

Small and medium enterprises and economic growth in Algeria through investment and innovation

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Abstract

Small and medium enterprises play a vital role in ensuring the continuity and sustainability of economic development as they constitute an important starting point for economic growth, through their ability to provide job opportunities and their role in diversifying the industrial structure and assisting the main structures in production. These institutions operate at the national level and push them towards facilitating and continuity of their work, which made them of great importance in achieving development and embodiment at the national level. This study aims to highlight the role of small and medium enterprises in pushing the economies of countries towards development, through their contribution in various areas of development, as these institutions have become a strategic option and the most practical alternative to achieve balanced growth, and this can only be achieved with real support for these institutions. Small, and medium enterprises are an important element in economic development, as they are considered a major driver of the countries' economy and a source for creating wealth and satisfying economic and social needs. They contribute to reducing the unemployment rate, raising the gross domestic product, creating an added value to the economy, and increasing the proportion of international trade exchanges. In completing our scientific research, we relied on a questionnaire distributed to small and medium-sized enterprises in the state of Oran. We also used a set of tools represented in the interview and observation. The study was based on 38 small and medium enterprises in the state of Oran. The obtained result showed the validity of the hypotheses. These institutions contribute greatly to the economic and social growth of the state, as we extracted from the obtained results. 68% of the studied sample contributes to raising the gross domestic product by 95% to creating an added value by 95%, and 11% of the studied sample exports its products outside Algeria, This is what prompted Algeria to rely on small and medium enterprises to ensure strong economic growth, but this sector still has not risen yet to be a source of wealth and an engine for development for Algeria because there are several obstacles facing small and medium enterprises.

Keywords: small and medium enterprises (SMEs), economic development, growth, added value, gross domestic product, unemployment, export, Oran.

JEL Classification: G24, F63, H61.

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Introduction

Modern economies face a series of changes imposed by local and international developments on various economic sectors, the fact that prompted countries to adopt new mechanisms for the purpose to create economic wealth through the support and accompaniment of small and medium-sized enterprises (SMEs).

These institutions represent one of the most important ways to revive the Algerian economy, because of their advantages such as flexibility and lack of capital. Accordingly, many countries consider them as a mainstay

for creating wealth, as in addition to the great contribution in the creation of job opportunities, and in helping the large institutions in production and in the raise of the gross domestic product through exports, SMEs have proven an ability to adapt and withstand in many economic crises.

Economic institutions are the basic nucleus in the economic structure in any country. They are of a great interest, whether in developed or developing countries, including Algeria.

As a result of the failure of the Algerian government in building a stable economy on the basis of black gold (oil), it became necessary to find a reliable alternative to create a sound and secure infrastructure to achieve stability in all sectors.

From the aforementioned points, the following problematic is formulated:

- What is the role of small and medium-sized enterprises to achieve the economic development in the state of Oran?

Research Hypotheses:

To answer this problematic, the following hypotheses were suggested:

Hypothesis 1: Small and medium enterprises in the state of Oran are considered a tool for economic and social development because of their contribution to raising the domestic product, creating an added value, raising the rate of foreign trade exchanges through exports, as well as reducing the problem of unemployment

Hypothesis 2: The level of actual interest in small and medium-sized enterprises has improved in Algeria in general and the wilaya of Oran in particular; this is because of its importance and as an alternative strategy for large institutions that have failed to achieve the desired development.

1. The importance of the research

This study is of great importance, as it deals with one of the most important economic issues that are discussed among various thinkers, economic researchers and development decision-makers in various developed and developing countries. And that is through sudden economic transformations that affect the economies of countries, which is the most prominent value and role of these institutions in the economic and social stability of countries, and the importance of this study lies in the following points:

Local development is one of the basic foundations for achieving comprehensive and balanced development.

The great attention that Algeria has given to these institutions and their establishment of several bodies to support and accompany small and medium enterprises in all the states of the country, especially the region of the Algerian west, and especially the state of Oran, as it is the second economic pole after the capital Algiers.

The great role of small and medium enterprises in the local development of the state of Oran and accelerating its pace through the exploitation of the various resources of the state and the strategic location that contributes to facilitating commercial and industrial exchanges for investors.

Objectives of the study

- The main objective of the research that we are preparing is to conduct a statistical and analytical study of the extent of the contribution of small and medium enterprises to economic and social development, within a geographical framework that does not go beyond the borders of the state of Oran.
- Highlighting the role of small and medium enterprises in the effective contribution to the development of the national economy by providing jobs and raising the added value and the gross domestic product.
- An attempt to highlight the most important characteristics that make small and medium enterprises one of the most important strategies adopted by the state for effective development at the national level or at the level of the state of Oran.
- Studying the position occupied by the support and accompaniment programs for small and medium-sized enterprises funded by the Algerian state after their failure to establish major economic complexes.
- Studying the most important difficulties facing small and medium enterprises in the state of Oran, and proposing some solutions that contribute to solving the problems faced by these enterprises.

2. Research Methodology

This study was based on a set of approaches in line with the nature of the subject:

The descriptive approach: It was used to identify the different theoretical concepts that deal with the study of

small and medium-sized enterprises.

In order to project these theories on reality, we relied on:

- The statistical analytical approach: to analyze the data that represents the indicators of the contribution of small and medium-sized enterprises in Algeria in general and in Oran in particular.

In addition to this approach, we used the following tools of study:

- Books, forums, statistical bulletins, official newspapers, websites, etc. Also, we relied on the analysis of tables on Microsoft Excel program.

The Algerian definition of small and medium-sized enterprises:

Definitions and concepts about small and medium enterprises differ between different countries and bodies concerned; some provide definitions related to the degree of economic growth and other countries provide legal definitions such as the United States of America and Japan and others provide administrative definitions; this is due to the economic differences that exist between one country and another, geographical organization and another, as well as the difference of infrastructure between different economic systems.

According to the article 5 of the law No. 17-02 of 11 Rabi' al-Thani 1438 corresponding to January 10, 2017, that includes the directive regulation for small and medium-sized enterprises, small and medium-sized enterprises (whatever their legal status) are defined as enterprises that produce goods and services employing from 1 to 250 people, run with a turnover not exceeding 4 billion Algerian dinars, or a total annual outcome not exceeding one billion Algerian dinars, with a respect to the standards of independence. (OFFICIE, 2017).

Algeria has adopted its definition of small and medium enterprises, regardless of their legal form as an enterprise producing goods and / or services, according to law no17-02 In accordance with Article 8, 9 and 10 of the Algerian official gazettes, a supplementary explanation of the previously listed definition of SMEs has been provided, which is divided into three categories:

- The average enterprise is defined as an enterprise employing 50 to 250 people and whose turnover is between 400 million and 4 billion Dinars or whose total annual balance is between 200 and 1 billion Dinars. (Article 8 of the Algerian official newspaper)
- Small business is defined as an enterprise employing between 10 and 49 persons, whose annual turnover does not exceed 400 million Dinars or whose annual balance sheet total does not exceed 200 million Dinars. (Article 9 of the Algerian official newspaper)
- The very Small company (TPE), or micro-Enterprise, is a company employing 1 to 9 employees and generating a turnover of less than 40 million dinars or whose annual balance total does not exceed 20 million dinars (Article 10 of the Algerian official news Paper)

3. The methodological framework of the research:

In this part of the research, we tend to study the importance and role of small and medium-sized enterprises in development. Given the large size of the community, we have taken a sample of the economic institutions located in the state of Oran.

3.1 Collecting form data:

After defining the form of the questions and the type of answers, which initially contained 30 questions, the questionnaire was presented to the arbitrators. Some adjustments have been done with regard to the form and content, in addition to the reduction of the number of questions into 26 main questions and 9 sub-questions, including 28 closed questions, 4 open questions and 3 double questions. Then, we distributed the form to institutions and analyze the data using MsExcel.

3.2 Determining the population of the study:

The main objective of the present research is to study small and medium-sized enterprises and their role in the development of the state of Oran, in the industrial, commercial, and service sectors, but it turned out to us that 45% of the sample studied is industrial enterprises because we have taken a random sample.

We acquired a random sample of 60 institutions, of which 38 forms were returned, 20 forms were never returned. 18 institutions apologized for not answering.

3.3 Presentation and analysis of survey results:

After designing the questionnaire, we distributed it to the target sample of the study, which has a capacity of 38 institutions. Among them, we mention the following:

Table 1. A sample of the institutions where the study was conducted

Institutions	Nature of activity	Type of institution	Legal form
Farmetures Mischler Algerie	industrial	public	Shareholding company
Algerian engineering and construction	service	mixed	Shareholding company
TUBEX	industrial / commercial	private	Limited liability company
Oranya Company for Tissue and White Cloth	industrial	private	Limited liability company
EURL POLYTUBE	industrial	private	Limited Liability Company and Sole Proprietorship
Retrapid Placement of Workers	service	private	Individual foundation
Company of Marine Works and Public Works	service / commercial	private	Individual foundation

Source: Prepared by the two researchers on the basis of the data of the questionnaire.

It is evident in the table that the studied institutions differ in terms of type and legal form. These two criteria will be studied in more details through the following two tables:

4. Classification of small and medium-sized enterprises by type of enterprise

Table 2. Distribution of the studied sample by type of institution.

	Public	Private	Mixed
Number	3	34	1
Ratio (%)	8%	89%	3%

Source: Prepared by the two researchers on the basis of the results of the questionnaire.

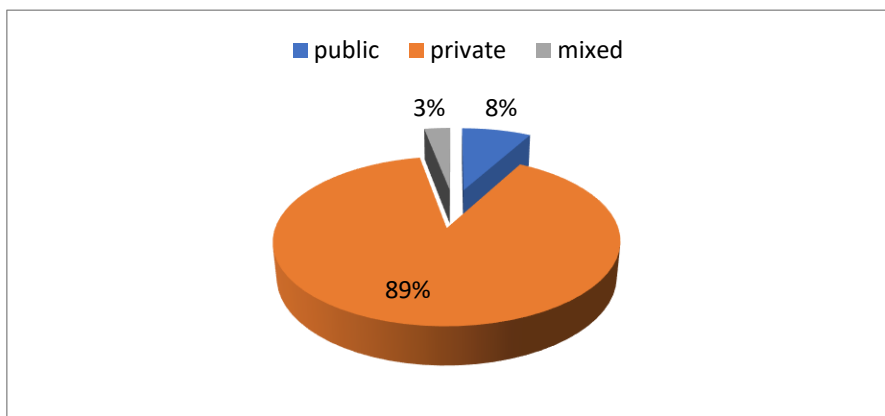


Figure 1. Distribution of the studied sample by type of institution.

Source: Prepared by the student on the basis of the results of the questionnaire.

The previous table shows that the percentage of private institutions exceeds 80%, followed by public institutions with 8% and mixed institutions with 3%. This is due to the privatization policy as well as the programs adopted by the state to advance the economy through this type of institution by opening several centers that accompany, finance and encourage citizens to establish their own projects. In addition to the multiplicity of the nature and type of the institution, the legal form also differed from a limited liability company to an individual company and other forms.

5. Classification of small and medium-sized enterprises according to the nature of the activity

Table 3. Distribution of the studied sample according to the nature of the activity

	Industrial	Commercial	Services
Repetition	22	15	12
Ratio (%)	45%	31%	24%

Source: Prepared by the two researchers on the basis of the results of the questionnaire

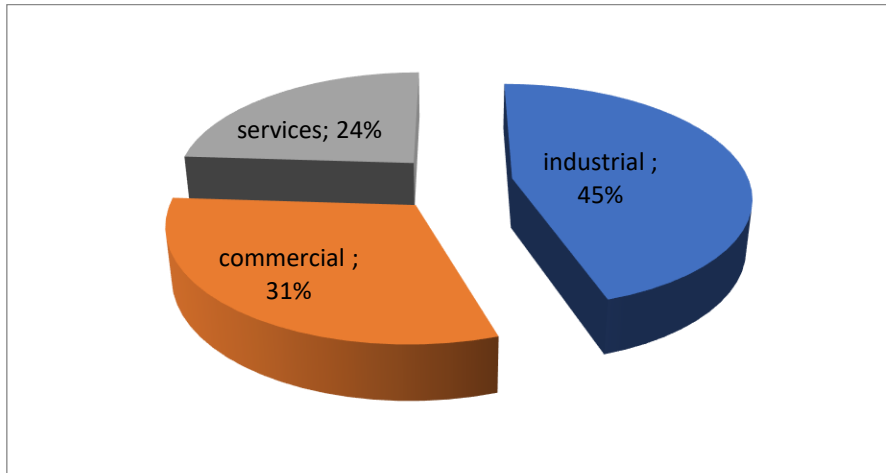


Figure 2. Distribution of the studied sample according to the nature of the activity

Source: Prepared by the two researchers on the basis of the results of the questionnaire

The table (3) reveals the dominance of institutions of the industrial nature with 45% of the total sample studied, for the state of Oran is the second economic pole after Algiers, and a coastal city characterized by many industrial areas, the fact that motivates it to promote trade exchange, then comes the trade sector with 31%, most of which are institutions of an industrial and commercial nature. Finally, there is the services sector with 24%. Concerning the type of these institutions, they varied as follows:

6. Classification of small and medium-sized enterprises according to the legal nature:

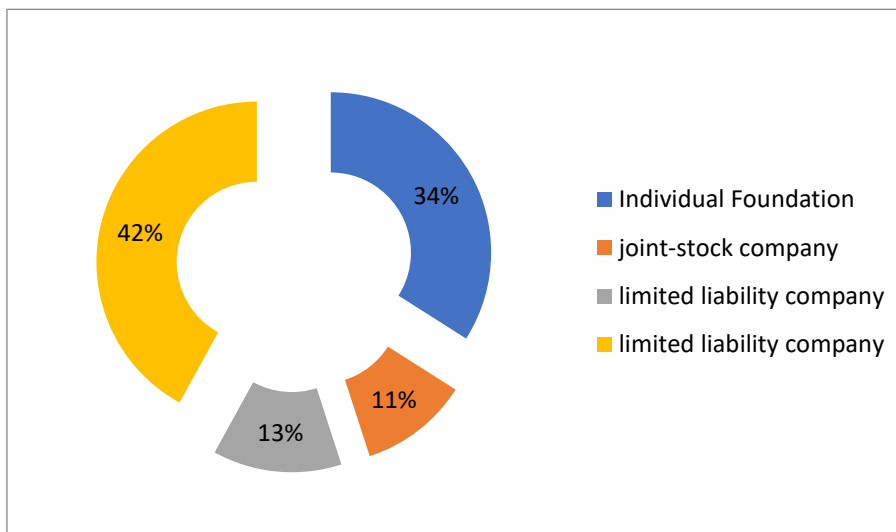


Figure 3. Distribution of the studied sample according to the legal form

Source: Prepared by the two researchers on the basis of the results of the questionnaire.

The analysis of the studied sample summarizes the presence of four main forms with varying proportions, in which the limited liability companies (SARL) recorded the highest percentage estimated at 42%, or 16 institutions. This is due to the nature of the studied sample, which is characterized by the dominance of industrial activity. Then followed by individual institutions with 34%, which is the equivalent to 13 institutions, for most of the institutions in Oran are family institutions. Then, we find the limited liability companies and the sole person with 13%, i.e. 5 institutions. While the rate of stock companies reached 11%, or 4 institutions, we did not record any percentage as for solidarity companies.

Any institution, regardless of its type and legal form, needs funds to establish its project, and one structure may differ in the sources of bringing these funds, and the following figure will show us the most prominent sources on which the studied sample relied.

Table 4. Sources of funding for the studied sample

	Internal financing	External financing	Double financing
Number	27	4	7
Ratio (%)	71%	11%	18%

Source: Prepared by the two researchers on the basis of the results of the questionnaire.

We note through the relative circle the dominance of internal financing, meaning that the institution finances itself, and this reflects the weakness of the Algerian banking system. Although this type of financing has several negatives, such as limited capital and consequently limited production, as well as a high risk rate, 70% of the studied sample did and do so. In second place comes dual financing with 18%, and finally external financing, which is financing banks or relying on government agencies that support small and medium enterprises.

Among these bodies are the following:

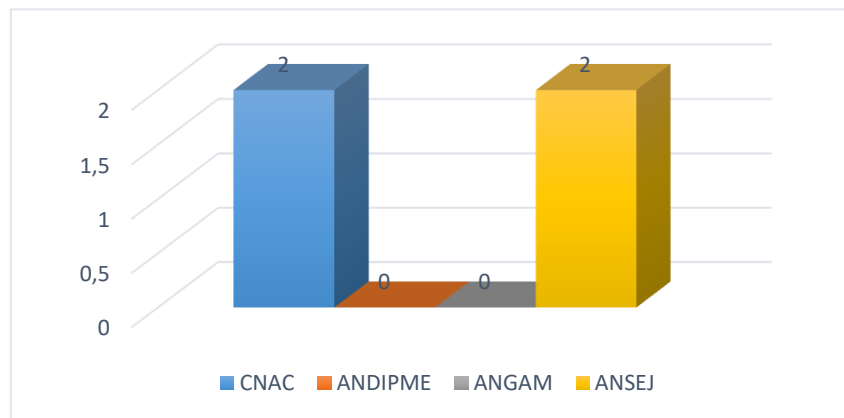


Figure 4. The government agencies that are accredited in the studied sample

Source: Prepared by the two researchers on the basis of the results of the questionnaire.

The sample that was studied was 70% of it was internally funded and 11% and only it was externally funded and from 38 institutions 4 of which used governmental bodies, two of them with the National Unemployment Insurance Fund, and two others with the National Agency for Youth, Support and Employment.

In a study conducted by the World Bank, it was found that 80% of small and medium-sized enterprises were established with 100% personal funds, which indicates the difficulty of obtaining other sources of financing due to the limited financial capacity of the second bank and the limited personal market. Arranging the sources of finance that small and medium enterprises hope to obtain.

Despite the importance of small and medium enterprises and their prominent role in development, they face many difficulties, and through the survey we conducted, we studied the percentage of enterprises that face obstacles and problems, which are as follows:

Table 5. The number of institutions facing difficulties in the studied sample

	Yes	No
Repetieion	31%	7%
RATIO(%)	82%	18%

Source: Prepared by the two researchers on the basis of the results of the questionnaire.

We note from the previous table that a large percentage of the studied sample, estimated at 82%, faces difficulties, and only 18% do not face difficulties, and we will know through the following building chart about the most prominent difficulties faced by this sample taken.

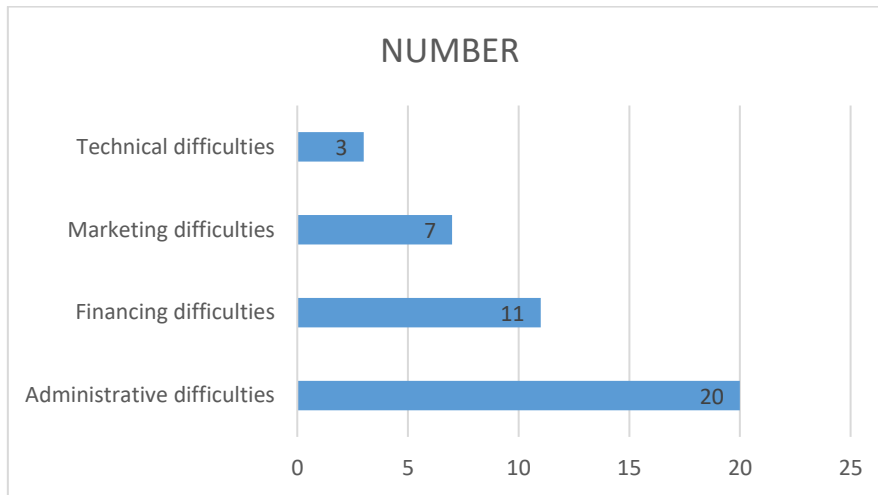


Figure 5. Types of difficulties faced by the studied sample

Source: Prepared by the two researchers on the basis of the results of the questionnaire.

It is clear from the figure that 49% of the studied sample face administrative difficulties, and this is due to the spread of administrative bureaucracy and the large number of documents required, and in the second place comes the financing difficulties by 27%, and this is due to the nature of the sample taken, which depends on internal financing, then marketing difficulties by 17%. The limited market share in proportion to the studied sample, as well as its distance from development and scientific research, and finally the technical difficulties by 7%. These difficulties relate to the problem of the old production machines.

7. The contribution of small and medium-sized enterprises to economic development

7.1. Recruitment:

We followed a classification based on the definition criteria of SMEs in Algeria, according to Law 10 January 2017, laying down the law for the promotion of small and medium-sized enterprises.

and through the following table we will show the classification of institutions on the basis of the number of workers:

Table 6. Classification of the studied sample on the basis of the number of workers

	Medium	Small	Mini
Number	18	13	7
Ratio (%)	47%	34%	18%

Source: Prepared by the two researchers on the basis of the results of the questionnaire.

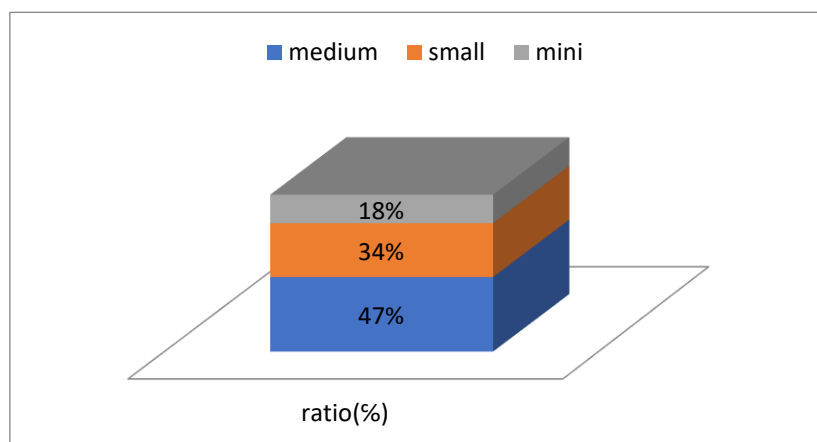


Figure 6. Classification of the studied sample on the basis of the number of workers

Source: Prepared by the two researchers on the basis of the results of the questionnaire.

The table (5) shows clearly that 47% of the studied sample are medium enterprises, 34% are small enterprises. This is due to the nature of the industrial activity of the sample that requires a high number of employments in

between 9 to 250 workers. Then come small enterprises, the activity of which is often limited to the commercial or service sector, requiring not a large number of workers. In these institutions, the type of employment contract differs from permanent and temporary workers. This point will be shown through the following table containing the number of workers in private and public institutions.

Table 7. The number of permanent and temporary workers and stalkers in public and private institutions

	Public	Private	Mixed
Permanents	207	787	15
Temporary	111	511	54
Interns	71	9	6

Source: Prepared by the two researchers on the basis of the results of the questionnaire.

We note from the table that private institutions contribute to creating jobs more than other institutions, but if we compare the sample taken, we find that we took 34 private institutions and three public institutions so that the number of their workers reaches 1307 and 389 respectively, meaning that the number of institutions with a private property is twice the number of public institutions and employs The latter ranges from 50 to 250 workers, as for private institutions, their number of workers ranges from 9 to 250 workers, and from here we conclude that public companies employ more workers than their counterparts, and this is due to the difference in the internal organization between them. As for private institutions, they employ one person for several jobs, for example, and he is the accountant, the supervisor of wages, and several other works, and this is because of reducing costs and investing money in other projects. The total number of workers in the studied sample is 1771 workers, and this is a large number in 38 institutions, and to reach this number requires several years, most of the elements of the sample range from 5 years to 30 years or more, they are either in the stage of expansion i.e. Opening branches and increasing production units or they In the stage of growth, development and increase in profits, and this is also reflected in the nature of the studied sample, most of which crystallize in institutions of medium or small size, followed by institutions whose age ranges between two and five years. Small too. Through these results, the role and effective contribution of small and medium enterprises in creating jobs and reducing the unemployment rate at the level of the state of Oran became evident, which results in the provision of new sources of income and an increase in consumption

7.2. Market share

Table 8. The number of institutions that have innovated in their products.

	Yes	No
Number	10	28
Percentage (%)	26%	74%

Source: Prepared by researchers based on questionnaire results.

We note from the table that the percentage of institutions that did innovation is 26%, while the institutions that did not do so reached 74%, and this is due to the fact that institutions in the state of Oran are not interested in development and scientific research and are far from the university and this is what makes their products overcome by the aspect of dependency Quote only, not development and innovation.

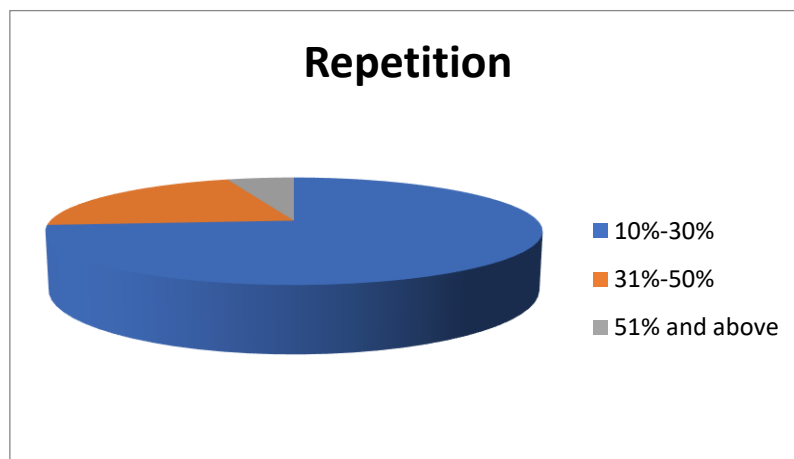


Figure 7. Distribution of the market share percentage of the studied sample

Source: Prepared by the two researchers on the basis the results of the questionnaire.

The graphs show that 28 institutions, i.e. 74% of the studied sample, have a market share ranging from 10% to 30%, 8 institutions whose share ranges from 31% to 50%, and two institutions whose share in Oran market reaches 51% or more. This is due to the strength of competition and the continuous increase in the number of small and medium-sized enterprises, as well as the monopoly of several European products in Oran’s markets.

The main objective of creating small and medium-sized enterprises is to advance the national economy and achieve self-sufficiency, the fact that has not been achieved yet in Oran. When this stage is reached and the local market is covered, the enterprises go to the external market through export. The following results have been extracted after studying this factor:

7.3. Export

Table 9. The number of exporting institutions in the studied sample.

	Yes	No
Repetitions	4	34
Ratio (%)	11%	89%

Source: Prepared by the two researchers on the basis of the results of the questionnaire.

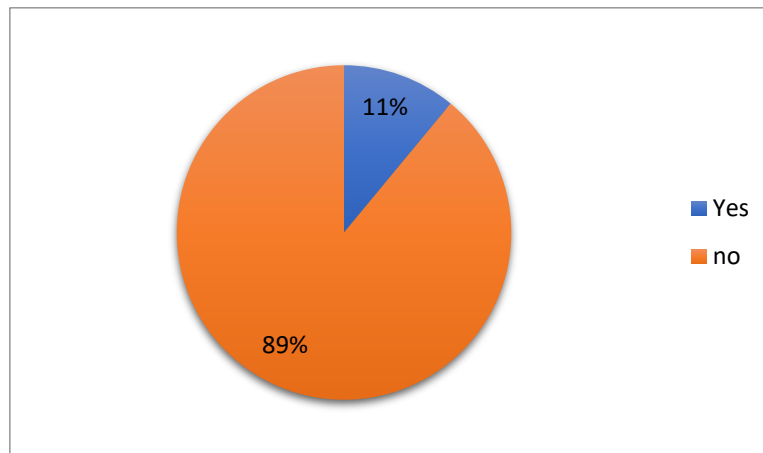


Figure 8. Percentage of exporting institutions

Source: Prepared by the two researchers on the basis of the results of the questionnaire.

The following data shows that the number of the exporting institutions does not exceed 4 institutions at a rate of 11%, because of the institutions' inability to cover the local market, and the complexity of the financial environment as most institutions finance themselves (internal financing).

Industrial establishments produce manufactured or semi-finished products. They need other institutions to supplement their product, urging the so-called subcontracting. Large enterprises cannot produce all parts of their products, which require them to increase the cost and time.

7.4. Value Added

Small and medium enterprises have a leading role in creating and achieving added value for the continuity of these enterprises. In this table, we will discuss the extent to which the studied sample contributes to creating an added value in the local economy of Oran.

Table 10. Distribution of the studied sample based on its contribution to creating an added value.

	Yes	NO
Repetitions	36	2
Ratio (%)	95%	5%

Source: Prepared by the two researchers based on the results of the questionnaire.

The table (10) reveals that 95% of the studied sample has an added value, and two institutions at a rate of 5% do not think so. This is due to two indicators: 1- the number of workers in both does not exceed 5 workers, as they belong to micro-enterprises and face many problems, 2- the variation of the percentage of value-creating institutions, distributed as follows:

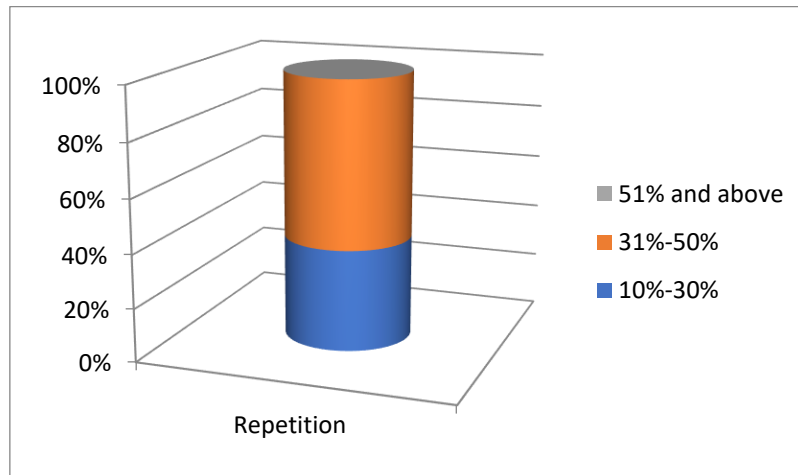


Figure 9. The contribution of the studied sample to the added value.

Source: Prepared by the two researchers on the basis the results of the questionnaire.

It is clear from the graph that 25 institutions contribute between 10% and 30% in creating an added value, 13 institutions contribute from 31% to 51%, and no institution has registered more than 51%. This is due to the small percentage of the sample’s contribution to the market, as well as the small number of workers compared to the number of the institution. This refers to the fact that 89% of the sample taken is private institutions. Since we took a sample that contains 38 institutions that create 95% of the added value, then they necessarily contribute to the gross domestic product. The following table will show us the percentage of the contribution of the studied sample.

7.5. Raw internal output

Gross domestic product is a significant economic indicator in evaluating economic growth. In the following table, we will show the number of institutions that contribute to raising the internal output.

Table 11. The number of institutions contributing to the raw internal output

	Yes	No
Repetition	26	12
Ratio (%)	68%	32%

Source: Prepared by the two researchers on the basis of the results of the questionnaire.

It is clear from the table that 26 institutions, amounting to 68% of the studied sample, contribute to the gross domestic product outside the hydrocarbons sector, and 12 institutions responded without because they are institutions in the process of growth.

This is what makes us stress the need to strengthen these institutions in light of economic reforms to activate their contribution to development, both social and economic

8. Analysis of the results

Through this study, several results were reached, which are summarized as follows:

- Small and medium enterprises contribute to solving the problem of unemployment by providing jobs and improving the social level of the state of Oran.
- The studied sample contributes by 95% to create the added value of the local economy, and this resulted in raising the gross domestic product outside the hydrocarbon sector, as we recorded 68% of the institutions that were conducted the study, which contributed to raising the gross domestic product and thus activating foreign trade through export and import.
- Institutions rely on internal funding because of the risks involved in order to avoid the difficulties and obstacles they face when resorting to support agencies and institutions.

9. Hypothesis discussion

Hypothesis 1:

Small and medium enterprises have a major role in developing the economy and achieving structural development, so that the studied sample contributed by 95% to creating an added value for the local market, manufactured products and services provided to the community, they necessarily contribute to raising the internal product by 68% and this is due to the fact that 45% of society The studied are industrial enterprises and this is what qualifies them to activate foreign trade through export, as the percentage of exporting enterprises reached 11% of the sample studied, and from here we conclude the prominent role of small and medium enterprises in the advancement of the local economy of the state of Oran.

Small and medium enterprises have an effective role in reducing the problem of unemployment and achieving social development, as the studied sample contributed to the employment of 1,771 workers in 38 economic institutions, and this clearly highlights the effective contribution of these enterprises in reducing unemployment at the level of Oran state by providing new jobs, increasing consumption and improving The state's social and economic level.

Hypothesis 2:

The state of Oran has a sector of small and medium-sized enterprises that allows them to activate the industrial and production fields, as it is located in an important geographical location overlooking the Mediterranean Sea and is considered the second economic pole after the capital Algiers.

This prompted the concerned authorities to pay attention to small and medium enterprises and to create the appropriate conditions to support these institutions by setting up a set of mechanisms and supporting structures and accompanying them at the level of the state of Oran. This is due to the lack of rational and rational exploitation of the agricultural, tourist and human potentials available to the state by the sector institutions.

Recommendations and suggestions

- Providing administrative facilities to the investors to encourage them to invest in Algeria, by defining the financial and administrative procedures through an accurate description of the tasks, powers, and time required, by embodying it on the ground.
- Connecting entrepreneurs with creative projects to scientific research, by providing financial incentives to universities, through which they establish nurseries that incubate new projects and allow them to grow.
- Implementing the policy of raising the ceiling of loans allowed for banks at the level of their branches and agencies, and the rapid and effective processing of loan files provided by small and medium enterprises.
- Permanent guarantee of the state authorities to find suitable formulas for young investors to benefit from real estate and shops that are in line with the proposed projects.

Conclusion

Through our presentation and analysis of the research results, it became clear the position and role of small and medium enterprises as one of the most important entrances to the development, as many developed and developing countries have relied on these institutions to achieve economic and social development.

The trend towards establishing small and medium enterprises has become important and necessary, due to their contribution to economic recovery and a basic premise for increasing production capacity. Oran is given great interest, as a result of its prominent role in employment and the absorption of unemployment and its effectiveness in covering the local needs of the state and raising the tax revenues of the various municipalities, as well as its role in promoting the agricultural, industrial and tourism sector, which requires the state authorities to be firm and awaken to promote the sector of small and medium enterprises and to provide all means for its development. This is done by taking advantage of the support structures that the state has harnessed in order to grant investment loans and reduce obstacles that limit the role of small and medium enterprises and thus increase the number of small and medium enterprises, which in turn contribute to moving economic activities as 95% of small and medium enterprises contribute to the added value and 68% of the gross domestic product and thus may She saw it on stimulating foreign trade, as 11% of the studied sample export their products outside Algeria.

Despite the potential of Oran state, and the reforms it carried out to develop small and medium enterprises and activate their developmental role, these institutions need clear support and comprehensive accompaniment, so the state of Algeria must adopt a clear policy to advance this sector and benefit from the experiences of successful countries, with the other considering its capabilities and capabilities.

Research horizons

After studying the various aspects that are related to the possibility of small and medium enterprises to contribute to building a comprehensive and serious development that compensates for the hydrocarbon economy, and contributes to the development of exports, we believe that the topic expands to other problems worthy of research and study, including:

- Directing small and medium enterprises to the agricultural sector.
- The role of small enterprises in reducing unemployment and spreading economic movement in remote areas.

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