

International Challenges for Algerian Small and Medium Enterprises to Find a Common Accounting Language

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Abstract---This research aims to find out the requirements of disclosure of the financial information in the Algerian institutions in accordance with the Standard on SMEs international financial reporting, where the International Accounting Standards Board confirmed that the accounting of small and medium enterprises is different from other institutions, and that the full criteria developed for the large-sized enterprises, and it has been developing an international standard suitable for users of financial statements in the small and medium enterprises, as the financial accounting system in place in Algeria is derived from the full of international accounting standards, and applied in all institutions without classification. It has been confirmed by this study that some processing of accounting events modes according to the financial accounting system is not suitable for small and medium enterprises in Algeria. This underscores the different nature of financial statement users in this kind of institutions for others, according to the positive perspective of the theory of accounting, which is working on an analysis of actual transactions the institution in order to determine the economic and social factors affecting on choice of a particular accounting policy, was confirmed by the study that each of the indebtedness and international transactions and the size of the institution are not influencing on the small and medium enterprises in Algeria to apply the standard international financial reporting of small and medium-sized enterprises, and this underlines the lack of readiness on the disclosure of financial statements in accordance with international reference in this kind of institutions.

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Introduction

In order to establish an accounting language that considers the specific characteristics of small and medium-sized enterprises (SMEs), interest in developing international accounting standards for these entities emerged in 2001 with the introduction of the “Little IFRS.” This framework represents a simplified set of accounting principles compared to the full version, known as the “Full IFRS.” In July 2009, it was officially renamed the *International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs)*.

Based on the nature of this reform initiated by the International Accounting Standards Board (IASB) as a means to enhance the quality of accounting information in SMEs, and given the specificities of the Algerian economy which seeks to integrate into the global market the need for international cooperation among countries has grown. The implications of these developments require Algerian SMEs to reconsider their accounting systems in order to produce more transparent and realistic information about their financial situation.

To take advantage of investment opportunities and to realise the future vision of these enterprises, it is essential to establish accounting systems that reflect their particular characteristics. Drawing on positive accounting theory, which seeks to identify the motives underlying management behaviour in matters of financial measurement and disclosure in order to achieve a better understanding of existing accounting practices, it becomes possible to examine the factors influencing the choice of the IFRS for SMEs as an alternative accounting measurement framework within Algerian enterprises.

Algeria reformed its accounting system with the aim of aligning it with international accounting practices. This reform led to the adoption of a financial accounting framework applicable to all types of institutions, regardless of their size, and based on the full set of International Accounting Standards. However, the International Accounting Standards Board (IASB) recognised that small and medium-sized enterprises (SMEs) are often unable to disclose their financial position in accordance with the full International Financial Reporting Standards (IFRS), which are primarily designed for entities operating in complex and highly developed environments.

Consequently, the IASB developed a specific standard for SMEs to reduce their accounting burden while simultaneously enabling them to prepare financial statements in line with an international reference framework. This, in turn, allows SMEs to operate beyond national borders, attract investment capital, and expand their activities internationally.

In this context, and given the coexistence of multiple accounting alternatives and the adoption of a unified financial accounting system that does not differentiate between institutional specificities, this research aims to evaluate the current financial accounting system applied to small and medium-sized enterprises in Algeria. It also seeks to explore the potential motives within the framework of positive accounting theory that influence the disclosure of accounting and financial information in accordance with the *International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs)* in Algerian institutions.

Theoretical Literature

This section presents a review of the relevant literature and previous studies that have examined and analysed the factors influencing the adoption of the *International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs)*.

1- Classification of small and medium enterprises:

Several studies have identified more than 50 definitions of small and medium-sized enterprises (SMEs) across 75 countries Sahnoun (2006), due to differences in classification criteria from one country to another. Some rely on **quantitative criteria**, such as the number of employees or capital indicators, while others use **qualitative criteria**, including ownership structure, management independence, market size, and other indicators.

However, the **International Accounting Standards Board (IASB)** has noted that these previous criteria are not the only ones used to classify SMEs. It has therefore established another criterion for distinguishing large enterprises from others: **accounting responsibility towards the public**. Accordingly, any enterprise with a responsibility towards the public is considered a **large enterprise** and must apply **full International Financial Reporting Standards (Full IFRS)** in preparing its financial statements. Enterprises without such public accounting responsibility are classified as **small or medium-sized enterprises** and must apply the **International Financial Reporting Standard for SMEs (IFRS for SMEs / IFRS-PME)**.

2 - The International Financial Reporting Standard for SMEs (IFRS for SMEs):

The debate over the design of accounting standards for small and medium-sized enterprises (SMEs) dates back several decades. It began in the United States in 1976 Hedfi (2010, pp. 14–15) and subsequently spread to several countries, including the United Kingdom and other European nations, as well as Australia and Canada. In the early years of the previous decade, the development of specialised accounting standards for financial reporting by SMEs became a topic of growing interest among various professional bodies, including the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting (ISAR).

The initial recognition of the diversity in the information needs of users of SME financial statements, as compared with those of large enterprises, marked a significant milestone in this debate. These efforts were formally documented by the International Accounting Standards Board (IASB) beginning in 2001 (International Accounting Standards Board, 2009, p. 9) a period that represented considerable progress in this field. During that time, a *Discussion Paper* on the topic was issued with the aim of unifying perspectives and gathering feedback.

In its 2002 annual report addressing the issue of financial information in SMEs, the Founding Committee of the International Financial Reporting Standards acknowledged the need for a differentiated approach. Consequently, the IASB established a working group composed of accounting experts to provide technical advice, propose solutions, and explore possible alternatives. This advisory group was created to identify ways to reduce the accounting burden on SMEs while ensuring continued adherence to the principles of recognition and measurement as set forth in the International Accounting Standards. In addition to maintaining a balance between cost and benefit, the International Accounting Standards Board (IASB) published, in June 2004 Neag et al. (n.d., p. 34), a research paper presenting preliminary views on the development of international standards for small and medium-sized enterprises (SMEs). The paper outlined the approach adopted by the working group responsible for formulating international standards applicable to SMEs. It also highlighted a number of issues proposed by the Board as preliminary solutions and invited stakeholders to provide their comments and suggestions.

At this stage, no concrete proposals had yet been issued to simplify accounting standards for SMEs. The IASB received 120 responses to the research paper, after which it began a series of meetings to discuss the general framework for developing a suitable standard for this category of enterprises. Following this phase of consultation and analysis, the Board was able to determine its direction.

On 5 April 2005 Lo Russo (2010, p. 142), the IASB published a questionnaire addressing potential modifications to accounting principles and valuation methods contained in the International Accounting Standards, with the aim of adapting them to the specific needs of SMEs. This document particularly emphasised two main issues:

First: It aimed to identify the areas in which the accounting principles and valuation methods contained in the *International Financial Reporting Standards (IFRS)* could be simplified.

Second: It aimed to identify the accounting treatments within the International Financial Reporting Standards (IFRS) that were not suitable for the specific characteristics of small and medium-sized enterprises (SMEs).

More than one hundred responses were received and subsequently discussed during a series of meetings. These discussions led to the development, in January 2006, of a *Discussion Paper* presenting the proposed standard for SMEs. Successive versions of this draft were later issued to incorporate feedback gathered from meetings and roundtable discussions held with preparers and users of SME financial statements.

A revised *Discussion Paper* was published in February 2007. Two years after this release, and following the removal of numerous sections that overlapped with the full International Financial Reporting Standards, the International Accounting Standards Board (IASB) issued the final version of the *International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs)* in 2009 (Kaya & Koch, 2015, p. 96).

3- Objectives of the International Financial Reporting Standard for Small and Medium-sized Enterprises (IFRS for SMEs):

Accounting is described, in terms of the nature of its outputs, as the **language of business**, and in terms of its activity, as an **information system** that relies on measuring the actual economic activity of an enterprise and communicating financial information. It supports **economic globalisation** and contributes to the **integration of financial markets** (Chnouf, 2007, p. 22).

3.1- The Objective of Improving Comparability

According to Hoarau, the comparability of financial information has emerged as a necessary condition for the more efficient allocation of resources worldwide and for reducing transaction costs. The comparative process enables decision-makers to gain insight into developments beyond national borders and provides a comprehensive view of the financial performance of certain small and medium-sized enterprises (SMEs).

Among the key decision-makers within these enterprises are managers and partners, who play a primary role in conducting research, analysis, and the effective implementation of best practices aimed at improving performance and ensuring the smooth operation of organisational activities. This approach is commonly referred to as *benchmarking* (Camp, 1989).

A second group of decision-makers includes investors, capital providers, and other financial and economic stakeholders. This group faces increasing competition, a persistent need to access new markets, and continuous pressure to enhance competitiveness. However, benchmarking can only be effectively applied when performance measurement methods particularly those related to financial indicators and the organisation's financial position derived from accounting records are standardised and comparable.

The ability to seize investment opportunities at minimal cost also depends on such comparability. For this reason, the International Accounting Standards Board (IASB) identified the comparability of financial statements as one of the key issues underpinning the necessity of developing the *International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs)*.

3.2- The Objective of Increasing Transparency

Many researchers in the field of accounting agree that transparency in financial matters represents a genuine ideological principle. As stated by Labegare Dabooba, "The need for transparent financial communication has become one of the main demands of economic and financial institutions." The call

for transparency in financial statements has intensified following a series of major global scandals in recent years, such as those involving Enron and WorldCom in the United States, Parmalat in Italy, and other corporations.

In this context, the *International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs)*, issued by the International Accounting Standards Board (IASB), can undoubtedly contribute to enhancing transparency and comparability in the financial statements prepared by such enterprises. This contribution stems from the IASB's global reputation as a trusted international regulatory body, which serves to reduce potential risks faced by these organisations, limit information asymmetry, broaden access to financial resources, and consequently lower the cost of capital.

3.3- The Objective of Achieving Development

Accounting provides reliable information that explains an enterprise's performance. In this context, one of the most critical problems affecting small and medium-sized enterprises (SMEs) in Algeria and worldwide is **the lack of external financing and the high cost of capital** Levratto and Ramadan (2009, p. 9). This situation results from lenders' lack of clear vision and the **high performance risks** associated with the activities of these enterprises.

It is therefore important to note that both the **full International Financial Reporting Standards (Full IFRS)** and the **International Financial Reporting Standard for Small and Medium-sized Enterprises (IFRS for SMEs or Little IFRS)** were developed to meet the needs of this category of users. Among the members of the **International Accounting Standards Board (IASB)** are representatives from financial institutions who contribute to the preparation of standards. These standards help establish a **new methodology for managing SMEs**, based on new performance indicators and management methods contrary to the previous approach that relied mainly on operating results.

It is no longer possible to assess and analyse an enterprise's performance solely based on its net results or cash flow, without understanding how available resources are allocated. This new perspective can **facilitate SMEs' access to credit** from the financial sector by *gradually replacing real guarantees with financial performance analysis*.

This change in vision not only involves adopting new accounting methods and presenting financial statements differently, but also **creating a comprehensive information system and reforming financial communication**.

At the internal level, implementing the IFRS for SMEs also offers an opportunity to **redefine and reorganise roles** within the enterprise. The objective of ensuring reliability and relevance of information requires **decentralising information**, which in turn promotes the participation of various stakeholders in collecting, analysing, and transmitting data. This approach allows better utilisation of **intellectual capital**, which is often underused, particularly in SMEs.

All these internal and external transformations provide a **solid foundation for developing SMEs**, especially since they represent one of the **key pillars of any country's economy**.

4- Reasons for Choosing the International Financial Reporting Standard for Small and Medium-sized Enterprises (IFRS for SMEs) Among Accounting Policy Alternatives

Positive accounting theory focuses on identifying the motivations behind management behaviour in matters related to financial measurement and disclosure, as well as providing a better interpretation and understanding of the nature of existing accounting practices. Since management is responsible for preparing financial information, it takes into account all the anticipated effects of the information disclosed.

Several studies have highlighted the motives driving managerial intervention in measurement processes. These motives may include **contractual incentives** aimed at achieving personal interests, **borrowing-related incentives** to reduce the cost of loans, **tax-related motives** to influence tax payments, and **financial market incentives** to maintain the company's reputation among competitors, preserve and continuously maximise its share prices, and meet the expectations of financial analysts.

Accordingly, from this perspective which examines the motivations behind accounting choices among available alternatives the **financial accounting system of small and medium-sized enterprises (SMEs)** will be studied and evaluated, in order to assess the possibility of adopting the **International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs)** in Algeria.

5- Factors Influencing the Shift of the Accounting Framework Towards an International Reference

Accounting is nothing more than a **mirror reflecting the financial position of an enterprise**. It seeks to select the **accounting alternative** that best meets the needs and expectations of users of its financial statements, thereby assisting them in making appropriate decisions. The main factors can be outlined as follows:

5.1- Dependence on Global Markets

Institutions with geographically extensive distribution operations must meet the needs of the users of their financial statements. According to a study conducted by **B. Raffourier (1995)**, institutions operating at the international level are more concerned than others with disclosing information that satisfies the needs of foreign users. Similarly, a study by **Joachim and Thorsten (2006)** confirmed the existence of a positive relationship between a company's international activities and the voluntary disclosure of financial statements in accordance with *International Accounting Standards (IAS)* (Zeghal & Mnif Selmani, 2010).

5.2- Corporate Governance

The direct impact of implementing corporate governance lies in restoring confidence in accounting information, resulting from the achievement of a comprehensive concept of information quality, which is based on a set of established standards. Moreover, such information exerts both direct and indirect effects on stakeholders, who seek to minimise the problem of information asymmetry and to strengthen their trust in the institution. Accordingly, the main factors influencing an institution's reliance on international accounting frameworks can be outlined as follows:

a- The Quality of Audit Firms: Numerous studies have demonstrated the role of audit firms in altering the accounting structure of organisations within the framework of **signalling theory**. Many researchers, including **R. S. O. Wallace and K. Naser (1995)**, have confirmed that audit firms encourage their clients to disclose as much information as possible and to rely on international frameworks when preparing financial statements, which enhances both the quantity and quality of disclosed information. The encouragement by audit firms for their clients to modify their accounting structures in line with international standards can be explained by two main reasons:

- To compel clients to apply strict, high-quality accounting standards in order to demonstrate the professionalism of these firms and maintain their reputation.
- To recognise international accounting standard-setters as highly qualified professionals with strong educational backgrounds in the field of accounting.

Findings from previous research also reveal a **positive relationship** between international audit firms the **"Big Four"** and the voluntary adoption of international accounting standards. This was confirmed by **Zéghal and Mnif Sellami (2010)** in a study conducted on French companies that voluntarily adopted international accounting standards prior to their mandatory implementation in 2005.

b- The Level of Indebtedness: Numerous studies have confirmed that the level of indebtedness influences the accounting structure of an organisation. According to Jensen and Meckling (1976), external financing represents an opportunity for shareholders to transfer wealth into their own accounts at the expense of creditors. In practice, shareholders are often motivated to invest borrowed funds in high-risk projects to increase the expected return without incurring additional costs. Therefore, institutions with higher levels of debt require more effective monitoring of the agency relationship between shareholders and creditors. Consequently, the disclosure of additional information in financial statements is used by creditors to assess and monitor the organisation's financial position.

Furthermore, studies by Michailescu (1998) and Chavent et al. (2005) confirmed that the level of indebtedness indeed affects the extent of information disclosed in financial statements. It can thus be stated that the debt ratio is among the most significant determinants influencing accounting choices. Senior management in organisations where borrowed capital exceeds owned capital tends to select accounting methods and policies that increase net profit, thereby enhancing shareholders' equity. This, in turn, helps to ease the restrictions and conditions imposed by loan agreements on the organisation's activities restrictions that are often directly related to the level of shareholders' equity.

C- Individual ownership: A study conducted by Joachim and Thorsten (2006) confirmed that ownership concentration influences the adoption of international accounting standards. According to Madhkour (2008), in institutions managed by their owners, managers tend to make all decisions that maximise their personal benefits and profits. However, when a manager owns less than 100% of the capital implying a partial separation between ownership and management they are likely to exert less effort compared to owner-managers and to seek additional personal advantages, as part of the associated costs will be borne by other owners. Positive accounting theory predicts that organisations managed by employed (non-owner) managers are more likely to select accounting methods and policies that result in increased reported profits than those managed by their owners (Mokled, 2009–2010).

3.5- Operational Characteristics

In light of the intended objectives of the activity, the goals of an institution's accounting system vary according to the functional scope of each unit. This variation leads to differences in the application of accounting principles, foundations, rules, methods, and procedures, which are also influenced by the operational environment in which the institution functions. Consequently, the operational characteristics of an institution have a significant impact on determining the accounting methods and rules applied Affes and Callimaci (2007). Two specific operational characteristics have been confirmed to influence the adoption of international accounting standards, as follows:

a- Size of the Enterprise: According to a study conducted by Jensen and Meckling (1976), agency costs increase with the size of the organisation. Therefore, larger organisations are required to disclose more information in order to reduce these costs. Large firms tend to provide greater disclosure than smaller ones to minimise agency expenses.

Similarly, Firth (1979) and Craswell and Taylor (1992) found that small-sized enterprises, which are a primary source of supplementary information, should disclose less additional information, as excessive disclosure may place them at an unfavourable competitive disadvantage.

In line with signalling theory, Bourmont (2006) argued that managers of large enterprises should be encouraged to report to investors on the quality of their operations through increased information disclosure. Furthermore, Cuijpers and Buijink (2005) confirmed the existence of a positive relationship between firm size and the voluntary adoption of international accounting standards (IAS).

Regarding small enterprises, several studies have indicated that such firms generally do not require advanced consultancy in accounting, taxation, or auditing. Instead, they need efficient, low-cost accounting systems and managerial guidance to make sound decisions and direct their actions toward achieving organisational goals. This can be attributed to the level of investment characteristic of the sector, as well as to the firms' limited access to financial markets.

b- Profitability Rate: Many studies have confirmed that profitability influences the adoption of international accounting standards. Higher profitability levels encourage managers to disclose information that demonstrates their management competence, often with the aim of enhancing their compensation. Efficient capital utilisation further motivates managers to communicate the institution's position to prospective investors for security evaluation.

A study conducted by Leuz and Verrecchia (2000) and Joachim and Thorsten (2006) on German companies confirmed that profitability has a positive effect on the decision to adopt international accounting standards voluntarily.

The determinants previously mentioned as influencing the adoption of international accounting standards have generally been tested using the full International Financial Reporting Standards (Full IFRS) on large enterprises. However, small and medium-sized enterprises (SMEs) differ considerably

from large firms. Therefore, these variables may have distinct effects when applied to SMEs regarding their capacity to adopt the IFRS for SMEs (IFRS–PME).

Contracts and implicit liabilities can be considered key determinants in selecting specific accounting policies among alternatives. Management tends to choose accounting policies that increase net profit, aiming to influence other stakeholders' perceptions, particularly regarding the company's reputation for fulfilling implicit obligations. This reflects one of the core issues in agency theory: information asymmetry. Positive accounting theory explains these economic and behavioral motives, linking them to practical application by observing, interpreting, and analyzing current practices while predicting future outcomes.

Accordingly, accounting information must provide predictive capacity to enable decision-makers to make choices aligned with their investment preferences. Based on this framework, a set of factors was selected to assess Algerian SMEs' readiness to adopt an international accounting standard tailored specifically for small and medium enterprises.

3.6- The necessity of financial accounting for small and medium enterprises

The enumeration of accounting alternatives is, in fact, an attempt to meet the specific needs of each institution within its surrounding circumstances. This highlights the necessity of developing accounting systems tailored to small and medium-sized enterprises (SMEs), which differ from those applied to large organizations, or at least differ to some extent due to the unique conditions affecting these institutions.

In SMEs, issues such as information asymmetry and moral hazard are more pronounced than in larger enterprises. These issues stem from limited financial transparency, ownership structures, and other characteristics that distinguish SMEs from larger firms. Consequently, debtors often exhibit hesitation regarding long-term loans, particularly when high risks are associated with asset replacement.

Assuming that all organizations must implement identical accounting systems may constitute a significant obstacle to performing fundamental accounting functions. From an economic perspective, the impact of a transaction on a small business conducted by one or two individuals differs substantially from the impact of the same transaction on a large organization. Although the transaction may be identical, the surrounding circumstances differ, and therefore accounting must be capable of reflecting these differences accurately (Mhawah, 2010–2011).

Since the advent of accounting, it has been applied uniformly to all organizations, without considering their size or structure. However, with the growing focus on small and medium-sized enterprises (SMEs), the primary factors contributing to their success or failure have been classified into two categories: external factors, such as competition, government legislation, technology, and other environmental influences; and internal factors, such as management skills and accounting systems.

In a study conducted by Wichmann (1983) on the challenges faced by small enterprises, a range of contextual factors was evaluated, and it was found that 60% of the problems were related to accounting. These issues primarily concerned bookkeeping, the use of accounting information, cash control, and cost management. The remaining 40% were attributed to other factors, including marketing (e.g., planning, defining the target market, pricing) and administrative challenges such as long-term planning, inventory control, employee selection and supervision, and debt management. In summary, the problems were largely associated with accounting or accounting-related matters.

Another recent study conducted by the International Accounting Standards Board (IASB) on 7,000 small and medium-sized enterprises across 20 developing countries provided evidence that the quality of accounting in this sector has a critical impact on investment efficiency and effectiveness. The importance of accounting is highlighted in its role as a tool for decision-making at both macro and micro levels, as well as a tool for verification and control. Accordingly, the IASB has issued a standard specifically for small and medium-sized enterprises, designed particularly to stimulate the interest of investors and capital donors, ensuring the provision of high-quality, comparable financial information. The Board identified the following reasons for the establishment of this standard:

- Financial institutions that have begun providing loans across national borders. In most countries, more than half of the institutions benefiting from loans are small and medium-sized

enterprises. Making lending decisions, setting conditions, and determining interest rates require access to financial statements. Moreover, conducting comparisons between financial statements is a key factor in the efficiency of capital markets.

- Suppliers assess the financial conditions of investors in other countries before selling their goods or services on credit.
- Financial rating agencies, in their efforts to establish a unified cross-border rating system such as banks and other globally operating institutions consider the financial information provided to them as critically important for the rating process.
- Foreign suppliers use financial statements to evaluate the long-term prospects of trade relationships.
- Venture capital institutions that provide financing to small and medium-sized enterprises.
- External investors who are not involved in the day-to-day management of the organization.

Relying on a high-quality accounting framework is essential for managing the affairs of an organization globally, as it ensures adherence to strict accounting rules and continuous oversight. Institutions targeting financial markets require a communication platform to support business planning and decision-making. Consequently, an effective and competent internal structure is necessary to manage and generate information flows. In this context, financial accounting tailored to small and medium-sized enterprises plays a crucial role in their internal and external development.

5.5- Impact of Implementing the International Financial Reporting Standard for Small and Medium-sized Enterprises (IFRS for SMEs):

The adoption of the IFRS-PME standard by Algerian small and medium-sized enterprises (SMEs) is likely to influence both the methodology and the behavior of stakeholders, internally and externally. This change is considered a positive development, as it highlights the performance and developmental capabilities of SMEs. Furthermore, it presents a new challenge for SME managers in the field of business management, as this alignment will affect the organization's management practices and decision-making processes particularly regarding the centralization of information and decisions, as well as their dissemination to various actors involved in monitoring and steering the organization (pilote).

Relying on an accounting framework that takes into account the specific characteristics of Algerian SMEs is expected to reshape their strategic vision, particularly in relation to the following aspects (Hedfi, Year, pp. 175–183):

A- A new vision of the concept of performance: Any organization, regardless of its nature, utilizes a variety of resources to provide a product or service and, in doing so, creates and distributes value (valeur). In this context, accounting plays a crucial role in providing information related to these operations to meet both internal and external needs. Since the financial accounting system is not specifically designed for small and medium-sized enterprises (SMEs), it does not fully capture the concept of value creation in accordance with the structure of SMEs.

In practice, the concept of operational profit reported in financial statements serves as a primary indicator of an SME's performance and operational efficiency. Stakeholders interacting with the organization often perceive this outcome variable as representing the enterprise's ability to generate cash flows and, consequently, to meet its obligations to banks and creditors. Profit, therefore, reflects the organization's capacity to survive and grow, contributing to investment and financing decisions.

However, this traditional measure of performance is limited, as it does not reflect the internal performance of the organization in terms of value creation, particularly regarding the management of human and material resources. This narrow perspective directly influences the management practices adopted by SME managers. Hence, there is a clear need to achieve broader performance objectives.

Relying on an international accounting framework specifically tailored for SMEs can provide a more accurate assessment of organizational performance. It also supports the achievement of corporate governance objectives, particularly regarding the optimal allocation of resources, which is a priority for SMEs, given their typically limited resources.

B- Developing the information and management system: Any change in the accounting framework, or in one of its underlying concepts, will undoubtedly affect the institution's information and management systems, given their role in collecting, directing, and processing accounting information. Compatibility with an international reference, such as the International Financial Reporting Standard for Small and Medium-sized Enterprises (IFRS for SMEs), can have significant implications for both information and management systems. Achieving such compatibility requires the provision of a series of detailed information, which often exceeds the capabilities of the organization's internal accountants for example, the fair value measurement of certain assets or the determination of the depreciation period for specific asset components.

Therefore, at the internal level of the organization, managers must undertake new responsibilities, as the international framework requires them to have the capacity to provide accurate and relevant information to support effective management and to supply tools that enable the resolution of any disputes with stakeholders. At the external level, accounting and financial information should provide sufficient insight into the organization's performance and capabilities, thereby helping external parties better understand the opportunities and risks inherent to the organization.

This new accounting representation plays an informative role, grounded in organizational efficiency, and seeks to establish a direct link between accounting theory and corporate governance theory, initially developed by Berle and Means (1932) in the context of the 1929 economic crisis. In this framework, the quality of financial reporting largely depends on managerial skills (*savoir-faire*), experience, and the ability to ensure reliability and the continuous flow of information. High-quality financial reporting does not rely solely on the presence of accounting personnel and frameworks; rather, it fosters a strong interaction between information systems, management, and accounting to implement the principles and concepts outlined in the International Financial Reporting Standard for Small and Medium-sized Enterprises (IFRS for SMEs).

c- Implementation of Continuous Training Plans: The implementation of the International Financial Reporting Standard for Small and Medium-sized Enterprises (IFRS for SMEs) constitutes a comprehensive project that brings together various stakeholders, including accounting and finance, human resources, and information systems. This process requires careful consideration of internal control mechanisms, as well as reform of the accounting system to enhance financial communication with investors, banks, creditors, and other stakeholders.

The successful execution of this project relies not only on the skills, capabilities, and knowledge of the organization's management but also on the competencies of all staff within the organization. The decentralization and specialization of information that results from applying the IFRS for SMEs necessitate that managers ensure the presence of a qualified workforce capable of responding promptly to problems, as this directly affects the accuracy and reliability of information.

Moreover, since the standard is updated every three years, managers must establish a strategic vigilance program related to information systems and knowledge development. This program should serve to: (a) evaluate and monitor the performance of staff by leveraging their acquired skills within the organization, and (b) adapt to updates in the standard and implement the necessary corrective measures to maintain compliance and operational efficiency (Hedfi, 2010, p. 184).

Third: Applied study: Algeria has implemented a financial accounting system without considering the structure and characteristics of its institutional framework. Small and medium-sized enterprises (SMEs) constitute a significant share of the total number of enterprises and represent the main drivers of the national economy. The adoption of the International Financial Reporting Standard for Small and Medium-sized Enterprises (IFRS for SMEs) could provide an opportunity for these entities to overcome international barriers, access diverse sources of financing, and keep pace with modern economic and technological developments. However, before such implementation, it is essential to examine the current situation of SMEs in Algeria to assess their capacity to apply this type of standard effectively.

1- A Statistical Study to Identify the Determinants Influencing the Implementation of the Financial Reporting Standard in Algerian Enterprises:

In order to examine the determinants influencing the compatibility of accounting and financial disclosure in small and medium-sized enterprises (SMEs) in Algeria with their corresponding international accounting standard, a study was conducted on the financial statements of the same sample to which the questionnaire had been distributed. The financial statements of the enterprises under study were obtained from the official website of the National Centre for Commercial Registry. This approach was adopted due to the difficulty of accessing information through other means.

2- The Concept of the Logistic Regression Model: Regression analysis, in general, is a model that analyzes and explains the relationships between a dependent variable and explanatory variables by linking these variables through a mathematical equation, which may be linear (linear regression) or nonlinear (nonlinear regression). After determining the form of this relationship, the parameters of the model are estimated to express the degree to which the dependent variable is influenced by the explanatory variables, for purposes of interpretation or prediction, depending on the nature of the study.

Logistic regression, on the other hand, is a type of regression in which the dependent variable is qualitative. It may take two values (binary logistic regression) or more than two values (multinomial logistic regression). In logistic regression, the objective is not to explain changes in the values of the dependent variable but rather to interpret the probability of the occurrence or non-occurrence of the phenomenon under study Al-Abbasi (2011, p. 24). It can be represented as follows:

Figure 1: The Logistic Regression Equation

(1).....

$$p_i = E(Y_i / X_i) = \frac{e^{(B_0 + B_1 X_1 + \dots + B_K X_K)}}{1 + e^{(B_0 + B_1 X_1 + \dots + B_K X_K)}}$$

P_i: It represents the probability of the occurrence of the category or attribute of the dependent variable.

B: It represents the parameters (coefficients) of the model.

Through the equation, it becomes clear that the relationship between the dependent variable and the independent variables is nonlinear. Therefore, several transformations can be applied to linearize this relationship, one of the most common being the logit transformation (Logit). Accordingly, the previous equation takes the following form:

Figure 2: Logistics transformation

(2).....

$$L = \ln\left(\frac{P_i}{1 - P_i}\right) = B_0 + B_1 X_1 + \dots + B_K X_K$$

3- Analysis of the Sample Data: As previously mentioned, the accounting data of 100 private Algerian non-financial institutions for the year 2014 were used in this study. The same sample was retained because it is not possible to construct a logistic model without first determining the opinions of the surveyed entities regarding the International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs).

4- Study Variables: Based on the information obtained from the analysis of the financial statements of the sampled institutions, as well as insights from previous studies on the subject, a set of variables was

selected to examine the determinants influencing compliance with the International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs). These variables can be categorized as follows:

- A. **Dependent Variable:** The dependent variable represents a descriptive indicator of the potential for compliance with the International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs). This variable is binary, taking the value **0** when compliance with the standard is deemed **not possible**, and **1** when compliance is considered **possible**.
- B. **Independent variables:** A number of independent variables commonly used in previous studies will be used, and this is through the following points:

B.1 – Size Variable (SIZE):

This variable is used to measure the size of the enterprise. Several studies have estimated firm size using the logarithm of total assets, turnover, or the number of employees. Among these studies is that of **Mohammed Elhaddad and Rajaa Amzile (2015)**. In the present study, the **logarithm of total turnover** is employed as the variable representing firm size. This choice is based on the nature of the available data and aims to avoid strong multicollinearity with other independent variables. The variable is denoted as **(SIZE)**.

$$SIZE = \text{LOG}(\text{Turnover})$$

B.2 – Debt Variable (DEBT):

This variable is used to measure the level of indebtedness in private Algerian enterprises. Several studies have applied different approaches to this measurement: some used the ratio of **total debt to total liabilities**, others employed the ratio of **long- and medium-term debt to total liabilities**, while others focused on the ratio of **short-term debt to total liabilities**. In the present study, the following measure will be adopted:

$$DMT = \frac{\text{Medium and Long Term Debts}}{\text{Total Liabilities}}$$

B.3 – International Transactions Variable (INT): This variable introduces a **dummy variable** into the model to capture the impact of international transactions conducted by enterprises on the likelihood of disclosure in accordance with the International Accounting Standard for Small and Medium-sized Enterprises (IFRS for SMEs). Several studies have measured the extent of international transactions through the presence of **foreign customers or suppliers**. In this study, **international suppliers** are used as the reference indicator. Accordingly, the dummy variable takes the value **0** if there are no international transactions and **1** if such transactions exist.

5 – Logistic Regression Model Results: The following section presents the results of the logistic regression model, which consists of two parts. The **first part** includes results that help assess the model **statistically**, in order to determine its ability to explain the phenomenon under study. The **second part**, which is the most significant, presents results that allow for the interpretation of the relationship between the **dependent variable** and the **independent variables**. The statistical analysis was conducted using the **SPSS software** after entering the required data. The tables were then organized and labeled according to the conventional sequence used in statistical modeling studies.

5.1 – Overall Evaluation of the Model

Some well-known statistical terms were translated, while others were retained in their original form due to the absence of consensus on their precise translation.

A – Correlation between Explanatory Variables: The relationship between the model variables can be clarified by calculating the correlations among them. This step aims to avoid strong correlations between independent variables, which could negatively affect the validity of the model's results. To prevent the need for examining pairwise correlations for each variable combination, the findings are summarized in the correlation matrix presented in Table (1).

Table 1: Correlation Matrix

*. Correlation is significant at the 0.05 level (2-tailed).

*. Correlation is significant at the 0.05 level (2-tailed).

		Y	International Transactions	Indebtedness	Firm Size
Y	Pearson Correlation	1	-.096-	-.207-*	.081
	Sig. (2-tailed)		.344	.060	.423
	N	100	100	100	100
International Transactions	Pearson Correlation	-.096-	1	.062	-.002-
	Sig. (2-tailed)	.344		.542	.982
	N	100	100	100	100
Indebtedness	Pearson Correlation	-.207-*	.062	1	.084
	Sig. (2-tailed)	.060	.542		.405
	N	100	100	100	100
size of the enterprise	Pearson Correlation	.081	-.002-	.084	1
	Sig. (2-tailed)	.423	.982	.405	
	N	100	100	100	100

Based on the correlation matrix presented above, it is observed that there is no significant correlation among the explanatory variables at the 5% level of statistical significance. All variables show values exceeding 5%, which confirms the absence of multicollinearity.

B- Goodness-of-Fit Test for the Logistic Model: In ordinary regression analysis, the goodness-of-fit is assessed using the *F-test*. However, in the case of a logistic model, the *log-likelihood ratio test* is employed, which follows a Chi-square (χ^2) distribution. These criteria are considered alternatives to the coefficient of determination used in linear regression; therefore, they are referred to as *pseudo-determination coefficients* or *pseudo R-squared measures*. The formula takes the following form:

Figure 3: Coefficients of Determination

(3).....

$$\text{Model } X^2 = -2\log(L_0/L_1) = -2(\log L_0 - \log L_1)$$

L₁: The value of the maximum likelihood function for the model containing *i* variables.

L₀: The value of the maximum likelihood function for the model containing (*i*-1) variables.

The *Model Chi-Square* (χ^2) test evaluates the statistical significance, the goodness of fit, and the degree of improvement in the model. The following table presents the explanatory power of the model, along with its statistical significance and the improvement achieved compared to the previous model.

Table 2: Goodness-of-Fit Coefficients

STEP	-2 Log likelihood	Cox & Snell R Square	Nagelkerke R Square
1	119.751a	.068	0. 95

Source: Based on statistical processing using the SPSS software.

This table presents the quasi-determination coefficients, which indicate the explanatory power of the model. According to the table, the values of these coefficients were relatively low, at approximately 9.5%, which remains within the acceptable threshold of 50%.

C. Overall Significance Test of Model Parameters (Hosmer–Lemeshow Test):

This test aims to assess the overall significance of the model's parameters, that is, to determine whether all the coefficients of the explanatory variables are equal to zero or whether at least one of them differs from zero. To conduct this test, the same principle used in ordinary regression is applied, which involves comparing the expected values of a model without independent variables to those of a model that includes independent variables.

Table 3: Overall Significance Test of the Model Parameters

Chi-Square Value	Degree of Freedom	Calculated Significance Level
10.426	8	0.236

Source: Based on statistical processing using SPSS. From the table above, it is observed that the calculated significance level (0.23) is greater than the accepted significance threshold (0.05). Therefore, the null hypothesis is accepted at the 5% significance level, indicating that the model provides a good fit to the data.

Table 4: Goodness-of-Fit Test for the Overall Significance of the Model Parameters (Hosmer–Lemeshow)

	y = Unable to Comply with the International Financial Reporting Standard for Small and Medium-sized Enterprises (IFRS for SMEs)		Y = Compatibility with the International Financial Reporting Standard for Small and Medium-sized Enterprises (IFRS for SMEs)		Total
	Observation	Prediction	Observation	Prediction	
1	9	9.149	1	.851	10
2	7	7.813	3	2.187	10
3	9	7.302	1	2.698	10
4	7	6.860	3	3.140	10
5	9	6.663	1	3.337	10
6	6	6.519	4	3.481	10
7	5	6.216	5	3.784	10
8	4	5.884	6	4.116	10
9	8	5.617	2	4.383	10

	y = Unable to Comply with the International Financial Reporting Standard for Small and Medium-sized Enterprises (IFRS for SMEs)		Y = Compatibility with the International Financial Reporting Standard for Small and Medium-sized Enterprises (IFRS for SMEs)		Total
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6	6	6.519	4	3.481	10
7	5	6.216	5	3.784	10
8	4	5.884	6	4.116	10
9	8	5.617	2	4.383	10
10	3	4.976	7	5.024	10

Source: Based on statistical processing using SPSS.

The table above presents the actual values and the expected values generated by the model. From the table, it can be observed that there is a strong similarity between these values, which indicates a high level of consistency between the model and the data. This suggests that the model provides a good representation of the observed data.

5.2- Interpretation of logistic regression results:

a. Testing the Significance of Regression Coefficients: The logistic regression coefficient, similar to that in ordinary regression, measures the relationship between the explanatory variables and the dependent variable. The logistic regression coefficient is considered an **unbiased and efficient estimator**. The significance of the regression coefficient can be tested using the **Wald statistical test**, which follows a **Chi-square distribution**. However, when the degree of freedom equals one, it is equivalent to the **square of the t-statistic**. The **likelihood ratio test (ratio de vraisemblance)** may also be used to assess the significance of the coefficients.

(4).....

$$\text{Wald} = t^2 = (b_i / \partial_{b_i})^2$$

Accordingly, **Table 5** presents the results of the **logistic regression** as follows:

Table 5: Estimation Results of the Model Parameters and Odds Ratios

Adjusted Confidence Interval		Odds Ratio	Statistical Significance	Degrees of Freedom	Wald	Standard Error	Logit Value	Test
Upper Limit	Minimum	EXP(b)						Determinants
1.939	0.251	.588	.332	1	.941	0.547	-.531-	International Transactions
0.898	0.245	.556	.241	1	4.188	1.718	-3.516-	Indebtedness

Adjusted Confidence Interval		Odds Ratio	Statistical Significance	Degrees of Freedom	Wald	Standard Error	Logit Value	Test
Upper Limit	Minimum	EXP(b)						Determinants
2.538	0.766	1.404	.269	1	1.223	0.307	.339	Firm Size
1.939	0.251	.0565	.222	1	1.490	2.365	-2.886-	Constant

Source: Based on statistical processing using SPSS software

b. Conclusion: The sub-hypothesis posits that no determinants influence the application of financial information disclosure requirements under the International Financial Reporting Standard for Small and Medium-sized Enterprises (IFRS for SMEs) in Algeria. Accordingly, as shown in Table 38, there is no statistical significance for the intercept, debt, enterprise size, or international transactions at the 5% significance level, nor at the 10% level. The model parameters, representing the logarithm of the odds ratio, do not exhibit meaningful explanatory significance based on the statistical model results. Therefore, we reject the null hypothesis and accept the alternative hypothesis, concluding that the application of financial information disclosure according to IFRS for SMEs is **not explained** by the variables: enterprise size, debt, or international transactions.

Fourth – Conclusion

The current economic environment in Algeria is not yet fully prepared to adapt to the evolving international accounting reference. However, this does not diminish the necessity of striving to implement this standard, as it provides opportunities to overcome international barriers, protect foreign investment, and keep pace with global economic developments. The IFRS for SMEs is a simplified version of the full International Financial Reporting Standards, designed to enhance honesty and transparency in the disclosure of financial information for small and medium-sized enterprises (SMEs). Numerous studies have shown that institutions applying this standard, particularly in developing countries, benefit more from support provided by international organizations such as the International Monetary Fund (IMF). Its implementation represents a genuine opportunity for the development of the SME sector. Based on the theoretical review, applied findings, and statistical analysis, the following recommendations are proposed:

- **Strengthening the role of accounting oversight committees:** Committees affiliated with the Accounting Council should actively monitor issues of measurement and disclosure under the financial accounting system, and track the activities of the International Accounting Standards Board. Participation in training programs may facilitate the adoption of IFRS for SMEs.
- **Modernizing the financial accounting system:** It is necessary to distinguish the application of accounting standards between large listed companies and SMEs.
- **Improving banking loan conditions:** Enhancing accounting criteria for loan approvals can motivate SMEs to access financing opportunities and encourage the adoption of international accounting standards.
- **Considering economic determinants:** The influence of realistic economic factors and incentives on accounting policies should not be ignored, consistent with the principles of positive accounting.
- **Promoting SME development:** Efforts should focus on enabling SMEs to sustain operations and compete effectively at the international level.

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