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A Comparative Analytical Study of Corporate Governance Models: Structures, Mechanisms, and Operational Frameworks

Abdelmadjid Kemouche (PhD)
Mohamed Boudiaf University of M'Sila, Algeria
kemouche19@gmail.com
Hamza Chaker (PhD)
Ferhat Abbas Sétif University 1, Algeria
hamzachaker9@gmail.com

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Abstract
This study provides a comparative institutional analysis of corporate governance models by examining their structures, mechanisms, and operational frameworks and the extent to which they are shaped by the legal, financial, economic, and institutional characteristics of their respective environments. Using a comparative descriptive and analytical approach, the study examines the market-oriented, network-oriented, and hybrid models across several dimensions, including ownership structure, financing sources, board structure, stakeholder participation, internal and external control mechanisms, disclosure, and legal enforcement. The findings indicate that the effectiveness of governance mechanisms depends less on their formal existence than on their compatibility with the institutional environment in which they operate. Hence, no single universal model can be applied with equal effectiveness across all countries. The analysis of Algeria further indicates a transitional and hybrid governance system that requires stronger enforcement, enhanced shareholder protection, further financial-market development, and more effective boards of directors. The study therefore emphasizes locally adapted reforms rather than the direct transplantation of foreign governance models.
Keywords*:* corporate governance, corporate governance systems, governance models, Algeria
JEL classification: G30, G34, G38

1. Introduction

During the late twentieth and early twenty-first centuries, a series of financial crises, corporate collapses, and accounting scandals exposed serious weaknesses in corporate oversight and accountability. The crises in Southeast Asia and Russia in the late 1990s, followed by the failures of major corporations such as Enron and WorldCom in the United States and Vivendi in France, drew particular attention to ineffective board supervision, inadequate internal controls, and insufficient accountability for managerial misconduct. These events contributed to the spread of financial and administrative corruption and intensified scholarly, political, legal, and professional interest in corporate governance.

To preserve market stability and respond to the effects of globalization, governments increasingly sought to regulate corporate activity, particularly that of large and publicly listed companies, and to establish standards of sound business conduct that protect the rights of shareholders and other stakeholders. Professional associations and international organizations consequently issued principles and standards that provide a theoretical and practical basis for corporate governance reform. These instruments also serve as reference points for the development of legal and regulatory frameworks adapted to the circumstances and institutional characteristics of individual economies.

Research Questions

- What are the principal features and characteristics of the leading international corporate governance models?
- How do corporate governance mechanisms operate, and why does their relative importance vary across economic environments?

Significance of the Study

The significance of this study derives from the growing importance of corporate governance to countries seeking comprehensive and sustainable economic development. Understanding the components of a corporate governance system and the manner in which they interact is essential to effective institutional reform. A comparison of leading governance models can also assist policymakers and corporate decision-makers in improving business practices while accounting for the structure and specific characteristics of the domestic economy rather than importing ready-made models.

Organization of the Study

The study is organized into five substantive parts:

- the theoretical framework of corporate governance;
- the corporate governance system;
- the mechanisms through which the corporate governance system operates;
- leading international corporate governance models; and
- the Algerian experience with corporate governance.

2. The Theoretical Framework of Corporate Governance

2.1. The Concept of Corporate Governance

The publication of the Cadbury Report marked a major point of departure in the development of the modern corporate governance concept. The report offered a concise definition that subsequently gained international recognition: “Corporate governance is the system by which companies are directed and controlled” (Cadbury Committee, 1992, p. 15).

Charreaux (1996, p. 3) conceptualized corporate governance as a set of organizational mechanisms that constrain the discretion available to managers when they make decisions.

Williamson (1996, p. 16) similarly situated governance within the institutional arrangements through which organizations pursue their objectives and allocate authority while limiting domination by any one individual or group.

Taken together, these perspectives indicate that corporate governance consists of the rules, procedures, structures, and relationships through which a company is directed and controlled. An effective governance framework protects stakeholder rights, coordinates the actions of corporate constituencies, and supports sound decision-making in complex and uncertain environments.

2.2. The Importance of Corporate Governance

Corporate governance has emerged as an integrated framework for restoring and strengthening trust among institutional, market, and individual actors. Its principal contributions include the following:

- **Separation of ownership and control:** Corporate governance responds to the agency problems created by the separation of ownership and management and provides monitoring arrangements that can reduce agency costs (Hassan & Ahmed, 2012, p. 214).
- **Stakeholder confidence:** Strong relationships among management, employees, suppliers, creditors, investors, and other stakeholders can improve organizational performance and support strategic objectives.
- **Rights protection:** Governance mechanisms protect the rights of shareholders and other stakeholders.
- **Accountability and efficiency:** Clear rules governing the relationships among managers, boards of directors, and shareholders can improve corporate performance and organizational efficiency.
- **Access to finance:** Effective governance can reduce the cost of capital and increase a company’s attractiveness to investors.
- **Sustainable development:** By balancing economic and social objectives, sound governance can support economic development, reduce the likelihood of crises, improve living standards, and strengthen social cohesion.

3. The Corporate Governance System

Because corporate governance intersects with legal, financial, organizational, political, and social domains, it creates a network of interdependent relationships. A governance system must therefore provide an operating framework that sustains interaction among these relationships and improves performance at both the firm and economy-wide levels.

3.1. The Concept of a Corporate Governance System

Oman and Blume (2005, p. 1) describe a national corporate governance system as the combination of formal and informal rules, accepted practices, enforcement arrangements, and sanctions that govern the relationship between those who control companies and those who invest resources in them. Ben Thabet (2011, p. 66) likewise emphasizes the environmental, political, economic, social, legal, and institutional characteristics that shape the resolution of conflicts among corporate actors.

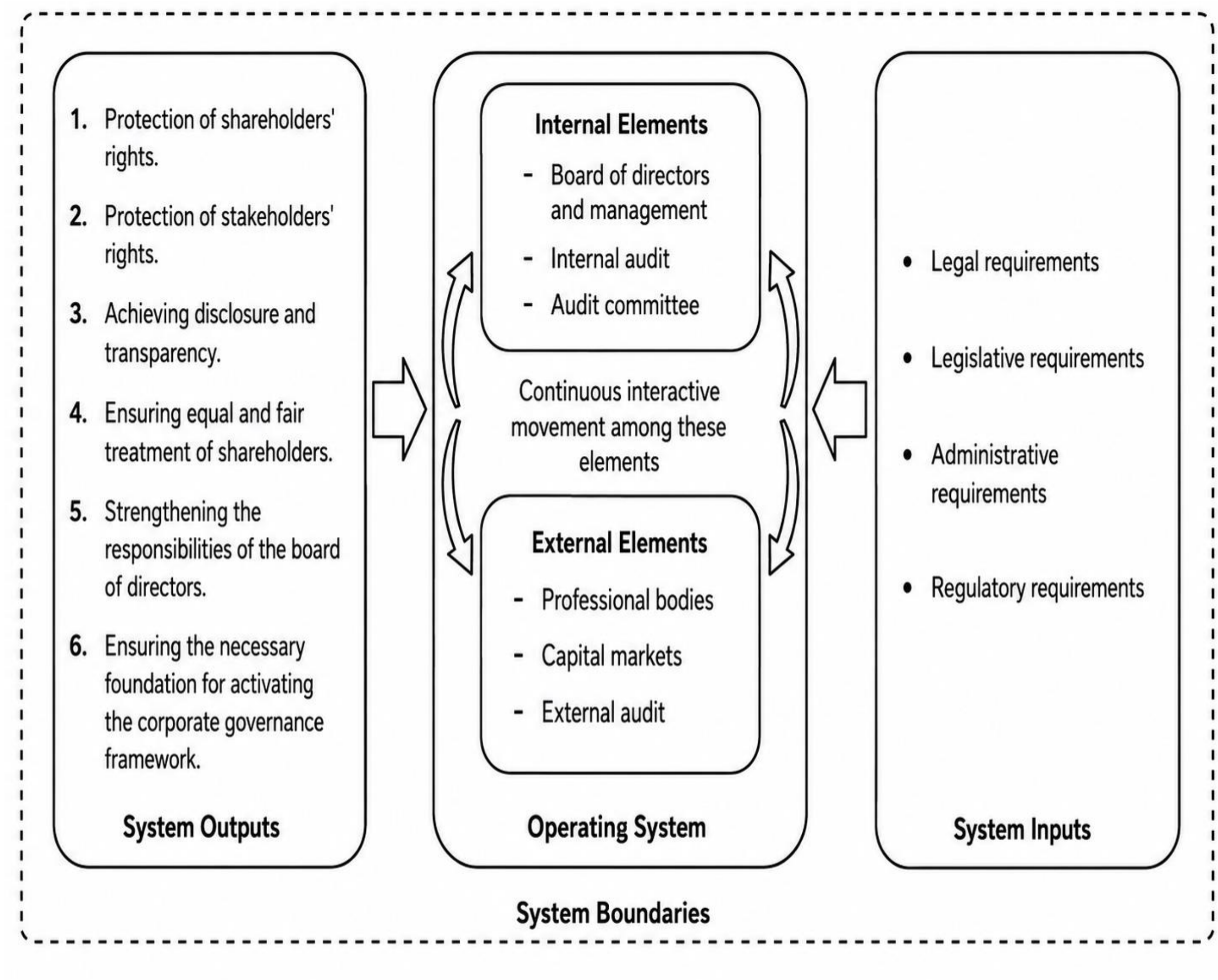
Thus, a corporate governance system may be defined as a set of entities, procedures, formal and informal rules, and internal and external mechanisms whose continuous interaction structures the business environment and governs the relationships among corporate actors.

3.2. The Operational Framework of the Corporate Governance System

The corporate governance system activates organizational capabilities, supports the deployment and efficient use of resources, and provides a framework within which market-economy mechanisms can operate. Figure 1 summarizes the system's principal inputs, operating components, and outputs.

Figure 1

Corporate Governance System



Note. Adapted from Yergui and Abdessamad (2010, p. 6).

3.2.1. System Inputs

System inputs comprise the legal, legislative, administrative, institutional, and regulatory requirements necessary for corporate governance. Their quality and availability largely determine the strength and effectiveness of the governance system.

Legal and Legislative Framework

The legal and legislative framework governs relationships, allocates responsibilities, establishes minimum standards of acceptable conduct in the business environment, and specifies sanctions and disciplinary measures for misconduct, negligence, and abuse of authority.

Institutional Framework

Effective corporate governance also requires administrative and organizational reforms. Krasniq (2008, pp. 6–8) identifies several institutional priorities:

- **Property rights and contract law:** A strong property-rights system should identify ownership clearly and define how property may be transferred, used, and protected.
- **An independent judiciary and the rule of law:** Stable legal frameworks and independent courts are essential for enforcing rules and resolving disputes promptly, consistently, and fairly.
- **Freedom of market entry and effective exit mechanisms:** Administrative barriers, official monopolies, and preferential treatment should be reduced, while bankruptcy procedures should provide an orderly and equitable process for creditors and other stakeholders.
- **Reform of public administration and regulatory bodies:** Public officials and regulators should demonstrate professionalism, competence, integrity, and clear procedures for managing conflicts of interest.
- **Freedom of information:** Businesses, the media, civil-society organizations, and citizens should be able to express opinions and exchange information freely.

3.2.2. Operating System

The operating system comprises the bodies responsible for implementing, supervising, monitoring, and improving corporate governance. It includes administrative entities within and outside the company that promote compliance and contribute to the development and effectiveness of governance practices (Taleb & Al-Mashhadani, 2011, p. 46).

Internal Elements

Internal elements are the rules and structures that determine how decisions are made and how authority is distributed among the general meeting of shareholders, the board of directors, and executive management. These arrangements are intended to reduce conflicts of interest among the three groups.

External Elements

External elements arise from the broader investment environment. They include the quality and enforceability of laws governing economic activity, the effectiveness of regulators

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and stock exchanges, and the contribution of self-regulatory and professional bodies, such as associations of auditors, accountants, lawyers, and other external assurance providers.

3.2.3. Governance System Outputs

The outputs of a corporate governance system are the benefits, objectives, and expected results of its implementation. These outputs include stronger stakeholder protection, greater transparency and accountability, improved board effectiveness, enhanced corporate performance, and more credible investment conditions.

4. Corporate Governance Mechanisms

Each corporate governance mechanism forms part of the governance system as a whole. Most definitions, therefore, treat governance as a set of organizational mechanisms that are directly or indirectly interconnected and may operate formally or informally. The coherence of the system depends on the integration and consistency of its components, which interact continuously and shape corporate conduct and activity (Wirtz, 2008, p. 17).

This emphasis on interdependence is consistent with von Bertalanffy's (1968) systems perspective, according to which a change in one interconnected element affects the remaining elements and, ultimately, the system as a whole. It is also consistent with Williamson's (1991) analysis of markets, hierarchies, and hybrid governance structures. Building on these perspectives, Charreaux (2009, p. 8) classifies governance mechanisms according to two criteria: firm specificity and intentionality.

- **Firm-specific mechanisms:** mechanisms designed for a particular company and intended to constrain managerial discretion.
- **Non-firm-specific mechanisms:** mechanisms that influence managerial decisions across a category of companies or across the market as a whole.
- **Intentional mechanisms:** mechanisms deliberately created by the company or by regulatory and institutional actors.
- **Spontaneous mechanisms:** mechanisms that emerge from market forces, relationships, culture, and reputation rather than from deliberate design.

The intersection of these two criteria produces the four-part classification presented in Table 1.

Table 1

Classification of Corporate Governance Mechanisms

	Firm-Specific Mechanisms	Non-Firm-Specific Mechanisms

	Firm-Specific Mechanisms	Non-Firm-Specific Mechanisms
Intentional Mechanisms	• Direct shareholder oversight through the general meeting • Board of directors and internal board committees • Compensation and incentive systems • Internal audit • Company-level trade unions	• Legal and regulatory environment, including company, labor, and bankruptcy law • National trade unions • External audit • Consumer associations
Spontaneous Mechanisms	• Mutual monitoring among managers • Corporate culture • Relationships with customers, suppliers, and employees • Corporate reputation and fulfillment of commitments	• Product, service, and labor markets • Financial markets, financial intermediaries, and lenders • The social environment • Business culture and the media environment

Note. Adapted from Charreaux (2009, p. 8).

The classification identifies four complementary categories. The company establishes intentional, firm-specific mechanisms to control managerial conduct and limit discretionary authority. Spontaneous, firm-specific mechanisms emerge from company-specific relationships and culture. Intentional, non-firm-specific mechanisms are imposed by regulators, professional bodies, and other institutions and apply to multiple companies. Spontaneous, non-firm-specific mechanisms arise from market and social forces and affect companies broadly.

These mechanisms do not operate according to a single logic or exert influence in the same manner. Reform initiatives should therefore account for differences in their scope, origin, and institutional effects, particularly where multiple governance models coexist.

5. Leading International Models of Corporate Governance

Corporate financing patterns and ownership structures are among the principal determinants of a country's corporate governance system (Solomon, 2010, p. 194). These determinants have produced distinct governance mechanisms and practices. A widely used classification distinguishes among market-oriented, network-oriented, and hybrid models (Manawaduge, 2012, p. 47).

5.1. The Market-Oriented Model (Anglo-American Model)

The market-oriented model developed primarily in the United Kingdom and the United States and is also associated with Canada, Australia, and other Commonwealth economies. It is

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characterized by developed capital markets, dispersed ownership, relatively limited bank equity participation in nonfinancial companies, and a strong role for external market discipline.

Table 2

Principal Features of the Market-Oriented Model

Aspect	Market-Oriented Model
Concept	• A governance system in which capital-market discipline, takeover activity, and the managerial labor market play central monitoring roles.
Model Determinants	• **Historical context:** After the 1929 crisis, federal reforms in the United States limited the scope and concentration of financial institutions. • **Legal framework:** Common-law systems provide substantial judicial interpretation and flexibility. The Glass-Steagall Act of 1933 separated commercial and investment banking activities, while the Bank Holding Company Act of 1956 restricted the nonbanking activities of bank holding companies. • **Normative orientation:** Individual autonomy, merit, effort, and results support a strong role for markets in allocating resources.
Capital Structure	• Relatively limited bank ownership of nonfinancial companies • Dispersed ownership among numerous shareholders • Limited cross-shareholding among companies

Aspect	Market-Oriented Model
Control Methods	• **External control:** Takeover bids and capital-market discipline, supported by disclosure and transparency. • **Internal control:** Oversight by a unitary board of directors within the applicable legal and regulatory framework.

Note. Developed by the authors from the sources cited in this section.

Under this model, a single board includes executive and nonexecutive directors. Although their functions differ in practice, all directors share legal responsibility for the company's activities. Shareholders exercise indirect control through voting rights, and the model is generally shareholder-oriented because it emphasizes investor protection and shareholder influence over board composition. Its principal characteristics include the following (Lahlou, 2008, p. 10):

- limited cross-ownership between banks and nonfinancial companies;
- relatively weak influence of financial institutions on internal governance practices;
- performance-linked managerial incentive plans;
- a large number of publicly listed companies and shareholders;
- large, developed, and liquid capital markets; and
- strict accounting and disclosure rules that support the transparency and reliability of published financial information.

5.2. The Network-Oriented Model (German-Japanese Model)

The network-oriented model is associated with several continental European and Asian economies, including Germany, Japan, and South Korea. It places greater emphasis on banking relationships, concentrated ownership, cross-shareholdings, and long-term ties among companies, lenders, employees, and other stakeholders. Universal banks may provide a broad range of services, including deposits, credit, investment intermediation, securities services, and foreign-exchange operations.

Table 3

Principal Features of the Network-Oriented Model

Aspect	Germany	Japan
Concept	• A system in which ownership and control are concentrated among a limited number of major shareholders, corporate groups, cross-shareholding partners, or creditor banks.	

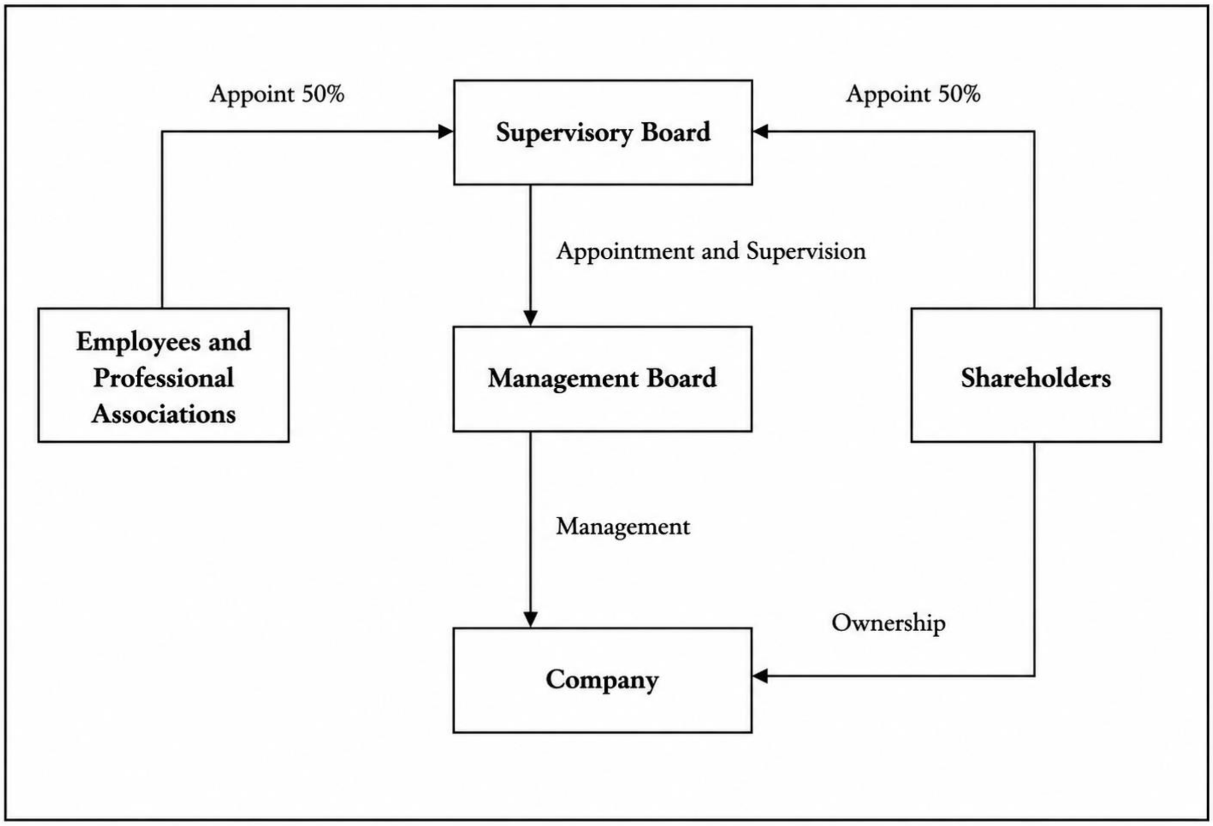
Aspect	Germany	Japan
Model Determinants	• **Historical context:** Postwar reconstruction reinforced the relative importance of bank intermediation. • **Legal framework:** A civil-law tradition based on codified rules and comparatively limited judicial discretion. • **Normative orientation:** Discipline, competence, and orderly conduct in the pursuit of organizational objectives.	• **Historical context:** Postwar information constraints and reconstruction needs strengthened reliance on banks as stable sources of finance. • **Legal framework:** Historically, access to bond markets was concentrated among the largest national corporations. • **Normative orientation:** Consensus, participation, transparency, and collective responsibility support group-based decision-making.
Capital Structure	• Extensive cross-shareholdings among companies • Concentrated ownership • Significant bank participation in corporate ownership and control	• Extensive cross-shareholdings within corporate groups • A strong main-bank presence in corporate finance and monitoring • Long-term relational ownership and intercompany ties

Note. Developed by the authors from the sources cited in this section.

Although the German and Japanese systems share several structural features, they differ in important respects, particularly in the organization of board oversight. The German model is commonly described as a two-tier system: a supervisory board composed of nonexecutive representatives monitors and appoints a management board, which is responsible for the company's day-to-day administration (Fernando, 2009, p. 54). Figure 2 summarizes the relationships among the principal actors in the stylized German model.

Figure 2

German Model of Corporate Governance



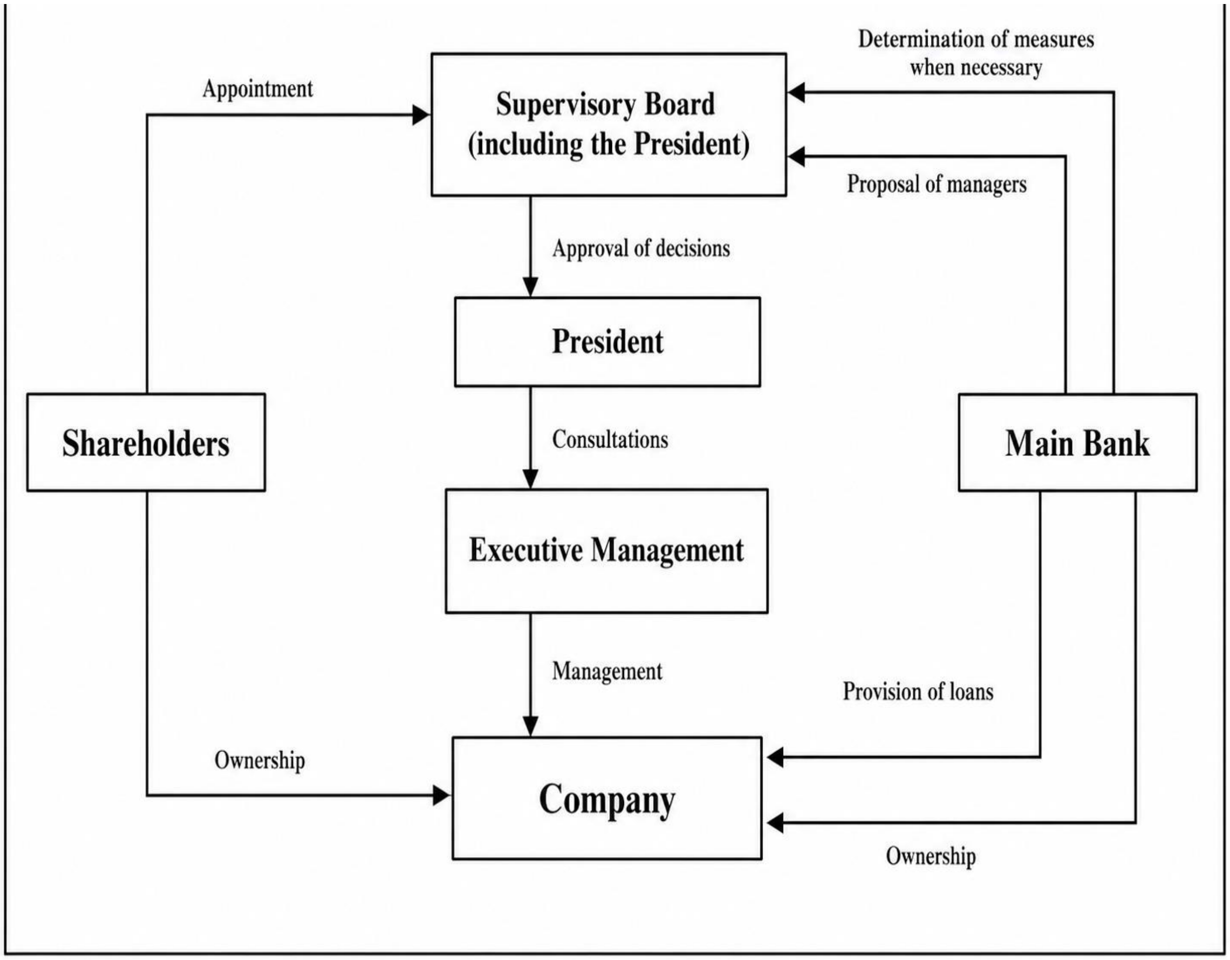
Note. Developed by the authors based on Şerbetçi (2011, p. 12), Möbert and Tydecks (2007, p. 20), and Fernando (2009, p. 54).

In the parity codetermination arrangement depicted in Figure 2, shareholders and employee representatives each appoint half of the supervisory board. This arrangement gives employees a formal governance role and limits the voting influence of any single shareholder. The supervisory board appoints and monitors the management board, which conducts the company's operations.

The Japanese model is often described through the keiretsu system: a network of companies connected by long-term commercial, financial, and ownership relationships. These networks traditionally include a main bank and extensive intercompany ties. Corporate boards have often been large and executive-dominated, while the distribution of authority depends heavily on relationships among senior management, the main bank, and the wider corporate group (Möbert & Tydecks, 2007, p. 20). Figure 3 presents the stylized relationships among the principal actors.

Figure 3

Japanese Model of Corporate Governance



Note. Developed by the authors based on Şerbetçi (2011, p. 12), Möbert and Tydecks (2007, p. 20), and Fernando (2009, p. 54).

As Figure 3 illustrates, Japanese financial institutions can influence governance both as equity holders and as lenders exposed to corporate risk. In the model presented, shareholders and the main bank participate in appointing the board and its chair. The chair coordinates board-level decisions with executive management's concerns.

5.3. The Hybrid Model (French-Italian Model)

Between the market-oriented and network-oriented models lies a hybrid or intermediate model that combines features of both. The French-Italian variant has historically been shaped by state involvement in defining the legal, financial, and institutional framework of corporate governance.

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Table 4
Principal Features of the Hybrid Model

Aspect	Hybrid Model
Concept	• A system that combines monitoring through capital markets with monitoring by banks and strategic shareholders.
Model Determinants	• **Historical context:** Long-standing state ownership and nationalization were followed by privatization, the development of domestic capital markets, and selective incorporation of relationship-based banking practices. • **Legal framework:** Companies may choose between a unitary board and a two-tier structure consisting of a management board and a supervisory board. Bank ownership of nonfinancial companies is not subject to the same categorical restrictions associated with the Anglo-American model. • **Normative orientation:** The French tradition emphasizes honor, legal reasoning, and a Cartesian approach based on rational analysis and deduction.
Capital Structure	• Relatively limited average bank ownership of nonfinancial companies despite the absence of a uniform statutory ceiling • Significant cross-shareholdings among nonfinancial companies • A comparatively high degree of ownership concentration, particularly in Italy

Aspect	Hybrid Model
Control Methods	• **External control:** Capital-market pressure, the threat of hostile takeovers, and monitoring by strategic corporate shareholders. • **Internal control:** Oversight through a board of directors or a supervisory board, with participation by key stakeholders, including employees.

Note. Developed by the authors from the sources cited in this section.

Under this model, companies can select the governance structure that best suits their needs. The model also features substantial participation by professional associations, monitoring pressure arising from the threat of hostile takeovers, and oversight by companies that hold strategic or reciprocal equity stakes.

6. The Algerian Experience in Corporate Governance

6.1. Efforts to Establish an Effective Corporate Governance Framework

In seeking greater integration into the global economy, the Algerian government undertook a series of initiatives to establish a corporate governance framework, alongside reforms supported by international organizations such as the International Monetary Fund and the World Bank.

Corporate governance was not initially a central topic of public debate in Algeria. However, the influence of international financial institutions and the broader transition toward a market economy increased the importance of governance principles at both the macroeconomic and enterprise levels. The state subsequently established a Good Governance Committee. Although some observers viewed the initiative as largely formal or externally driven, it nevertheless represented an initial step toward alignment with international standards. This orientation was also consistent with Algeria’s participation in the New Partnership for Africa’s Development, which introduced periodic governance assessment among participating states.

Several developments indicate Algeria’s movement toward corporate governance reform (Kadi, n.d., p. 6):

- The transition toward a market economy required greater transparency, competitiveness, economic liberalization, openness to domestic and foreign initiatives, reduced state ownership, privatization of public enterprises, and fewer barriers to the formation of the private sector.
- Banking-sector reform, the creation of a financial market offering direct financing alternatives, tax-system simplification, and improved control of macroeconomic indicators.

- The adoption of a new financial accounting system aligned with international accounting standards, implemented across institutions and sectors from 2010.
- The extension of the external audit requirement to limited liability companies, which are the predominant corporate form in Algeria, rather than limiting it to joint-stock companies.
- Revision of the Commercial Code to clarify the allocation of responsibilities within enterprises.
- The designation of anti-corruption policy as a national priority under Presidential Instruction No. 03 of December 13, 2009.

Within the anti-corruption framework, the authorities undertook the following measures:

- established a Central Office for the Suppression of Corruption to investigate alleged offenses, collect evidence, refer cases to prosecutors, and cooperate with comparable bodies;
- assigned anti-corruption matters to specialized criminal judicial authorities with expanded powers;
- required legal and ethical standards in the award, administration, and monitoring of public procurement under Presidential Decree No. 10-236 of October 7, 2010;
- activated the National Authority for the Prevention and Fight against Corruption on June 11, 2010; and
- expanded the jurisdiction of the Court of Auditors and the General Inspectorate of Finance to cover public and economic enterprises.

6.2. The Algerian Corporate Governance Code

The 2009 Algerian corporate governance guide, commonly referred to as the Algerian Corporate Governance Code, was issued as a practical reference for the principal actors within the enterprise. It was designed to provide Algerian companies, particularly privately owned small and medium-sized enterprises, with an accessible framework for understanding and implementing sound governance principles. The code is consistent with the applicable legal and regulatory framework but is not a comprehensive compilation of legislation. Adherence is voluntary and depends primarily on the commitment of owners and managers to establishing, supporting, and sustaining governance practices within the company (GOAL 08, 2009, p. 16).

The code comprises two principal parts and a series of annexes:

• **Part I:** explains why corporate governance has become necessary in Algeria and relates governance principles to the challenges faced by Algerian enterprises, particularly small and medium-sized enterprises.

• **Part II:** presents the core standards of corporate governance, including the relationships among the general meeting of shareholders, the board of directors, and executive management, as well as relationships with banks, financial institutions, suppliers, and public authorities.

The annexes provide procedures and recommendations intended to help companies address governance concerns with precision and clarity. Effective implementation also requires a support mechanism capable of:

- registering companies that adhere to the code and recording proposed amendments or additions;
- establishing working groups to consider possible revisions to the code in the Algerian context;
- organizing awareness and training activities, particularly for company directors and managers; and
- developing international relationships with comparable bodies to exchange experience and participate in global corporate governance forums and networks.

6.3. Accounting Reform in Algeria

The reform of Algeria's National Accounting Plan began in April 2001 through cooperation between French experts and the National Accounting Council. These efforts culminated in the Financial Accounting System (Système comptable financier [SCF]) established by Law No. 07-11 of November 25, 2007.

The SCF introduced a conceptual framework for financial accounting, accounting standards, and a chart of accounts for preparing financial statements in accordance with generally accepted principles. It requires financial information to be understandable, comparable, relevant, reliable, accurate, and concise and emphasizes transparency and disclosure in financial reporting.

The SCF identifies five principal financial statements:

1. the statement of financial position (balance sheet);
2. the statement of profit or loss (income statement);
3. the statement of cash flows;
4. the statement of changes in equity; and
5. the notes, which describe the accounting policies and methods applied and provide supplementary information.

These statements substantially correspond to the presentation requirements of International Accounting Standard 1, notwithstanding minor terminological differences. The reform therefore improved the comparability and potential quality of accounting information produced by Algerian enterprises (Ben Hussein & Boutlaa, 2012, p. 11).

The SCF is important because it addresses the information needs of multiple stakeholders and fosters a more credible business environment. Improving the availability and transparency of financial information can contribute to attracting foreign investment, capital market development, and broader economic development objectives associated with corporate governance.

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7. Conclusion

This study demonstrates that corporate governance systems vary across economic environments because they are shaped by historical, legal, political, financial, institutional, and social conditions. The operation of each system likewise depends on the relative importance of its underlying mechanisms. Consequently, no single ideal governance model can be applied with equal effectiveness in all jurisdictions. The comparison of market-oriented, network-oriented, and hybrid models instead shows that different institutional configurations can support effective governance when they are internally coherent and suited to their environments.

The principal findings are as follows:

- Corporate governance intersects with organizational, economic, financial, legal, and social dimensions and is therefore inherently complex.
- A corporate governance system coordinates institutional capabilities and promotes the efficient allocation and use of resources within a market economy.
- System effectiveness depends on the integration and consistency of governance components and on their continuous interaction.
- Legal and institutional frameworks are central to establishing minimum standards, enforcing governance principles, and expanding the scope of sound practices.
- Governance mechanisms differ in origin, scope, and mode of influence; their relative importance therefore varies across economic environments.
- No universal ideal model exists; effective governance requires a model compatible with the institutional characteristics of the economy in which it operates.
- Corporate governance can reinforce corporate social and environmental responsibility by promoting fair, accountable, and responsive stakeholder relationships.

➢ Based on these findings, the study recommends the following:

- Conduct a comprehensive assessment of the components and operating mechanisms of the corporate governance system before undertaking reform.
- Align governance mechanisms with the specific institutional and economic characteristics of the country.
- Create an enabling political and economic environment rather than relying solely on formal legal rules.
- Promote corporate governance among internal and external stakeholders through regulations, guidance, training, conferences, and professional publications.
- Monitor developments in international corporate governance and evaluate the position and practices of Algerian companies accordingly.
- Strengthen and update the legal and regulatory frameworks that protect domestic and foreign investors and address identified enforcement gaps.

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