



Strategic Behavior of SMEs in Algeria and the Impact of Governance and Financial Planning on Performance

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Abstract:

This article examines the strategic behaviour of small and medium-sized enterprises (SMEs) in Algeria and investigates how good governance and effective financial planning contribute to enhancing overall performance. Adopting a dual approach that combines theoretical and empirical perspectives, the study integrates a critical review of the most recent literature with a field investigation based on questionnaires and interviews conducted with SME managers operating in different sectors.

The results indicate that Algerian SMEs which adopt flexible strategic orientations, apply governance mechanisms, and plan their finances systematically tend to achieve superior performance compared to those that rely on improvised management. The findings highlight the necessity for SMEs to integrate strategic behaviour, governance, and financial planning into a coherent management framework to strengthen their competitiveness and sustainability.

Keywords: Strategic Behaviour, SMEs, Governance, Financial Planning, Performance

Comportement stratégique des PME en Algérie et impact de la gouvernance et de la planification financière sur la performance

Résumé :

Cet article examine le comportement stratégique des petites et moyennes entreprises (PME) en Algérie et étudie comment une bonne gouvernance et une planification financière efficace contribuent à améliorer les performances globales. Adoptant une double approche qui combine des perspectives théoriques et empiriques, l'étude intègre une analyse critique de la littérature la plus récente et une enquête de terrain basée sur des questionnaires et des entretiens menés auprès de dirigeants de PME opérant dans différents secteurs. Les résultats indiquent que les PME algériennes qui adoptent des orientations stratégiques flexibles, appliquent des mécanismes de gouvernance et planifient leurs finances de manière systématique ont tendance à obtenir des performances supérieures à celles qui s'appuient sur une gestion improvisée. Les conclusions soulignent la nécessité pour les PME d'intégrer le comportement stratégique, la gouvernance et la planification financière dans un cadre de gestion cohérent afin de renforcer leur compétitivité et leur durabilité.

Mots clés : *Comportement stratégique, PME, gouvernance, planification financière, performance*



Introduction:

Small and medium-sized enterprises (SMEs) constitute one of the fundamental pillars of Algeria's economic fabric. Their crucial role in job creation, regional development, and diversification beyond the hydrocarbon sector has positioned them as essential actors in national growth. However, with the accelerating pace of globalisation and technological transformation, Algerian SMEs face mounting challenges that demand a more strategic, adaptive, and forward-looking managerial behaviour.

Within this context, good governance has emerged as a critical mechanism to ensure sound management, transparency, and accountability, enabling more rational decision-making and improved institutional performance. In parallel, robust financial planning serves as a key tool for directing resources efficiently, mitigating financial risks, and achieving strategic objectives. Yet, many SMEs in Algeria still operate without structured management systems or scientific planning tools, rendering them vulnerable to instability and potential failure, particularly under fluctuating economic conditions.

This study therefore explores the extent to which strategic behaviour, reinforced by effective governance and sound financial planning, can enhance the overall performance of SMEs in Algeria. By combining theoretical insights with empirical data, it seeks to provide a deeper understanding of how these dimensions interact and to propose actionable recommendations for strengthening the sustainability and competitiveness of this vital sector.

Research problem

Despite the strategic importance of SMEs in promoting economic and social development in Algeria, their overall performance remains below expectations. This is largely due to the absence of a clear strategic vision, weak governance mechanisms, and a lack of effective financial planning. Such a reality raises a central research problem regarding the capacity of these enterprises to adopt strategic practices based on governance and financial planning as critical tools for achieving better performance and ensuring sustainability in a dynamic and competitive environment.

Research Questions

From this central problem, the following research questions emerge:

- 1) To what extent do Algerian SMEs adopt structured strategic behavior?
- 2) How do governance mechanisms contribute to improving the performance of these enterprises?
- 3) What role does financial planning play in enhancing performance efficiency and effectiveness?
- 4) What is the interactive relationship between strategic behavior, governance, and financial planning in the context of SMEs?

Hypotheses of the Study:

- 1) Successful SMEs in Algeria adopt flexible and adaptive strategic behavior in response to the business environment.



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- 2) There is a positive relationship between the implementation of governance principles and improved institutional performance.
- 3) Sound financial planning enhances the efficiency of resource utilization and helps achieve organizational objectives.
- 4) The interactive relationship between strategic behavior, governance, and financial planning directly contributes to improving overall institutional performance.

Objectives of the Study:

- 1) To analyze the extent to which Algerian SMEs adopt flexible and structured strategic behavior.
- 2) To examine the impact of governance mechanisms on improving institutional performance.
- 3) To evaluate the role of financial planning in enhancing performance efficiency and effectiveness.
- 4) To explore the interactive relationship between strategic behavior, governance, and financial planning.
- 5) To provide practical recommendations to improve the performance of SMEs in Algeria.

1. Review of literature:

The Concept and Economic Role of Small and Medium Enterprise

According to Executive Decree No. 17-104 in Algeria, SMEs are defined as independent enterprises with fewer than 250 employees and an annual turnover of less than two

billion Algerian Dinars. These enterprises represent more than 90% of the national economic fabric.

They are characterized by flexibility and rapid decision-making. However, they face challenges such as financial constraints, weak infrastructure, and managerial inefficiencies, which limit their effective contribution to GDP and employment.

Strategic Behavior of SMEs

Strategic behavior refers to an organization's ability to make long-term decisions based on environmental analysis, foresight, and opportunity exploitation to ensure adaptation and growth. It involves setting strategic directions, diversifying activities, selecting strategic partners, and allocating resources efficiently. (Mintzberg, 2005) Strategic behavior consists of decisions and steps taken to direct the organization's future path based on thorough internal and external environmental analysis. Its determinants include the personality of the leader or manager, responsiveness to competitive pressures, resource availability, and national organizational culture. In Algeria, many SMEs suffer from a lack of strategic thinking due to weak managerial culture and unstable legal and fiscal frameworks. As a result, strategic orientation tends to be more personal than institutional, weakening long-term sustainability. (Benhabib, 2020)

Governance in SMEs

Governance refers to the establishment of mechanisms and structures that ensure transparency, accountability, and fairness in decision-making, especially in organizations



lacking a clear separation between ownership and management. (Cadbury, 1992)

Governance mechanisms include having an effective board of directors, internal controls, accurate financial reporting, and adherence to ethical standards. Governance is crucial for protecting the interests of owners, employees, and financiers, particularly in small firms that heavily rely on personal relationships in management. (IFC, 2020) In SMEs, governance practices differ from those in large firms due to the absence of a clear separation between ownership and management, reliance on personal management, and weak oversight and accountability tools. Therefore, governance defines the relationships between the management, board of directors, and stakeholders in a way that ensures institutional goals are achieved transparently and responsibly.

The key dimensions of governance include: transparency (clarity of accounting and financial information), accountability (management's responsibility to the board or owners), fairness (equity for all related parties), and responsibility (commitment of management to decisions and their impacts).

Financial Planning and Its Impact on Performance

Financial planning is the process of defining financial objectives and establishing programs and strategies to achieve them while taking risks into account and analyzing alternatives (Brigham & Ehrhardt, 2017). It involves preparing budget estimates, analyzing cash flows, utilizing financial instruments, and monitoring financial performance (Gitman & Zutter, 2015).

The process includes analyzing future financial needs and allocating resources in a way that aligns with the organization's overall objectives (Ross, Westerfield & Jordan, 2016). Among the primary tools of financial planning are the preparation of budget estimates, financial analysis (including liquidity and profitability analysis), feasibility studies for projects, and the management of cash flows (Van Horne & Wachowicz, 2008).

Effective financial planning contributes directly to enhancing organizational performance by ensuring optimal resource allocation, risk management, and informed decision-making (Atrill & McLaney, 2019).

Strategic Behavior, Governance, and Financial Planning Integration

Strategic behavior alone cannot achieve its full impact without the support of governance mechanisms that regulate institutional functioning, and financial planning that efficiently guides resources. The integration of these dimensions is therefore a critical factor in improving the performance of SMEs in Algeria, which this study aims to explore empirically.

Studies Related to Strategic Behavior in SMEs

Several studies have highlighted that strategic behavior is a key determinant of SMEs' capacity for sustainability and growth. For instance, Mintzberg et al. (2005) classified strategic behaviors into several models based on environmental analysis and organizational characteristics. They pointed out that small firms often adopt reactive or defensive strategies due to resource limitations.



In the Algerian context, Benhabib (2020) found that most SMEs operate informally, with strategic decisions being ad hoc and closely tied to the manager's personal vision, lacking long-term planning. This contributes to the high failure rates within the first five years of their establishment.

Studies on Governance in SMEs:

IFC (2011) reports indicated that even simplified governance systems help improve relations with banks, reduce risks, and enhance transparency. El-Mokhtar (2019) found that the lack of power separation in SMEs (between ownership and management) increases mismanagement risks, requiring governance tools tailored to their scale and specificity.

According to Bendimerad et al. (2021), SME owners in Algeria have limited awareness of governance, despite its importance in improving competitiveness and attracting finance.

Studies on Financial Planning in SMEs:

Atrill & McLaney emphasized the importance of financial planning in controlling expenses and balancing financial and strategic goals, showing a positive correlation between high-quality financial planning and profitability. Boumediene (2020) found that the lack of use of modern financial tools like predictive models by Algerian SMEs negatively impacts their sustainability, advocating for the integration of financial and accounting experts into management structures.

There remains a clear research gap in analyzing the interactive relationship between the three variables. Kraus et

al. (2012) confirmed that SMEs combining clear strategic leadership, effective governance, and strict financial planning are better able to adapt and achieve superior performance.

2. Field Study and Methodology

2.1 Research Methodology

The study adopted a descriptive-analytical approach suitable for examining the impact of strategic behavior, governance, and financial planning on the performance of small and medium-sized enterprises (SMEs) in Algeria.

2.2 Study Sample

A questionnaire was distributed to 260 SMEs located in various Algerian provinces, with a focus on the industrial and service sectors. The sample was selected intentionally based on data availability and institutional cooperation.

2.3 Data Collection Tools

Data were collected through a structured questionnaire addressed to managers of SMEs. The questionnaire comprised four main axes: general data, strategic behavior, governance, and financial planning. Additionally, expert interviews in SME financing were conducted.

2.4 Statistical Analysis Tools

SPSS 26 software was used for data analysis, relying on indicators such as means and standard deviations. Reliability was tested using Cronbach's Alpha (all variables showed values > 0.7). Confirmatory factor analysis and multiple regression analysis were employed to measure the statistical effect of the studied factors.



2.5 Study Variables

Independent Variables: Strategic Behavior, Governance, Financial Planning
Dependent Variable: Institutional Performance (sales, sustainable profitability, customer satisfaction)

2.6 Field Study Design

The study was driven by the central question: To what extent do effective governance and sound financial planning enhance the impact of strategic behavior on the performance of SMEs in Algeria? This question was divided into sub-questions addressing each axis to guide the field research systematically.

2.7 Questionnaire Preparation

The questionnaire was developed after a review of prior literature and adopted a five-point Likert scale ranging from 1 = Strongly Disagree to 5 = Strongly Agree.

The questionnaire focused on the following axes:

Table 01 : Governance indicators prepared for study

Axes	Number of items per section	Summary of each section
Strategic Behavior	7 items	My organization follows a clear market-oriented strategy
Governance	6items	There is a clear separation between

		ownership and management
Financial Planning	6 items	The organization relies on a structured annual financial budget
Overall Performance	5 items	My organization achieves stable profit growth

3. Field Study Results

The results of the regression analysis indicate the following:

- Strategic Behavior has the strongest impact on performance ($B = 0.41, p < 0.01$).
- Governance ranks second in impact ($B = 0.33, p < 0.05$).
- Financial Planning also positively influences performance ($B = 0.27, p < 0.05$).

These findings highlight that SMEs which adopt flexible strategic behavior, supported by governance mechanisms and structured financial planning, achieve higher performance levels.

3.1 Statistical Analysis of Survey Data

This section presents the statistical analysis of the collected data based on responses from 260 small and medium-sized enterprises (SMEs) in Algeria. The analysis includes descriptive statistics (means and standard deviations) and multiple regression analysis to assess the impact of strategic behavior, governance, and financial planning on organizational performance.



Table 2: Descriptive Statistics (Means and Standard Deviations)

Variable	Mean	Standard Deviation
Strategic Behavior	4.10	0.65
Governance	3.85	0.72
Financial Planning	3.78	0.68
Organizational Performance	4.05	0.70

The descriptive statistics indicate that the average level of strategic behavior among the surveyed SMEs is relatively high ($M = 4.10$, $SD = 0.65$), suggesting a proactive and adaptive approach in business operations. Governance and financial planning show moderately high averages ($M = 3.85$, $SD = 0.72$; $M = 3.78$, $SD = 0.68$, respectively), indicating an increasing awareness and implementation of these practices. Organizational performance also shows a favorable mean score ($M = 4.05$, $SD = 0.70$).

Table 3: Multiple Regression Analysis

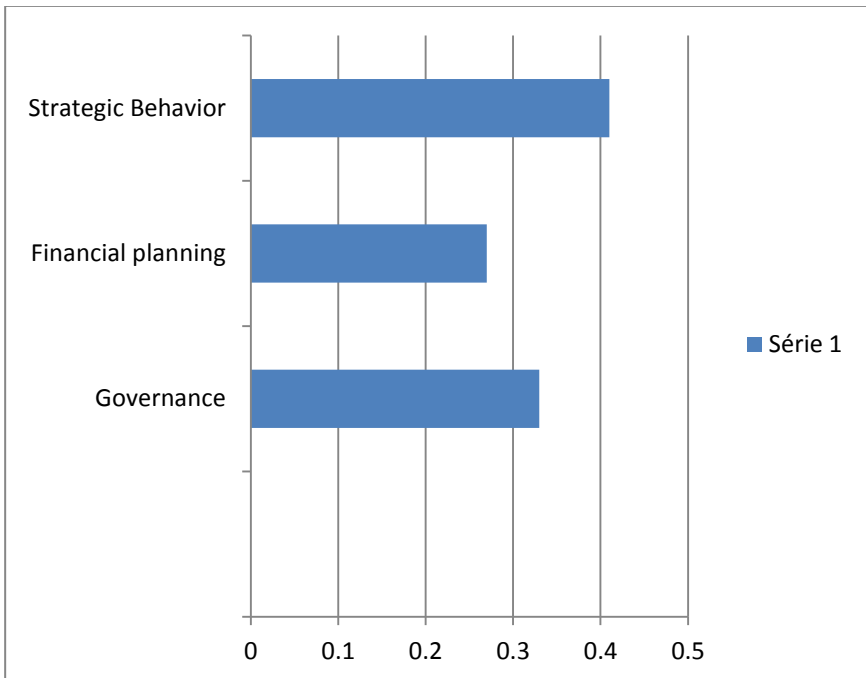
Predictor	Beta (B)	p-value	Significance
Strategic Behavior	0.41	0.01	Significant
Governance	0.33	< 0.05	Significant
Financial Planning	0.27	0.05	Significant

The results of the multiple regression analysis indicate that all three independent variables have a significant positive impact on organizational performance. Strategic

behavior has the strongest influence ($B = 0.41$, $p = 0.01$), followed by governance ($B = 0.33$, $p < 0.05$), and financial planning ($B = 0.27$, $p = 0.05$). These findings support the hypothesis that strategic behavior, supported by sound governance and financial planning, contributes significantly to the performance of SMEs.

these variables explained 54.3% of the variance in institutional performance ($R^2 = 0.543$), confirming the significance of their combined effect.

Figure 1. Effect of Variables on SME Performance



Source: Authors compiled from SPSS



From a descriptive standpoint, the findings indicated that nearly 60% of surveyed SMEs do not maintain written financial plans, while governance mechanisms remain absent in around 70% of enterprises where decision-making is concentrated in the hands of the manager.

SMEs that adopt a clear strategic orientation and implement basic governance and financial control tools achieved higher profitability and sustainability levels than those operating without structured management systems.

These results align with previous studies, such as Al-Gharabali (2022) and Shahin (2021), which confirmed that flexible and proactive strategic behaviour enhances institutional performance and competitiveness. The results also echo the resource-based view proposed by Wernerfelt (1984), highlighting that unique internal resources—such as managerial knowledge and client relationships—serve as sustainable competitive advantages.

Regarding governance, the study found that effective governance structures strengthen transparency and accountability, leading to better decision-making and improved financial outcomes. Similar evidence was found by Ismail and Tarofder (2015) and De Andres (2017), who demonstrated that board composition, independence, and diversity positively affect profitability. Furthermore, SMEs with owner-managers, as noted by Bédu and Palard (2021), tend to achieve superior performance due to the alignment between ownership and control.

Financial planning also emerged as a critical determinant of performance.

Firms applying structured financial practices such as budgeting, cash flow monitoring, and cost control, achieved

higher efficiency and resilience, consistent with findings by Bracker et al. (1988).

Conversely, limited access to financing and weak financial management training continue to hinder SME innovation and growth in Algeria.

Overall, the study confirms that the interaction between strategic behaviour, governance, and financial planning forms a synergistic framework that directly enhances SME performance.

This integration allows firms to adapt to market changes, maintain internal efficiency, and secure long-term sustainability.

Conclusion

This study demonstrates that the overall performance of Algerian SMEs can be significantly improved through the combined adoption of strategic behaviour, sound governance, and effective financial planning.

The research demonstrates that SMEs which proactively anticipate environmental changes, implement transparent decision-making structures, and manage financial resources efficiently are more likely to achieve sustainable growth and competitiveness.

The findings emphasise the importance of viewing these three dimensions as an integrated system rather than independent practices.

Strategic behaviour sets the direction, governance ensures discipline and accountability, while financial planning provides the tools for execution and control. Their



alignment creates a robust foundation for organisational excellence.

From a policy perspective, the study calls for greater institutional support to promote governance awareness and financial management training among SME managers. Encouraging the integration of strategic planning with financial and ethical governance can enhance innovation, reduce failure rates, and promote the long term viability of this vital sector.

In conclusion, the study confirms that the strategic analysis of SMEs goes beyond defining long-term goals but about understanding how these enterprises interact with their environment, utilise resources, and make decisions that shape their future.

By consolidating strategy, governance, and financial planning, Algerian SMEs can transform potential challenges into sustainable opportunities for growth and competitiveness.

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