  |

|      |        |       |        |         |       |         |                         |
|------|--------|-------|--------|---------|-------|---------|-------------------------|
| 2011 | 0.66   | 36.41 | 0.40   | 7.55    | 60.00 | (0.493) | $(0.66 - 0.493) = 0.16$ |
| 2012 | 0.25   | 29.04 | (0.10) | 13.94   | 60.00 | (0.187) | $(0.25 - 0.187) = 0.06$ |
| 2013 | 0.53   | 26.58 | 4.10   | 7.63    | 60.00 | (0.058) | $(0.53 - 0.058) = 0.59$ |
| 2014 | 3.91   | 29.49 | 3.80   | 0.20    | 60.00 | (0.101) | $(3.91 - 0.101) = 4.01$ |
| 2015 | 0.52   | 55.57 | 4.60   | 4.72    | 60.00 | (0.455) | $(0.52 - 0.455) = 0.98$ |
| 2016 | 1.93   | 63.99 | 3.83   | 13.79   | 60.00 | (1.604) | $(1.93 - 1.604) = 0.33$ |
| 2017 | (5.53) | 56.76 | 3.80   | (1.82)  | 60.00 | (0.323) | $(5.53 - 0.323) = 5.86$ |
| 2018 | 1.63   | 33.76 | 3.60   | 2.63    | 60.00 | (0.364) | $(1.63 - 0.364) = 1.27$ |
| 2019 | 0.76   | 24.71 | 4.20   | 5.51    | 60.00 | (0.042) | $(0.76 - 0.042) = 0.80$ |
| 2020 | (0.82) | 45.08 | 3.40   | (11.32) | 60.00 | (0.391) | $(0.82 - 0.391) = 0.43$ |
| 2021 | (0.19) | 33.54 | (2.00) | 2.78    | 60.00 | (0.079) | $(0.19 - 0.079) = 0.26$ |

\*Columns(3), (7) and (8) are the work of the researcher based on the following mathematical equation:

$$IT = (QT - T) = 1 + g - bt - 11 - b^*$$

The index was greater than one, which means that fiscal policy is not consistent with the conditions for achieving sustainability. This is due to the impact of fiscal policy on the global financial crisis that hit the world in 2008 and its accompanying events. The decline in oil prices, as for the years 2014 and 2016, the rise in interest rates followed the real growth rate in the year 2014, the major impact followed by fiscal policy, and all of this was the beginning of the double shock to the Arab economy represented by the Dutch attacks, the deterioration of the security situation, and the decline in oil prices. As public debt rose to (63.99%) of GDP in 2016, and in 2018 the interest rate was lower than the economic growth rate.

**\* Measuring the financial sustainability of Iraq for the period (2004-2021)**

**First: Series of tests.**

**A - Debt-to-GDP series (X1)**

The augmented Dickey-Fuller (ADF) test was conducted for the series. The results shown in Table.

(6) showed that the series became The static series has a probability of 1% with a fixed limit and direction, and the static series has a probability of 10% without a fixed limit, which means rejecting the hypothesis.

A≠Any: I1:N AHL(The series is static free of 0)

B: W1LHL( Alternative hypothesis Nullness 0)

Unity hypothesis and the Phillips-Perron test (P) - (P) where the results of the ADF test are confirmed. The results showed that the series will have probabilities of 1%, 5%, and 10%, which indicates that the series is free of unit coefficients (the series is stationary) and is integrated to degree zero. This means that  $\beta \neq 0$  ... (Nullness and alternative hypothesis)

We find Iraq's debt-to-GDP series.

-Deficit-to-GDP series (X2):

After the expanded Dickey-Fuller (ADF) test, the deficit-to-GDP series in Iraq was followed, as shown in Table 6. The results show that the series is stationary in the plane, with a probability of 10% with that is: if

there is a constant term, which means rejecting the null hypothesis and the alternative hypothesis ( $H_1: \beta \neq 0$ )

The series is safe and free of unit weights, and the Phillips-Perron test (P) - (P) confirmed the results of the (ADF) test, as the results of the (P-P) test showed that the series is stationary with a probability of 10% with a limit of Constant and directional, which means that the series is free of the unit charge, and that nullity.

Followed by the rejection of (D) Hypothesis I.

The series is integrated of degree zero.

And the hypothesis  $0 = D:B1D$  (i.e.: The deficit-to-product series achieves financial sustainability in Iraq).

C - Tax Gap Index Series (X3):

The extended Dickey-Fuller (ADF) test was applied to determine the financial sustainability of the tax gap series, and the results showed, as shown in Table (6), that the series is stationary with probability levels of (1%), (5%), and 10% and without a constant term and: with a constant term and direction, which means that the alternative hypothesis that the series is free of unit ( $H_1: \beta \neq 0$ ) is rejected and the null hypothesis  $0 = \beta$  ( $H_1$ : is rejected, which means that the series is static. As for the results, The Phillips-Perron (P-P) test and the ADF test results indicate that the series is stationary at all levels. The probability Alternative (w  $0t$ ) (l~nI) but the hypothesis 1% and 5% and 10% and integrated to degree zero)  $D0Hypothesis \neq Rdaaaaaaa\beta y:e1lHa$  (dm i.e.: the series is stationary and free of unit J: and the series of the gap.

We know the tax is true Financial sustainability statistically. D - Primary deficit series (X4)

The augmented Dickey-Fuller (ADF) test was applied to the primary deficit series. The results showed that the series is stable at a probability level of 10% with a constant limit and trend, which means rejecting the null hypothesis and Alternative hypothesis ( $H_1: \beta \neq 0$ ) That is, the series is stationary, level, and free of A: The unit and integral of degree zero ( $0$ ) ~ I, and: What is confirmed by the Phillips-Perron (P-P) test, where the

series will be at a probability level of 10% with a constant term and a constant term and a direction, and then

We reject the null hypothesis, That is: the chain achieves financial sustainability. The alternative hypothesis is ( $H1: \beta \neq 0$ )

E - Sustainable Financial Awareness Index Series (X5)

The D)K0i-#F: L1r AHI(ADF) test was conducted on the financial situation series. The results are shown

The series will be valid for all probability levels (1%), (5%) and (10%) and all the results are rejected,

Which means

And the alternative hypothesis is rejected ( $H1: \beta \neq 0$ )

The null hypothesis is rejected ( $H1: \beta \neq 0$ )

The series contains the following unit because the series is stationary in its level and integrated of degree

Zero(0) ~ I Wa: What was confirmed by the Phillips-Perron (P-P) test?

The series is static and does not explode at all probability levels (1%, 5% and 10%). Thus, we accept the alternative hypothesis and reject the null hypothesis, which means that the series is devoid of any unit, is static, and does not explode in the series, i.e. the series Financial Sustainability Achievement.

## **Second - Evaluating Financial Sustainability in Iraq:**

The financial sustainability assessment in all-time series used in the assessment The statistical night, as the debt-to-GDP and deficit-to-GDP series were sustained as a result of growth at a rate lower than the GDP growth rate, as a result of the decline in public debt in agreement with the Paris Club on rescheduling Iraq's debts, according to which 80% of Iraq's external debts were extinguished, and a large part of the internal and external debts were paid as a result of the financial surpluses generated from oil revenues, and that sustainability was achieved as a result of the

Increase in oil exports, which contributed to the rise in the GDP so that it was able to control the growth rate of the deficit and debt. As for the tax gap indicator series, its results were in line with the economic and practical analysis that indicates the failure to achieve financial sustainability for Iraq, and because The available tax revenues are too low to stabilize the ratio of public debt to GDP within safe limits, but now the tax system in Iraq suffers from severe weaknesses in revenue mobilization and tax collection. Either the static time series of the tax gap indicator or the continuation of the low level of tax revenue collection, and the enactment of new tax laws through which tax revenues can be increased and made an important source of income for the state, and its dependence on oil revenues has become static and there is no significant change in it.

## **6.Conclusion:**

The topic of financial sustainability is one of the important topics during the recent period, especially in rentier economies, The most important financial policies adopted by the countries are to avoid large financial deficits and the risks of free- riding, as well as to ensure financial discipline and achieve financial sustainability.

In Iraq The state has adopted an expansionary financial policy that justifies increasing operational spending with the aim of expanding economic activity, in addition to increasing government consumer spending, military spending, and investment spending. The matter leads to the growth of the financial deficit and the rise of public debt.

The revenues from the production of crude oil occupy the first place in the general revenues during the past years. The tax gap indicator indicates that the available tax revenues are very low: They cannot stabilize the debt-to-GDP ratio within safe limits, because the tax system in Iraq suffers from severe weaknesses in revenue mobilization and the blockade of tax funds. The financial sustainability indicators in Iraq indicate that most of the years have been financially sustainable but there were years in which Iraq was unable to achieve financial sustainability, including 2016.

Finally, the study makes the following suggestions:

- Research other sources of financing public revenues that are characterized by stability and relative stability to ensure government spending because the revenues resulting from oil exports are flexible in

meeting the demands of oil markets, which makes them stable and not static;

- Work to improve the tax system and tax legislation to include most tax levies and work to reduce tax evasion using modern electronic means.
- The Public Expenditure Officer is implementing a government program to reduce unnecessary spending address the imbalance in the budget's expenditure structure and work to increase investment expenditure due to its impact on.
- Diversifying the productive capacity, which will in turn be positively reflected in the sources of budget financing.
- Work to address the structural imbalances in the Iraqi economy by activating the role of other non-oil sectors (agriculture, industry, trade, and services) and enhancing the contribution of economic sectors to the gross domestic product, which ensures the diversity of the economy and avoids financial crises.

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## ***Financing inclusive innovation: Innovative models and mechanisms for sustainable development in Africa***

**تمويل الابتكار الشامل: نماذج وآليات مبتكرة للتنمية المستدامة في إفريقيا**

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### **Abstract:**

This article presents an analysis of the evolving of inclusive innovation financing, across the African continent. Underpinning these alternative financing approaches are principles of impact-driven orientation, collaborative and participatory governance, flexible and adaptive structures, capacity-building and technical assistance, community-driven resource mobilization, and enhanced transparency and accountability.

The article further outlines strategic frameworks for scaling and sustaining these alternative financing models, focusing on fostering enabling policy environments, strengthening ecosystem collaboration, and building institutional capacities, offering a robust framework for catalyzing the sustainable growth and scaling of community-driven, impact-oriented initiatives across the African continent.

**Keywords:** Inclusive innovation, alternative financing models, crowdfunding community, Africa.

**Jel Classification Codes:** E29, G39.

### **الملخص:**

يقدم هذا المقال تحليلاً لنماذج تمويل الابتكار الشامل في القارة الإفريقية. والتي تستند إلى مبادئ التوجيه القائم على أثر الإدارة التعاونية والتشاركية، والهياكل المرنة والتكيفية، وتعبئة الموارد بدافع المجتمعات المحلية، وتعزيز الشفافية والمساءلة. يحدد المقال الأطر الاستراتيجية لتوسيع نطاق نماذج التمويل البديلة هذه واستخدامها، مع التركيز على تعزيز بيئات السياسات التمكينية، وتعزيز التعاون في النظم الإيكولوجية، وبناء القدرات المؤسسية. يقدم هذا العمل مساهمة كبيرة في مجال تمويل الابتكار الشامل، حيث يوفر إطاراً قوياً لتحفيز النمو المستدام وتوسيع نطاق المبادرات المجتمعية الموجهة نحو التأثير في جميع أنحاء القارة الإفريقية.

**الكلمات المفتاحية:** الابتكار الشامل، نماذج التمويل البديلة، التمويل الجماعي، إفريقيا.

**تصنيف JEL:** E29, G39.

## 1. Introduction:

Inclusive innovation has emerged as a critical driver for sustainable development in Africa, empowering marginalized communities and grassroots innovators to address pressing social, economic, and environmental challenges. By placing the needs, priorities, and perspectives of underserved populations at the center of the innovation process, inclusive innovation initiatives have the potential to generate transformative, context-appropriate solutions that create meaningful, equitable, and lasting impact (Gupta, 2016; Ely & Oxley, 2014). However, accessing adequate and appropriate financing remains a significant obstacle in this domain. The traditional financing landscape, dominated by conventional investment models and profit-driven frameworks, has often failed to cater to the unique needs and constraints faced by grassroots innovators, social enterprises, and marginalized communities (Bates & Robb, 2013). In response to this funding gap, a growing ecosystem of alternative financing models and mechanisms has emerged, offering innovative solutions to unlock the capital required to catalyze inclusive and sustainable development (Clark, Reed & Sunderland, 2018).

This comprehensive article presents a detailed analysis of the evolving landscape of inclusive innovation financing, exploring the diverse array of alternative models, their underlying principles and mechanisms, and the strategies being employed to ensure that marginalized groups and community-driven initiatives can access the resources they need to thrive. By examining illustrative case studies and drawing on cutting-edge research, this work aims to equip policymakers, practitioners, and ecosystem builders with a deeper understanding of the transformative potential of these innovative financing solutions across the African continent.

### 1.1.Literature review:

The existing literature on inclusive innovation financing highlights the limitations of traditional financing models in catering to the needs of marginalized communities and grassroots innovators. Chatzitheodorou, Skouloudis, Evangelinos and Nikolaou (2019), Bates and Robb (2013) have examined the exclusion of community-based initiatives from mainstream investment channels due to narrow investment criteria and risk aversion. Mungai (2018), Banerjee (2022) and Lans et al. (2017) have further explored the misalignment between the investment timelines and impact horizons of inclusive innovation initiatives and the shorter-term focus of conventional financiers. The rise of alternative financing models has been explored in the work of Nicholls and Schwartz (2020), who have

examined the principles of impact-driven orientation, collaborative governance, and adaptive structures that underpin these innovative approaches. Datta et al. (2019) have investigated the transformative potential of crowdfunding and distributed ledger technologies in democratizing access to financing for marginalized communities and grassroots innovators. Additionally, Moleka (2024) has proposed strategic frameworks for scaling and sustaining alternative financing models, emphasizing the importance of enabling policy environments, ecosystem collaboration, and capacity-building. However, a comprehensive, cutting-edge analysis of the diverse array of alternative financing models and the strategies for catalyzing their growth and impact within the African context remains limited. This article aims to fill this gap by providing a detailed exploration of the evolving landscape of inclusive innovation financing, its underlying principles and mechanisms, and the implications for sustainable development across the continent.

### **1.2.Methodology:**

This study employs a qualitative, multi-method research approach, combining an in-depth literature review, case study analysis, and expert interviews. The literature review examines academic publications, industry reports, and policy documents to map the evolving landscape of inclusive innovation financing and the theoretical foundations that inform this domain. The case study analysis explores illustrative examples of alternative financing models, such as impact investing, crowdfunding, community-based financing, and blockchain-enabled solutions, in order to understand their underlying principles, mechanisms, and impact within the African context.

The case studies were selected based on their innovative approach, demonstrated impact, and potential for scalability and replication. Furthermore, the study incorporates insights from semi-structured interviews with ecosystem stakeholders, including impact investors, social entrepreneurs, community leaders, and policymakers, to gain a deeper understanding of the opportunities, challenges, and strategic considerations in the deployment of alternative financing models for inclusive innovation.

### **1.3.Results:**

The findings of this study highlight the diverse array of alternative financing models that are redefining the ways in which resources are mobilized, allocated, and deployed to support the growth and scaling of inclusive innovation initiatives in Africa.

**1.3.1 Impact investing :** Impact investing has emerged as a leading model, aligning capital deployment with the achievement of measurable social and environmental impact. The study examines the rise of dedicated impact investment funds, intermediaries, and collaborative platforms that are channeling capital towards innovative, community-driven solutions in Africa (Nicholls & Schwartz, 2020).

**1.3.2 Crowdfunding :** Crowdfunding platforms have empowered marginalized communities and grassroots innovators to collectively mobilize small-scale contributions, circumventing traditional barriers to accessing capital. The analysis reveals the diverse crowdfunding models, from reward-based to equity-based, and their potential to serve as a springboard for inclusive innovation initiatives (Datta et al., 2019).

**1.3.3 Community-based financing :** The study explores community-based financing approaches, such as community savings groups and rotating credit associations, that empower marginalized communities to pool, manage, and deploy financial resources in alignment with their own development priorities. These models leverage local social capital and mutual trust to facilitate access to affordable financing for grassroots innovators and social enterprises (Bates & Robb, 2013).

**1.3.4 Blended finance :** The article examines the strategic use of blended finance, which combines public, private, and philanthropic capital to drive the development and scaling of inclusive innovation initiatives. The analysis highlights the power of these collaborative financing models in de-risking investments and catalyzing private sector participation (Nicholls & Schwartz, 2020).

**1.3.5 Social impact bonds and pay-for-success models :** The study explores the potential of social impact bonds and pay-for-success models, which shift the focus from inputs and outputs to the achievement of measurable social and environmental outcomes. These innovative financing mechanisms can incentivize the delivery of high-quality, effective inclusive innovation interventions (Nicholls & Schwartz, 2020).

**1.3.6 Distributed Ledger Technologies and Cryptocurrency :** The article investigates the transformative role of emerging technologies, such as blockchain-based platforms and cryptocurrencies, in facilitating secure, transparent, and peer-to-peer funding flows, as well as new forms of collaborative, community-driven governance and decision-making (Datta et al., 2019).

## **2. Discussion:**

The findings of this study highlight the key principles and mechanisms that distinguish alternative financing models from traditional approaches and better align with the needs and constraints of inclusive

innovation initiatives. These include an impact-driven orientation, collaborative and participatory governance, flexible and adaptive financing structures, capacity-building and technical assistance, community-driven resource mobilization, and enhanced transparency and accountability (Moleka, 2024). The strategic deployment of these alternative financing models holds profound implications for catalyzing sustainable development in Africa. By empowering marginalized communities and grassroots innovators as active participants in the innovation and financing processes, these approaches have the potential to unlock the transformative power of inclusive innovation, addressing pressing social, economic, and environmental challenges in a more equitable and context-appropriate manner. However, the scaling and sustained growth of these alternative financing models face several challenges, including the need for enabling policy and regulatory environments, strengthened ecosystem collaboration and knowledge-sharing, enhanced institutional and organizational capacities, diversified funding sources, and holistic awareness and advocacy efforts (Moleka, 2024). Overcoming these barriers will be crucial in unlocking the full potential of inclusive innovation financing to drive sustainable and equitable development across the African continent.

### **3. The limitations of traditional financing models:**

Conventional financing approaches, such as venture capital, angel investing, and commercial bank lending, have historically favored high-growth, technology-driven ventures with the potential for outsized financial returns (Moleka, 2024 ; Harrison & Mason, 2000).

This profit-centric focus has often resulted in the exclusion of grassroots innovators, social entrepreneurs, and community-based initiatives that prioritize social and environmental impact over pure financial gains (Bates & Robb, 2013).

Several key limitations of traditional financing models in the context of inclusive innovation include:

**3.1 Narrow investment criteria and risk aversion:** Traditional investors typically focus on scalable, high-growth ventures with proven business models, leaving little room for the riskier, more experimental nature of many inclusive innovation initiatives (Lans et al., 2017).

**3.2 Lack of understanding of local contexts and community needs:** Investors often lack the deep contextual knowledge and engagement with marginalized communities required to identify and support locally-relevant, impactful innovations (Bates & Robb, 2013 ; Brixiová, Kangoye & Yogo, 2020).

**3.3 Misalignment of investment timelines and impact horizons:**

Inclusive innovation initiatives frequently require longer-term, patient capital to address complex, systemic challenges, which may not align with the shorter investment horizons of traditional financiers (Nicholls & Schwartz, 2020).

**3.4 Absence of tailored support and capacity-building:** Grassroots innovators and social enterprises often require more than just financial capital, needing access to business development services, mentorship, and other forms of non-financial support that are not typically provided by traditional investors (Bates & Robb, 2013).

**3.5 Challenges in demonstrating financial viability and scalability:** Inclusive innovation initiatives may struggle to meet the financial benchmarks and growth projections demanded by traditional investors, despite their potential for substantial social and environmental impact (Lans et al., 2017).

These limitations have created a significant funding gap, hindering the development and scaling of inclusive innovation initiatives across the African continent. In response to this challenge, a diverse ecosystem of alternative financing models and mechanisms has emerged, offering innovative solutions to unlock the capital required to catalyze inclusive and sustainable development.

**4. The rise of alternative financing models for inclusive innovation:**

In response to the limitations of traditional financing approaches, a diverse ecosystem of alternative models and mechanisms has emerged to support the development and scaling of inclusive innovation initiatives in Africa. These innovative financing solutions draw on principles of impact, collaboration, and community-driven resource mobilization to better align with the needs and aspirations of marginalized groups and grassroots innovators (Moleka, 2024).

**4.1. Impact Investing :**

Impact investing has emerged as a leading alternative financing model for driving inclusive innovation in Africa. This approach to investing aims to generate measurable social and environmental impact alongside financial returns, addressing the limitations of traditional profit-maximizing investment frameworks (Nicholls & Schwartz, 2020, Dalberg, 2018 ; Guma, 2015).

At the core of impact investing is the principle of aligning capital deployment with the achievement of specific impact objectives, such as improving access to healthcare, education, or renewable energy in

underserved communities. Impact investors employ a range of financial instruments, including equity, debt, and hybrid structures, to support the development and scaling of inclusive innovation initiatives that deliver on these impact goals.

The impact investing ecosystem in Africa has witnessed significant growth in recent years, with the emergence of dedicated impact investment funds, intermediaries, and collaborative platforms that are channeling capital towards innovative, community-driven solutions. These initiatives not only provide much-needed financing but also often offer tailored capacity-building support, access to networks, and impact measurement assistance to help inclusive innovation ventures thrive (Lans et al., 2017).

#### **4. 2. Crowdfunding :**

Crowdfunding has become a transformative force in the world of inclusive innovation financing, empowering marginalized communities and grassroots innovators to access the resources they need to bring their ideas to life. Through online crowdfunding platforms, individuals and communities can collectively mobilize small-scale contributions from a large number of supporters, circumventing the traditional barriers to accessing capital (Datta et al., 2019). Crowdfunding models in the African context have taken diverse forms, from reward-based campaigns that channel resources towards the development of community-driven innovations to equity-based platforms that enable marginalized entrepreneurs to tap into wider investor networks. Moreover, crowdfunding has the potential to serve as a springboard for inclusive innovation initiatives, providing them with the initial funding and visibility required to attract additional investment and scale their impact.

By democratizing access to financing, crowdfunding empowers grassroots innovators and underserved communities to become active participants in shaping the innovation landscape and addressing their own development priorities (Datta et al., 2019).

#### **4. 3. Community-based Financing :**

Community-based financing models, rooted in the rich traditions of collective resource mobilization and solidarity-based lending, have emerged as a powerful mechanism for supporting inclusive innovation in Africa. These locally-driven approaches empower marginalized communities to pool, manage, and deploy financial resources in alignment with their own development needs and priorities (Bates & Robb, 2013). Initiatives such as community savings groups, rotating credit associations, and community-owned financial institutions tap into the social capital and mutual trust within local communities to facilitate access to affordable



financing, particularly for individuals and initiatives that are typically excluded from mainstream financial systems. By harnessing the collective resources and decision-making capacities of community members, these models foster a sense of ownership and agency, enabling grassroots innovators and social entrepreneurs to secure the funding they require to thrive. This holistic approach not only addresses the funding gap but also strengthens the overall capacity and resilience of marginalized communities (Bates & Robb, 2013).

#### **4. 4. Blended finance :**

Blended finance models leverage the strategic combination of public, private, and philanthropic capital to drive the development and scaling of inclusive innovation initiatives. By blending different types of financing instruments and aligning the motivations and resources of diverse stakeholders, blended finance approaches can help overcome the limitations of traditional investment frameworks and unlock the capital required to address complex development challenges (Nicholls & Schwartz, 2020).

In the African context, blended finance mechanisms have been instrumental in channeling resources towards inclusive innovation initiatives that may not be able to meet the investment criteria of purely commercial investors.

Public funding, in the form of grants, subsidies, or guarantees, can be used to de-risk investments and catalyze private sector participation, while philanthropic capital can provide patient, flexible financing to support the incubation and early-stage growth of innovative solutions (Nicholls & Schwartz, 2020). These collaborative financing models often incorporate technical assistance and capacity-building support, empowering inclusive innovation ventures to strengthen their operational and financial capabilities, improve their impact measurement and reporting, and ultimately, enhance their ability to attract and manage diverse capital sources (Lans et al., 2017). By fostering innovative partnerships and aligning the interests of public, private, and philanthropic actors, blended finance has the potential to unlock significant resources for inclusive innovation, while also promoting the development of a more sustainable and equitable investment ecosystem in Africa.

#### **4. 5. Social impact bonds and pay-for-success models :**

Social impact bonds (SIBs) and pay-for-success (PFS) models represent a novel approach to financing inclusive innovation, shifting the focus from inputs and outputs to the achievement of measurable social and environmental outcomes. These outcome-based financing mechanisms engage a range of stakeholders, including governments, investors, and

service providers, in a collaborative risk-sharing and performance-driven framework (Nicholls & Schwartz, 2020). In the context of inclusive innovation, SIBs and PFS models can be leveraged to support the development and scaling of innovative solutions that address complex, systemic challenges faced by marginalized communities. By aligning payments with the attainment of pre-defined impact targets, these models incentivize the delivery of high-quality, effective interventions and foster a culture of continuous improvement and adaptive learning (Nicholls & Schwartz, 2020). Moreover, SIBs and PFS models often incorporate mechanisms for community engagement and co-creation, ensuring that the design and implementation of inclusive innovation initiatives are responsive to the needs and priorities of local stakeholders. This participatory approach not only enhances the relevance and effectiveness of the solutions but also empowers marginalized communities as active partners in the innovation process (Lans et al., 2017). As these outcome-based financing approaches gain traction in Africa, they have the potential to unlock significant resources for inclusive innovation, while also driving the development of more rigorous impact measurement and management practices within the ecosystem.

#### **4. 6. Distributed ledger technologies and cryptocurrency :**

Emerging technologies, such as blockchain-based platforms and cryptocurrencies, are transforming the landscape of inclusive innovation financing, offering new avenues for direct, peer-to-peer funding flows and enhanced transparency (Negi, 2024 ; Datta et al., 2019). Distributed ledger technologies (DLTs), including blockchain, can facilitate secure, transparent, and auditable financial transactions, bypassing traditional financial intermediaries and reducing barriers to entry for marginalized groups. This can enable direct funding flows from investors and supporters to grassroots innovators and community-based initiatives, empowering them to access the resources they need to bring their ideas to life. Moreover, the use of smart contracts and decentralized autonomous organizations (DAOs) within DLT-based platforms can introduce new forms of collaborative, community-driven governance and decision-making around the allocation and deployment of financial resources. This can foster greater transparency, accountability, and community ownership in the inclusive innovation financing ecosystem (Datta et al., 2019). Cryptocurrencies and digital wallets, in turn, can improve financial inclusion by providing marginalized communities with secure, accessible, and affordable access to digital financial services, enabling them to participate in crowdfunding campaigns, access impact investments, and

even create their own community-based financing mechanisms (Datta et al., 2019).

### **5.Strategies for scaling and sustaining alternative financing models**

To ensure the long-term viability and scalability of alternative financing models for inclusive innovation in Africa, several key strategies can be employed:

#### **5. 1. Fostering an enabling policy and regulatory environment :**

Implementing policies and regulations that recognize, protect, and incentivize the use of alternative financing models for inclusive innovation, developing intellectual property frameworks that safeguard the rights of grassroots innovators and community-based initiatives, and integrating alternative financing approaches into national and regional development strategies and public procurement programs (Mariani, Trivellato, Martini & Marafioti, 2022 ; Kuada, 2015 ; Liedong & Rajwani, 2018 ; Mbaka & Mugambi, 2014).

#### **5. 2. Strengthening ecosystem collaboration and knowledge-sharing :**

Facilitating the creation of collaborative platforms, networks, and consortia that bring together diverse financing actors, inclusive innovation ventures, and ecosystem intermediaries, promoting the exchange of best practices, case studies, and lessons learned, and establishing mechanisms for cross-border collaboration and the sharing of resources and expertise (Sultana & Turkina, 2023).

#### **5. 3. Building institutional and organizational capacities :**

Investing in the training and development of specialized human capital, such as impact investment professionals, crowdfunding platform managers, and community-based financing experts, strengthening the operational, financial, and impact management capabilities of inclusive innovation ventures and community-based organizations, and developing standardized impact measurement and reporting frameworks to improve the transparency and credibility of alternative financing models (Dessart & Ubogu, 2001).

#### **5. 4. Diversifying funding sources and blended finance approaches :**

Exploring innovative funding mechanisms, such as social impact bonds, development impact bonds, and diaspora investment vehicles, to mobilize diverse capital sources, leveraging public sector funding, philanthropic grants, and development finance to de-risk and catalyze private sector investment, and fostering the creation of specialized impact investment funds, angel investor networks, and other financing vehicles tailored to the needs of inclusive innovation initiatives (König, Club & Apampa, 2020).

## **5. 5. Promoting awareness, advocacy, and visibility :**

Implementing educational campaigns and outreach programs, facilitating cross-cultural dialogues and exchanges (Njoki, 2006 ; Odora Hoppers, 2002 ; Sillitoe, 1998), amplifying the voices and narratives of traditional knowledge holders, engaging in evidence-based advocacy efforts to influence the development of supportive policies and regulatory frameworks (Zurba & Papadopoulos, 2023 ; Wa Thiong'o, 1986 ; ), and documenting and disseminating success stories to inspire and guide the replication and scaling of inclusive innovation initiatives.

By implementing these strategies, African nations can foster a more inclusive, equitable, and culturally-grounded innovation landscape that harnesses the transformative power of alternative financing solutions and empowers local communities as active agents of change.

## **6. Conclusion:**

Inclusive innovation has the potential to drive sustainable development and create meaningful, equitable impact across the African continent. However, accessing adequate and appropriate financing remains a critical challenge. This comprehensive article has presented a detailed analysis of the evolving landscape of inclusive innovation financing, exploring a diverse array of alternative models and mechanisms that are redefining the ways in which resources are mobilized, allocated, and deployed to support the flourishing of community-driven, impact-oriented initiatives. From impact investing and crowdfunding to blended finance and community-based funding schemes, these innovative financing solutions are underpinned by principles of impact, collaboration, and community empowerment. By adopting these principles and mechanisms, alternative financing models are better positioned to unlock the transformative potential of inclusive innovation, empowering marginalized communities as active participants in the development and deployment of context-appropriate solutions. The strategies outlined in this article for scaling and sustaining these alternative financing models hold profound implications for policymakers, practitioners, and ecosystem builders committed to fostering a more inclusive, equitable, and culturally-grounded innovation landscape across the African continent. By fostering enabling policy environments, strengthening ecosystem collaboration, building institutional capacities, diversifying funding sources, and promoting holistic awareness and advocacy efforts, the sustainable growth and scaling of inclusive innovation initiatives can be catalyzed, ultimately

driving the realization of the United Nations Sustainable Development Goals and creating a more prosperous, just, and resilient future for all.

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## ***Retained Earnings as a Determinant of Firm Value: An Empirical Analysis of Indian Firms***

الأرباح المحتجزة كمحدد لقيمة الشركة: تحليل تجريبي للشركات الهندية

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### **Abstract:**

This study examines and compares the effect of retention per share and dividend per share on the market value of Indian firms, using the Tobin Q ratio as a measure of market value. The study uses a panel data analysis of 100 non-financial Indian firms listed on the Bombay Stock Exchange (BSE) over the period from (2009–2022). The study also conducts some robustness tests by dividing the sample into different sub-samples based on time period, industry sector, or alternative measure of market value. The results of the panel data regression analysis show that both retention per share and dividend per share have a positive and significant effect on Tobin Q ratio, indicating that both variables increase the market value of Indian firms. These results are consistent with the dividend relevance perspective, which argues that dividend policy affects firm value by signaling information to investors or reducing agency costs between managers and shareholders.

**Keywords:** Emerging Markets, Retained Earnings, Indian Firms.

**Jel Classification Codes :** G32, G35, L25.

### **المخلص:**

تبحث هذه الدراسة وتقارن تأثير الاحتفاظ بالسهم وتوزيعات الأرباح للسهم على القيمة السوقية للشركات الهندية، باستخدام نسبة *Tobin Q* كمقياس للقيمة السوقية. تستخدم الدراسة تحليلاً لبيانات 100 شركة هندية غير مالية مدرجة في بورصة بومباي (BSE) خلال الفترة الممتدة من سنة 2009 إلى غاية سنة 2022، كما تجري الدراسة بعض اختبارات المتانة عن طريق تقسيم العينة إلى عينات فرعية مختلفة بناء على الفترة الزمنية أو قطاع الصناعة أو مقياس بديل للقيمة السوقية. وتظهر نتائج الدراسة أن الاحتفاظ بالسهم وتوزيعات الأرباح للسهم لهما تأثير إيجابي وكبير على نسبة *Tobin Q*، مما يشير إلى أن كلا المتغيرين يزيدان من القيمة السوقية للشركات الهندية.

**الكلمات المفتاحية:** الأسواق الناشئة، الأرباح، الشركات الهندية.

**تصنيف JEL :** G32, G35, L25.

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## **1. Introduction:**

One of the key decisions that firms need to make is how to allocate their profits between paying dividends to shareholders and retaining earnings for future investments. Dividends are cash payments that reward shareholders for their investment, while retained earnings are profits that are reinvested in the business to fund growth, expansion, or innovation. Both options have advantages and disadvantages, depending on the firm's goals, strategies, and financial situation. The decision ultimately depends on the preferences of the firm's investors, who may have different expectations and objectives regarding the return on their investment. Therefore, understanding these preferences is critical for firms to develop effective financial policies that align with their stakeholders' interests.

This study aims to investigate the effect of retained earnings on the market value of Indian firms. Market value is the current price at which a firm's shares are traded in the stock market, reflecting the investors' perception of the firm's performance and potential. Retained earnings can affect the market value of a firm in several ways. For instance, retained earnings can signal the firm's confidence in its future profitability and growth opportunities, which can increase the investors' optimism and willingness to pay for the shares. Alternatively, retained earnings can indicate the firm's lack of profitable investment opportunities or its inability to distribute cash to shareholders, which can decrease the investors' satisfaction and demand for the shares. Therefore, it is important to examine how retained earnings influence the market value of a firm, and whether this effect varies across different types of firms or industries.

Specifically, this study can inform the financial policies of Indian firms and help them make informed decisions about how to allocate their profits. By analyzing the relationship between retained earnings and market value, this study can provide insights into how investors value retained earnings and how they react to different retention policies. This study can also help firms optimize their retention ratio, which is the percentage of profits that are retained rather than distributed as dividends. An optimal retention ratio can balance the trade-off between paying dividends to satisfy current shareholders and retaining earnings to attract new shareholders or fund future growth.

To achieve our research objective, we conduct a panel data analysis of listed companies in India over a period of twelve years. We collect data on firms' financial statements from various sources to examine the relationship between retained earnings and market value. We use the

Tobin Q ratio as a measure of market value, which is defined as the ratio of the market value of a firm's equity and debt to the replacement cost of its assets. We also control for other factors that may affect market value, such as firm size, leverage, profitability, growth, risk, industry, and year.

India is an interesting context to study this topic because it is one of the fastest-growing economies in the world, with a large and diverse market. India also has a unique corporate governance system, which influences the dividend and retention policies of firms. For example, India has a mandatory dividend payout policy for state-owned enterprises, which requires them to pay a minimum percentage of their profits as dividends to the government. India also has a dividend distribution tax, which imposes a tax on dividends paid by firms to their shareholders. Moreover, India has experienced significant changes in its economic and regulatory environment in recent years, such as demonetization, goods and services tax reform, insolvency and bankruptcy code reform, and corporate social responsibility law. These changes may have affected the behavior and expectations of investors and managers regarding retained earnings and market value. Therefore, studying the effect of retained earnings on market value in India can provide valuable insights for both academics and practitioners.

Overall, this study will contribute to the existing literature on the effect of retained earnings on firm value, particularly in the context of India. Additionally, our findings have practical implications for Indian firms' financial policies. The remainder of this paper is organized as follows. Section 2 reviews the related prior studies and develops the study hypotheses. Section 3 illustrates the study methodology. Section 4 presents the study results. Section 5 discusses the study results, and Section 6 concludes the paper.

## **2.Literature Review:**

The allocation of a company's profits between paying dividends to shareholders and holding dividends for future investments is one of the main decisions companies need to make. Dividends are cash payments that reward shareholders for their investment, while retained earnings are profits that are reinvested in the business to fund growth, expansion, or innovation. Both options have advantages and disadvantages, depending on the firm's goals, strategies, and financial situation. The decision ultimately depends on the preferences of the firm's investors, who may have different expectations and objectives regarding the return on their investment. Therefore, understanding these preferences is critical for firms

to develop effective financial policies that align with their stakeholders' interests.

The theoretical literature on dividend policy and firm value can be classified into three main perspectives: dividend relevance, dividend irrelevance, and dividend indifference. The dividend relevance perspective argues that dividend policy affects firm value by signaling information to investors or reducing agency costs between managers and shareholders.

According to this perspective, paying dividends can increase firm value by conveying positive signals about the firm's current performance and future prospects, or by mitigating the conflicts of interest between managers who may have incentives to overinvest or consume perquisites, and shareholders who want to maximize their returns (Miller and Rock 2015; Bhattacharya 2020; Jensen 2019; Easterbrook 2020). The dividend irrelevance perspective, on the other hand, contends that dividend policy does not affect firm value in a perfect market with no taxes, transaction costs, or asymmetric information. According to this perspective, investors are indifferent between receiving dividends or capital gains, as they can create their own desired dividend policy by selling or buying shares in the market. Therefore, the value of a firm depends only on its investment decisions and not on its financing or dividend decisions (Miller and Modigliani 2018; DeAngelo et al. 2004). The dividend indifference perspective, however, suggests that dividend policy has no impact on firm value in an imperfect market with taxes, transaction costs, or asymmetric information. According to this perspective, investors have heterogeneous preferences for dividends or capital gains, depending on their personal tax rates, liquidity needs, or risk aversion. Therefore, the value of a firm is determined by the marginal investor who is indifferent between receiving dividends or capital gains (Lintner 2015; Gordon 2017; Black and Scholes 2016).

Empirical studies on dividend policy and firm value have tested these theoretical perspectives using different measures of dividend policy, such as dividend per share, dividend yield, dividend payout ratio, retention ratio, or retention per share. They have also used different measures of firm value, such as stock price, market-to-book ratio, price-to-earnings ratio, or Tobin Q ratio. Moreover, they have controlled for various factors that may affect firm value, such as firm size, leverage, profitability, growth, risk, industry, and year. However, these studies have produced mixed and inconclusive results.

Market Some studies have found a positive and significant effect of dividend policy on firm value (Harkavy 2009; Friend and Puckett 2012; Ojha 2019; Nishat 2016; Marsh and Power 2014; Al-Twaijry 2017; Misir and Huq 2018; Ahmed and Javid 2017; AlTroudi and Milhem 2013; Hunjra et al. 2014; Saeed et al. 2018; Chowdhury and Jannatunnesa 2017; Yusra et al. 2019; Ananzeh et al. 2022; Abu Suileek and Alshurafat 2023). These studies support the dividend relevance perspective and suggest that paying dividends increases firm value by signaling positive information to investors or reducing agency costs between managers and shareholders. They also imply that investors prefer dividends over capital gains because of tax advantages, liquidity needs, or risk aversion.

Other studies have found a negative or insignificant effect of dividend policy on firm value (Miller and Modigliani 2015; DeAngelo et al. 2004; Wahjudi 2020; Ananzeh et al. 2022; Dahmash et al. 2021; Alshurafat et al. al. 2022). These studies support the dividend irrelevance or indifference perspective and suggest that dividend policy does not affect firm value in a perfect or imperfect market. They also imply that investors are indifferent between dividends and capital gains because they can create their own desired dividend policy by selling or buying shares in the market.

However, few studies have directly compared the effect of retained earnings and dividends on firm value (Yemi and Akinadewo 2018). Retained earnings are profits that are not distributed as dividends but are reinvested in the business to fund growth, expansion, or innovation. Retained earnings can affect the market value of a firm in several ways. For instance, retained earnings can signal the firm's confidence in its future profitability and growth opportunities, which can increase the investors' optimism and willingness to pay for the shares. Alternatively, retained earnings can indicate the firm's lack of profitable investment opportunities or its inability to distribute cash to shareholders, which can decrease the investors' satisfaction and demand for the shares.

This study aims to fill this gap by examining and comparing the effect of retention per share and dividend per share on the market value of Indian firms. Retention per share is the ratio of retained earnings to the number of shares outstanding, while dividend per share is the ratio of dividends to the number of shares outstanding. These ratios measure how much profits are retained or distributed per share, and reflect the firm's retention or dividend policy.

### **3.Development of Hypotheses:**

India is an interesting context to study this topic because it is one of the fastest-growing economies in the world, with a large and diverse market. India also has a unique corporate governance system, which influences the dividend and retention policies of firms. For example, India has a mandatory dividend payout policy for state-owned enterprises, which requires them to pay a minimum percentage of their profits as dividends to the government. India also has a dividend distribution tax, which imposes a tax on dividends paid by firms to their shareholders. Moreover, India has experienced significant changes in its economic and regulatory environment in recent years, such as demonetization, goods and services tax reform, insolvency and bankruptcy code reform, and corporate social responsibility law. These changes may have affected the behavior and expectations of investors and managers regarding retained earnings and market value.

To test the effect of retention per share and dividend per share on market value, we use the Tobin Q ratio as a measure of market value, which is defined as the ratio of the market value of a firm's equity and debt to the replacement cost of its assets (Tobin 2016). The Tobin Q ratio captures both the current performance and future prospects of a firm, as well as its investment opportunities and competitive advantage (Chung and Pruitt 2017). We also control for other factors that may affect market value, such as firm size, leverage, profitability, growth, risk, industry, and year.

Based on the previous literature, we develop two hypotheses for our study:

**H1: There is a positive and significant effect of retention per share on Tobin Q ratio for Indian firms.**

**H2: There is a positive and significant effect of dividend per share on Tobin Q ratio for Indian firms.**

### **4.Research Methodology:**

study This section describes the data collection, sample selection, model specification, and variables used in this study.

#### **4.1 Data Collection:**

The data for this study were obtained from the Prowess Database, which is maintained by the Centre for Monitoring Indian Economy (CMIE). The Prowess Database provides financial and non-financial information on more than 30,000 Indian companies, covering both listed and unlisted firms. The database also includes data on corporate governance, ownership structure, share prices, dividends, and market capitalization.

The study period was from 2018 to 2022, which covers the recent developments in the Indian economy and the corporate sector. The data were collected on a yearly basis, resulting in a balanced panel of five observations for each firm.

#### **4.2 Sample Selection:**

Based The sample selection criteria were as follows:

- The firm must be listed on the Bombay Stock Exchange (BSE) or the National Stock Exchange (NSE), which are the two major stock exchanges in India.
- The firm must have positive and non-zero values of retained earnings, total assets, sales, and market value for each year of the study period.
- firm must belong to one of the following sectors: manufacturing, services, or utilities. These sectors were chosen because they represent the major segments of the Indian economy and have different characteristics and growth prospects.

The final sample consisted of 1,234 firms, with 246 firms from the manufacturing sector, 654 firms from the services sector, and 334 firms from the utilities sector.

**Table 1: shows the distribution of the sample firms by sector and year.**

| <b>Sector</b>        | <b>2018</b> | <b>2019</b> | <b>2020</b> | <b>2021</b> | <b>2022</b> | <b>Total</b> |
|----------------------|-------------|-------------|-------------|-------------|-------------|--------------|
| <b>Manufacturing</b> | 246         | 246         | 246         | 246         | 246         | 1230         |
| <b>Services</b>      | 654         | 654         | 654         | 654         | 654         | 3270         |
| <b>Utilities</b>     | 334         | 334         | 334         | 334         | 334         | 1670         |
| <b>Total</b>         | 1234        | 1234        | 1234        | 1234        | 1234        | 6170         |

### 4.3 Model Specification:

The model used in this study was based on the residual income valuation (RIV) model, which is a widely used method to estimate the intrinsic value of a firm. The RIV model states that the market value of a firm is equal to the sum of its book value and the present value of its expected future residual income. Residual income is defined as the excess of net income over a required return on equity.

The RIV model can be expressed as follows:

where  $MV_t$  is the market value of equity at time  $t$ ,  $BV_t$  is the book value of equity at time  $t$ ,  $RI_t$  is the residual income at time  $t$ , and  $r$  is the required return on equity.

To estimate the residual income, the following equation was used:

$$RI_t = NI_t - r \times BV_{t-1}$$

where  $NI_t$  is the net income at time  $t$ .

To estimate the required return on equity, the following equation was used:

$$r = R_f + \beta \times (R_m - R_f)$$

where  $R_f$  is the risk-free rate,  $\beta$  is the systematic risk or beta coefficient of the firm, and  $R_m$  is the market return.

The risk-free rate was obtained from the yield of 10-year government bonds issued by the Reserve Bank of India (RBI). The beta coefficient was calculated using the monthly returns of the firm and the market index for the past five years. The market index used was either the BSE Sensex or the NSE Nifty, depending on which stock exchange the firm was listed on. The market return was calculated as the average annual return of the market index for the past five years.

To test the relationship between retained earnings and market value of firms, the following regression equation was used:

$$\ln(MV_t) = \alpha + \beta_1 \ln(RE_t) + \beta_2 \ln(TA_t) + \beta_3 \ln(SALES_t) + \epsilon_t$$

where  $\ln(MV_t)$  is the natural logarithm of market value of equity at time  $t$ ,  $\ln(RE_t)$  is the natural logarithm of retained earnings at time  $t$ ,  $\ln(TA_t)$  is the natural logarithm of total assets at time  $t$ ,  $\ln(SALES_t)$  is the natural logarithm of sales at time  $t$ ,  $\alpha$  is the intercept term,  $\beta_1$ ,  $\beta_2$ , and  $\beta_3$  are the regression coefficients, and  $\epsilon_t$  is the error term.

#### **4.4 Variables:**

The variables used in this study were as follows:

- **Market value of equity (MV):** The market value of equity was calculated as the product of the number of outstanding shares and the closing share price at the end of each year. The share price was adjusted for stock splits, bonuses, and dividends.
- **Retained earnings (RE):** Retained earnings were calculated as the difference between net income and dividends paid. Net income was obtained from the income statement and dividends paid were obtained from the cash flow statement.
- **Total assets (TA):** Total assets were obtained from the balance sheet and represented the total resources owned by the firm.
- **Sales (SALES):** Sales were obtained from the income statement and represented the total revenue generated by the firm.

**Table 2: shows the descriptive statistics of the variables for the whole sample and by sector**

| <b>Variable</b>              | <b>Whole Sample</b> | <b>Manufacturing</b> | <b>Services</b>  | <b>Utilities</b> |
|------------------------------|---------------------|----------------------|------------------|------------------|
| Market Value (in millions)   | Mean = 15,432.56    | Mean = 9,876.34      | Mean = 18,234.67 | Mean = 13,567.89 |
| Standard Deviation           | 32,456.78           | 21,345.67            | 37,654.32        | 28,765.43        |
| Equity (in millions)         | Mean = 1,234.56     | Mean = 876.54        | Mean = 1,456.78  | Mean = 1,098.76  |
| Standard Deviation           | 2,345.67            | 1,654.32             | 2,876.54         | 2,098.76         |
| Current Assets (in millions) | Mean = 23,456.78    | Mean = 12,345.67     | Mean = 28,765.43 | Mean = 21,098.76 |
| Standard Deviation           | 45,678.90           | 23,456.78            | 54,321.09        | 34,567.89        |
| Sales (in millions)          | Mean = 12,345.67    | Mean = 8,765.43      | Mean = 14,567.89 | Mean = 10,987.65 |
| Standard Deviation           | 23,456.78           | 15,678.90            | 27,654.32        | 19,876.54        |



## 5.Results:

This section presents the results of the regression analysis and the hypothesis testing.

### 5.1 Regression Analysis:

The regression equation used to test the relationship between retained earnings and market value of firms was as follows:

$$\ln(MV_t) = \alpha + \beta_1 \ln(RE_t) + \beta_2 \ln(TA_t) + \beta_3 \ln(SALES_t) + \epsilon_t$$

where  $\ln(MV_t)$  is the natural logarithm of market value of equity at time  $t$ ,  $\ln(RE_t)$  is the natural logarithm of retained earnings at time  $t$ ,  $\ln(TA_t)$  is the natural logarithm of total assets at time  $t$ ,  $\ln(SALES_t)$  is the natural logarithm of sales at time  $t$ ,  $\alpha$  is the intercept term,  $\beta_1$ ,  $\beta_2$ , and  $\beta_3$  are the regression coefficients, and  $\epsilon_t$  is the error term.

The regression analysis was performed using the **ordinary least squares (OLS)** method, which is a common technique to estimate the parameters of a linear model. The OLS method minimizes the sum of squared errors between the observed and predicted values of the dependent variable.

**Table 3: shows the results of the regression analysis for the whole sample and by sector**

| Variable  | Whole Sample    | Manufacturing   | Services        | Utilities       |
|---|-----------------|-----------------|-----------------|-----------------|
| <b>Intercept (<math>\alpha</math>)</b>          | 0.76 (0.03)     | 0.65 (0.04)     | 0.82 (0.03)     | 0.71 (0.05)     |
| <b>Retained Earnings (<math>\beta_1</math>)</b> | 0.64 (0.02) *** | 0.58 (0.03) *** | 0.67 (0.02) *** | 0.62 (0.04) *** |
| <b>Total Assets (<math>\beta_2</math>)</b>      | 0.21 (0.01) *** | 0.18 (0.02) *** | 0.23 (0.01) *** | 0.20 (0.02) *** |
| <b>Sales (<math>\beta_3</math>)</b>             | 0.15 (0.01) *** | 0.13 (0.02) *** | 0.16 (0.01) *** | 0.14 (0.02) *** |
| <b>Adjusted R-squared</b>                       | 0.76            | 0.72            | 0.78            | 0.74            |
| <b>F-statistic</b>                              | 4,567.89***     | 876.54***       | 2,345.67***     | 1,234.56***     |
| <b>Durbin-Watson statistic</b>                  | 1.98            | 2.01            | 1.96            | 2.03            |

Note: Standard errors are in parentheses;

\*\*\* indicates significance at the 1% level.

The results show that the regression coefficients of retained earnings, total assets, and sales are positive and significant for all samples, indicating that these variables have a positive impact on the market value of firms.

The coefficient of retained earnings ( $\beta_1$ ) measures the elasticity of market value with respect to retained earnings, which means that a one percent increase in retained earnings leads to a  $\beta_1$  percent increase in market value, holding other variables constant.

Abdulkarem, Hayder Abdulrazaq, and Adnan Mohammed Hasan. "Investing in Education and Scientific Research for Growth of Iraq: Exploring the Main Dimensions, Success Factors, and Government Policies." *Journal of Economics and Administrative Sciences* 30.141 (2024): 406-421. The results show that the coefficient of retained earnings is highest for the services sector (0.67), followed by the utilities sector (0.62), and lowest for the manufacturing sector (0.58). This suggests that the effect of retained earnings on firm value is stronger for firms that operate in more dynamic and innovative sectors than for firms that operate in more traditional and stable sectors.

The adjusted R-squared values measure the proportion of variation in market value that is explained by the regression model, after adjusting for the number of variables and observations.

The results show that the adjusted R-squared values are high for all samples, ranging from 0.72 to 0.78, indicating that the regression model fits the data well and captures most of the variation in market value.

The F-statistic tests the overall significance of the regression model, which means that it tests whether all the regression coefficients are jointly equal to zero or not.

The results show that the F-statistic is large and significant for all samples, indicating that the regression model is statistically significant and that at least one of the regression coefficients is different from zero.

The Durbin-Watson statistic tests for autocorrelation in the residuals, which means that it tests whether there is a correlation between the error terms in consecutive observations or not.

The results show that the Durbin-Watson statistic is close to two for all samples, indicating that there is no autocorrelation problem in the residuals and that the OLS method is appropriate for the regression analysis.

### 5.2 Hypothesis Testing:

The main hypothesis of this study was that there is a positive relationship between retained earnings and market value of firms, which can be stated as follows:

$$H_0: \beta_1=0$$

$$H_1: \beta_1>0$$

where  $\beta_1$  is the coefficient of retained earnings in the regression equation.

To test this hypothesis, the following steps were followed:

- Calculate the t-statistic for  $\beta_1$ , which is the ratio of the estimated value of  $\beta_1$  to its standard error.
- Compare the t-statistic with the critical value from the t-distribution table, based on the level of significance and the degrees of freedom.
- Reject the null hypothesis if the t-statistic is greater than the critical value, and accept the alternative hypothesis. Otherwise, do not reject the null hypothesis.

**Table 4: shows the results of the hypothesis testing for the whole sample and by sector.**

| Sample        | t-statistic | Critical value (at 1% level) | Decision                |
|---------------|-------------|------------------------------|-------------------------|
| Whole Sample  | 32.00       | 2.58                         | Reject H0 and accept H1 |
| Manufacturing | 19.33       | 2.58                         | Reject H0 and accept H1 |
| Services      | 33.50       | 2.58                         | Reject H0 and accept H1 |
| Services      | 15.50       | 2.58                         | Reject H0 and accept H1 |

The results show that the t-statistic is greater than the critical value for all samples, indicating that there is enough evidence to reject the null hypothesis and accept the alternative hypothesis.

This means that there is a positive and significant relationship between retained earnings and market value of firms for all samples, supporting the main hypothesis of this study.

### **5.3 Discussion:**

This section discusses the main findings of this study, compares them with previous studies, and draws some implications and recommendations for theory and practice. The study aims to examine and compare the effect of retention per share and dividend per share on the market value of Indian firms, using the Tobin Q ratio as a measure of market value. The study uses a panel data analysis of 100 non-financial Indian firms listed on the Bombay Stock Exchange (BSE) over the period from 2009 to 2020.

The results of the panel data regression analysis show that both retention per share and dividend per share have a positive and significant effect on Tobin Q ratio, indicating that both variables increase the market value of Indian firms. These results support the hypotheses of this study, and are consistent with the dividend relevance perspective, which argues that dividend policy affects firm value by signaling information to investors or reducing agency costs between managers and shareholders. These results also imply that Indian investors prefer both dividends and retained earnings, as they both reflect the current performance and future prospects of Indian firms.

The results of this study are in line with some previous studies that found a positive and significant effect of retention per share and dividend per share on firm value. The differences in the results may be due to the differences in the sample size, time period, country context, industry sector, or measurement methods.

The results of this study have some implications and recommendations for both theory and practice. For theory, this study contributes to the literature on dividend policy and firm value by directly comparing the effect of retained earnings and dividends on market value, using a panel data analysis of Indian firms. This study also provides empirical evidence for the dividend relevance perspective in an emerging market context, which is still under-researched and debated. For practice, this study provides some insights and guidance for Indian firms' financial policies, especially regarding their retention or dividend decisions. This study suggests that Indian firms should balance their retention and dividend policies, as both options can increase their market value. Indian firms should retain their earnings when they have profitable investment opportunities or need financial flexibility, but they should also pay dividends when they have excess cash or want to signal positive information to investors or reduce agency costs.

The limitations of this study are as follows. First, this study uses a sample of 100 non-financial Indian firms listed on the BSE, which may not be representative of all Indian firms or other emerging markets. Therefore, the generalizability of the results may be limited. Second, this study uses the Tobin Q ratio as a measure of market value, which may not capture all aspects of firm value or performance. Therefore, other measures of market value or performance may yield different results. Third, this study uses a panel data analysis with fixed effects or random effects models, which may not account for all possible factors that may affect market value or dividend policy. Therefore, other methods or models may provide different insights or explanations.

The directions or opportunities for future research are as follows. First, future research could use a larger or more diverse sample of Indian firms or other emerging markets, to test the robustness or generalizability of the results. Second, future research could use other measures of market value or performance, such as market-to-book ratio, price-to-earnings ratio, or economic value added, to compare or complement the results. Third, future research could use other methods or models for panel data analysis, such as dynamic panel data models, endogenous panel data models, or panel vector auto regression models, to address some potential problems or issues with the current models.

## **6. Conclusion:**

The aim of this study was to examine and compare the effect of retention per share and dividend per share on the market value of Indian firms, using the Tobin Q ratio as a measure of market value. The study used a panel data analysis of 100 non-financial Indian firms listed on the Bombay Stock Exchange (BSE) over the period from 2009 to 2020. The study also conducted some robustness tests by dividing the sample into different sub-samples based on time period, industry sector, or alternative measure of market value.

The results of the panel data regression analysis showed that both retention per share and dividend per share had a positive and significant effect on Tobin Q ratio, indicating that both variables increased the market value of Indian firms. These results supported the hypotheses of this study, and were consistent with the dividend relevance perspective, which argued that dividend policy affected firm value by signaling information to investors or reducing agency costs between managers and shareholders. These results also implied that Indian investors preferred both dividends

and retained earnings, as they both reflected the current performance and future prospects of Indian firms.

The results of this study were in line with some previous studies that found a positive and significant effect of retention per share and dividend per share on firm value. The differences in the results may be due to the differences in the sample size, time period, country context, industry sector, or measurement methods.

There are several limitations in this study, including that these results are specific to the Indian context, so it might not be possible to generalize them to consider other emerging market contexts. Furthermore, this study employed two variables only for testing their effect on firm values. Testing other variables may be more effective to measure the impact on firm values. Based on the results of this study, several recommendations emerge. Corporate management should consider the positive effects of both retention per share and dividend per share on firm value by balancing their retention and dividend policies according to their investment opportunities and financial flexibility. Indian firms should retain their earnings when they have profitable investment opportunities or need financial flexibility, but they should also pay dividends when they have excess cash or want to signal positive information to investors or reduce agency costs. Further research may include the investigation of the effect of other factors on firm value in the same context or in other emerging market contexts. The importance of this study comes from investigating the expected role of both retained earnings and dividends as underlying sources of value for the firm's common stock because retained earnings provide the firm with the required cash flows to pay dividends or invest in growth opportunities, and dividends provide the investors with cash rewards or signals about the firm's performance or prospects. Therefore, both retained earnings and dividends affect the market value of the firm's common stock. This study is expected to clarify to Indian researchers, investors, and firm managers how retention per share and dividend per share affect firm value in an emerging market context, so that Indian firms' management teams can take into consideration investors' preferences in their financial policies.

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