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# From Accounting Transition to Economic Impacts: An Analysis of Algerian Reforms Through Structuration Theory

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#### Abstract :

This study examines the impact of Algeria's adoption of the Financial Accounting System (SCF), inspired by international IAS/IFRS standards, on foreign direct investment (FDI) and economic performance. Anchored in Structuration Theory, the research highlights the interplay between institutional structures and the agency of economic actors during accounting reform. Using annual time series data from 2000 to 2023 and employing the ARDI bounds testing approach, the findings reveal that while economic openness significantly fosters FDI inflows, the SCF reform has a limited and short-term effect. The results emphasize that accounting reforms, though essential for improving financial transparency, must be accompanied by broader institutional and policy reforms to deliver sustainable economic benefits and attract long-term investment.

**Keywords**: SCF, FDI, Economic Performance, Structuration Theory, Algeria, IFRS Adoption **JEL Codes** : M41, F21, 055

#### 1. Introduction :

Recent decades have seen significant transformations in Algeria's economic reform initiatives, primarily focused on diversifying the economy and reducing its reliance on hydrocarbons. Modernizing accounting practices has become a central strategic objective within these reforms to achieve greater transparency, improve financial management, and support Algeria's integration into the global economic landscape. These transformations have had a profound impact on the country's economic system, affecting both public and private enterprises and reshaping institutional structures and economic governance mechanisms (Bouklia-Hassane, 2013; Crisis Group, 2022).

The implementation of international accounting standards, alongside new regulatory frameworks, has changed financial reporting practices and transformed the dynamics between different economic

actors. This research applies structuration theory to understand the intricate connections between established economic structures and the actions of social agents (Boudaoud,S 2018).

Through an analysis of accounting transitions, this paper evaluates their impact on the Algerian economy to understand how these reforms have shaped economic transformation while identifying the tensions and challenges encountered during this process. Since the 2010s, Algeria has undertaken a modernization of its accounting system by adopting the Financial Accounting System (SCF), based on international IAS/IFRS standards (Djafri&Selhami, 2011). This transition aimed to align Algeria's accounting framework with international standards in order to achieve several strategic objectives: attract more foreign direct investment (FDI), improve financial statement transparency, and strengthen Algeria's integration into the global economy (Zeghal&Mhedhbi, 2006).

However, this modernization took place in an economic context characterized by a heavy dependence on hydrocarbons and fragile institutional infrastructures (Guemoula&Bencheikh, 2024). Prior to the introduction of the SCF, Algeria used the National Accounting Plan (PCN), developed in the 1970s for a centralized economy (Boudaoud, 2018). While PCN met the planning needs of the time, it was inadequate for the transparency and comparability required by international investors. The shift from PCN to SCF represents an ambitious modernization effort but has also exposed the Algerian economy to new institutional and cultural challenges (Quaras&Belkharroubi, 2018).

The adoption of IAS/IFRS accounting standards or their derivatives, such as the SCF, is crucial for increasing Investor confidence and attracting substantial FDI, as demonstrated by Hope, Jin, and Kang (2006). Research across various countries shows that international standards reduce Information imbalances, decrease transaction costs, and facilitate market access. However, in Algeria, the expected positive effects of SCF adoption have been mixed. Challenges include a lack of training for accounting professionals, cultural resistance to change, and uneven adoption of new standards by companies (Mehaoua, Khaldi& Salhi, 2021). These factors highlight the need for a thorough analysis to understand how these reforms have influenced Algeria's economic attractiveness.

Thus, this study aims to address the following question: How has the strengthened accounting system driven by the SCF adoption contributed to the growth of Algeria's economy and the attractiveness of foreign direct investment (FDI)? This question is explored from two perspectives: by considering observable macroeconomic shifts, such as GDP growth and FDI flows, and

structural and institutional developments through Anthony Giddens Structuration Theory (Giddens, 1984). This research contributes to the debate by examining the extent to which international accounting standards can serve as a lever for economic transformation when Implemented in a specific economic and cultural context, such as Algeria. The goal of this paper is to provide an analytical framework that covers both theoretical and empirical aspects of the issue.

The research hypotheses include the following: the SCF has a positive but weak impact on FDI flows in Algeria; economic openness moderates the relationship between SCF and FDI; and institutional and cultural challenges affect the effectiveness of SCF on economic performance.

The paper is structured as follows: the first section addresses the historical evolution of accounting standardization in Algeria, focusing on the challenges of transitioning from the PCN to the SCF. The second section specifies the methodological framework, which centers around econometric analysis, Finally, the third section presents the findings and discussion of the results, offering insights into the practical and academic impacts of accounting reforms in Algeria.

### 2. Theoretical and Conceptual Framework

#### 2.1-Accounting Transition in Algeria: From PCG to SCF

The Algerian rectifications accounting is a remarkable path developed during three periods: the PCG, the PCN, and finally the SCF (Bouraoui, 2017). In each of these periods, the worshippers express the economic, institutional and cultural changes, which marked the history of contemporary Algeria, evoking the transition from a closed economy to the promotion of attractiveness of the national productive system within the context of the globalization (Zeghal, D.&Mhedhbi, K., 2006). The General Accounting Plan (PCG), introduced in the 1970s, was heavily inspired by the French accounting system. Designed to meet the needs of a centrally planned economy, the PCG aimed primarily at ensuring strict control over the state's economic resources (Labidi, 1982). However, this accounting framework had several limitations, particularly its inability to produce financial statements comparable on an international scale and suited to the needs of foreign investors. As Labidi (1982) highlights, "the PCG was part of a logic of state centralization that left little room for

flexibility and accounting innovation."

Faced with the shortcomings of the PCG and the evolution of the global economy, Algeria adopted the National Accounting Plan (PCN) in 1975 (Saidi F., 2013). Inspired by the Soviet accounting model, the PCN aimed to better reflect local economic specificities while maintaining uniform accounting practices in a planned economic context (Djelloul, 1991). However, this framework also

had major limitations. On the one hand, it remained oriented towards the internal management of public enterprises, neglecting the expectations of foreign investors and external stakeholders. On the other hand, it was poorly adapted to an evolving Algerian economy that was beginning to embrace structural reforms and international capital flows (Khouatra, D&Merhoum, M.H., 2018).

In this context, the Financial Accounting System (SCF) was introduced in 2010, marking a clear break from previous models (Baar, A& Ait Bara, H., 2024). The SCF, largely inspired by International Accounting Standards (IAS/IFRS) (Djafri, 2024), aimed to establish a more transparent accounting framework aligned with the requirements of a market economy (Kebieche, 2024). It introduced modern concepts such as fair value measurement and the presentation of financial information with an emphasis on international comparability

(Kebieche,2024). For Zeghal and Mhedhbi, "the move towards IAS/IFRS in emerging countries is typically viewed as a means of promoting financial transparency and foreign direct investment (FDI) attraction" (Zeghal, D.&Mhedhbi, K., 2006).

While it is the advancement that it represents, the SCF has also encountered great challenges (Kameli, M.& Miliani, A.2022). On the one hand, Algerian companies often struggled to interpret and apply these new standards due to a lack of technical expertise. On the other hand, the institutional infrastructure was not always aligned with the underlying principles of IAS/IFRS, limiting their impact on actual accounting practices (Saidi F., 2013).

Thus, Algeria's accounting transition reflects a complex dynamic, where each stage translates economic and institutional choices dictated by historical context. The shift from PCG to SCF constitutes a major evolution but also illustrates the tensions between international standardization requirements and local realities (Sebti, K&Benterki, A.2023). This trajectory highlights the interactions between accounting structures and economic agents-an essential aspect that structuration theory allows us to analyze in depth.

# 2.2. Structuration Theory: An Interpretation of Accounting Reforms in Algeria

The structuration theory, developed by Anthony Giddens (1984), provides a relevant theoretical framework for analyzing accounting reforms in Algeria (Boudaoud,S 2021). This theory highlights the dynamic interaction between structures and agents in the process of social and institutional change (Giddens, 1999). By focusing on structural duality, it helps to understand how accounting standards, as structures, influence the practices of economic agents while being transformed by these very practices (BanitalebiDehkordi, B., & Khosravi, R., 2018; Coad, A et al 2016).

# 2.2.1. Key Concepts of Structuration Theory

Giddens' theory is based on several fundamental concepts that are directly applicable to the case of accounting reforms in Algeria:

- Duality of Structure: According to Giddens, structures are not merely constraints that limit individuals' actions; they are also resources that individuals mobilize to act (Giddens, 1979; Cohen Ira J., 1989). In the accounting contest, accounting standards (PCO, PCN, SCT) can be seen both as frameworks guiding the practices of economic agents and as tools that can be reinterpreted to meet specific needs.
- **Structuration:** This concept refers to the process through which structures are both the product and the means of human action (Rouleau, 2011). In the Algerian case, accounting reforms result from institutional and economic dynamics while being Influenced by the practices of companies and accounting professionals.
- Spatio-Temporal Context: Giddens emphasizes the importance of historical and geographical context in analyzing interactions between agents and structures (Rose, J. & Scheepers, R., 2001). Algeria, with its colonial heritage and centralized economy, serves as an emblematic example where accounting reforms must be understood in light of these specificities.





**source:** Rose, J., & Scheepers, R. (2001), Structuration theory and information system development-frameworks for practice. ECIS 2001 Proceedings, p 224.

# FIGURE 2: The Duality of Structure and Social Practice



source: Boucher (2001) The Theory of Structuration and the politics of the third way

# 2.2.2. Contributions of Structuration Theory to Accounting Reforms

Analyzing Algeria's accounting reforms through the lens of structuration theory provides several key insights

- **Structural tensions:** the transition to the SCF underscores the dilemma between the desire for international standardization and local realities shaped by a rigid institutional legacy.
- Interactions between agents and structure: Companies, accounting professionals, and regulators do not merely passively apply standards; they interpret and adapt them to local constraints.
- A gradual transformation: Accounting reforms follow an evolutionary process where the practices of actors gradually influence and reshape the established accounting framework.

Ultimately, structuration theory offers a relevant analytical framework to grasp the complexity of Algeria's accounting reforms. This approach will be further complemented in the following sections by an empirical assessment of the impact of international accounting standards on economic performance and Foreign Direct Investment (FDI).

# 2.3. Link Between International Accounting Standards and FDI:

The Impact of International Accounting Standard on Foreign Direct Investment and economic performance through International Financial Reporting Standards (IFRS) - A brief overview a crescent adoption of International Financial Reporting Standards (IFRS) has been studied in many ways including its effects at the accounting practice harmonization level and growth areas in FDI and economic performance (Chen, C. J et al 2014). IFRS has been promoted as a panacea to address many issues, especially in developing countries (De George et al 2016). IFRS is expected to

increase the transparency and comparability of financial statements, reduce information asymmetry and trust for investors (Brown, 2011). IFRS adoption reduces transaction costs and perceived risk for foreign investors, which results in an inflow of FDI, according to Ball (2006).

Empirical evidence of Hope et al (2006) portrays significant rise in FDI in IFRS adopter nations, particularly those with strong institutional settings. El-Helaly et al (2020) restate again that accounting standard harmonization plays a fundamental role in attracting foreign investment by reducing uncertainty and improving financial credibility.

For Algeria, Mehaoua, A.et al (2021) argue that convergence towards IFRS was seen as a way to make the country more economically attractive. They note, however, that the effectiveness of IFRS in attracting FDI depends on the quality of its adoption and the readiness of the country's institutional framework. The role of IFRS in enhancing economic performance has also been extensively debated. Zeghal, and Mhedhbi (2006) suggest that adopting IFRS facilitates more efficient resource allocation by improving access to international capital markets, often leading to higher economic growth. Daske, H et al (2008) argue that IFRS adoption lowers the cost of capital and increases market liquidity, especially in countries with strong regulatory enforcement.

However, not all studies agree that IFRS adoption leads to uniformly positive outcomes. Peng et al (2008) caution against assuming that IFRS adoption will always have a positive impact, noting that the benefits depend significantly on institutional capacities and how well these standards align with local economic structures.

Financial market development is another key area influenced by IFRS. Akisik, O and Gal, G. (2023) show that IFRS improves financial reporting quality, boosting investor confidence and enhancing the depth of capital markets. Research also indicates that IFRS adoption increases liquidity of the stock market and flows of foreign investments (Barth, M. E. et al., 2012).

However, Callan, S., et al. (2009) find that the effect of IFRS adoption is jurisdiction-specific and to some degree is influenced by current national accounting standards in terms of the size of the effect. IFRS adoption is also linked to the improvement in institutional quality since research shows that it improves corporate governance, reduces earnings management, and enhances investor protection (Cieslewicz, 2014; Bansal, 2023).

In Algeria, there are institutional problems, including weak enforcement mechanisms and low capabilities, which are barriers to the complete benefits of IFRS adoption (Mehaoua, A et al 2021)

Despite its potential advantages, the transition to IFRS is a challenge, particularly in developing economies. Nobes and Parker (2016) highlight the high costs associated with training and system upgrades, which can be burdensome for SMEs (Bakr, S. A., & Napier, C. J., 2022).

Furthermore, Zeghal, D and Mhedhbi, K. (2006) identify a lack of IFRS expertise as a significant barrier, further compounded by cultural resistance and weak enforcement mechanisms in some regions.

The function of institutional quality in IFRS adoption is crucial. In countries with weak Institutional environments, IFRS advantages could be constrained by issues that comprise corruption, inadequate training, and resistance to change (Cieslewicz, 2014; Bansal, 2023). Although IFRS adoption may have no important influence on investor protection and corporate governance in less effective economies (Miah, 2021), it can assist in improving these components in countries with sound governance structures.

However, the extent to which IFRS adoption will lead to actual benefits such as increased FDI inflows, improved economic performance, and financial market efficiency is dependent on the quality of the regulatory frameworks, the implementation plans, and the institutional capacity of the country. Long-term effects of IFRS adoption, especially in developing countries such as Algeria, should be considered in future research to further understand investment patterns and economic resilience.

# 3. Data and Estimation Procedures

# 3.1. Data

The period 2000-2023 is taken for this study using time series annual data for Algeria. This time window was chosen because data for the following variables were available:

- FDI (Foreign Direct Investment as % of GDP): This variable entails inflows of foreign direct investment as a portion of GDP. It serves as a main indicator for the country's economic attractiveness. Data were obtained from World Bank's World Development Indicators (www.data.worldbank.org).
- SCF (Adoption of the Financial Accounting System): A dummy variable equal to 0 before 2010 and 1 after 2010, and it reflects Algeria's adoption of the new accounting system. Data were extracted from official reports and documents.
- **GDP Growth** (%): This indicator is the annual growth rate of GDP at market prices based on constant local currency. It serves as a raw measurement of economic performance. The World Bank and the National Statistics Office (ONS) were the sources of this data.

• Economic Openness (% of GDP): The sum of exports and imports divided by GDP This variable represents Algeria's level of integration in global trade. Data were sourced from the World Bank's World Development Indicators.

# **3.2. Estimation Procedures**

All the variables were checked for stationarity level using the Augmented Dickey-Fuller (ADF) test, because the ADF test provides reliable results even on small sample sizes. The PP test was not conducted, as the ADF test results were already very strong.

# 3.2.1. Autoregressive Distributed Lag (ARDL) Bound Testing Approach

This study will verify the effect of the Financial Accounting System (SCF) adoption on Foreign Direct Investment (FDI) in Algeria for the period 2000-2023 using the Autoregressive Distributed Lag (ARDL) approach of Pesaran et al. (1996) and Pesaran et al. (1999). Cointegration tests are important to test whether there is a long-run relationship between the dependent variable and the group of regressors.

Classical cointegration tests such as Engle and Granger (1987), Johansen (1988), Johansen and Juselius (1990), and Johansen (1991) assume that all variables are integrated under the same order. These conditions can be a major limitation. The ARDL method resolves this problem by making it feasible to examine long-run relationships among variables that trend differently at different stationary levels, conditional on none of the series being integrated of the second order (1(2)).

The ARDL model has several advantages:

- 1. It gives strong and consistent results for small sample sizes.
- 2. It employs an unrestricted error correction model (UECM), which has more favorable statistical properties than the Engle-Granger cointegration test.
- 3. It adds flexibility by letting each variable come into the model at different lag lengths, which helps reduce estimation error.
- 4. It addresses concerns of serial correlation and endogeneity, resulting in more robust estimates.

The ARDL model is suitable for estimating both short-run and long-run elasticities (coefficients) irrespective of whether the regressors are exogenous or endogenous. This procedure is particularly suitable for exploring the long-run relationship between foreign direct investment and the major economic variables under investigation in this paper.

Thus, this study applies the ARDL, estimation technique because of its inherent benefits. Our empirical model can be described by the following equations:

# $FDI_t = f(SCF_t, GDPGrowth_t, Openess_t)$ (1)

$$\begin{split} \Delta FDI_t &= \alpha_0 + \sum_{i=1}^p \beta_i \Delta FDI_{t-i} + \sum_{j=0}^q \gamma_j \Delta SCF_{t-j} + \sum_{k=0}^r \delta_k \Delta GDPGrowth_{t-k} \\ &+ \sum_{m=0}^s \Theta_m \Delta Openness_{t-m} + \lambda_1 FDI_{t-1} + \varepsilon_t \end{split}$$

Where:

- $\Delta$  denotes the first difference operator,
- $\alpha_0$  is the intercept,
- $\epsilon_t$  is the error term, which is assumed to be white noise,
- $\beta,\gamma,\delta,\theta$  represent the short-run dynamics, and
- $\lambda_1$  represents the long-run multiplier.

The optimal lag length for the ARDL model is selected using the Akaike Information Criterion (AIC) to minimize estimation errors and ensure the robustness of results.

Component	Explanation
ΔFDI <sub>t</sub>	Change in Foreign Direct Investment (FDI) at time t, i.e., the difference between $FDI_t$ and $FDI_{t-1}$ .
α <sub>0</sub>	Constant term (intercept) in the model.
$\sum\nolimits_{i=1}^{p} \beta_i \Delta F D I_{t-i}$	Sum of lagged changes in FDI over p periods, representing short-term dynamics of FDI
$\sum_{j=0}^{q} \gamma_j \Delta SCF_{t-j}$	Sum of lagged changes in the SCF variable over q periods, capturing short-term effects of SCF.
$\sum_{k=0}^{r} \delta_k \Delta GDPGrowth_{t-k}$	Sum of lagged changes in GDPGrowth over r periods, reflecting short-term impacts.
$\sum_{m=0}^{s} \theta_{m} \Delta Openness_{t-m}$	Sum of lagged changes in Openess over s periods, indicating short-term openness effects.
$\lambda_l FDI_{t-1}$	Long-term coefficient for FDIFDIFDI in the previous period (t-1) indicating the long-term relationship.
ε <sub>t</sub>	Error term, assumed to be white noise (i.e., it has zero mean and constant variance).

# **3.2.1.1 ARDL Bounds Test for Cointegration**

The ARDL bounds test is applied to examine the long-run relationship between the variables using the F-statistic for the joint significance of lagged-level variables (Pesaran et al., 2001). The null hypothesis of no cointegration is tested as follows:

# H<sub>0</sub>: $\lambda 1 = \lambda 2 = \lambda 3 = \lambda 4 = 0$

If the null hypothesis is rejected, we accept the alternative hypothesis of a long-run relationship:

# H<sub>1</sub>: $\lambda 1 \neq \lambda 2 \neq \lambda 3 \neq \lambda 4 \neq 0$

The F-statistic is non-standard under the null hypothesis of no cointegration, whether the variables are 1(0) or 1(1). Pesaran et al. (2001) provide two groups of asymptotic critical values:

- Lower Bound Critical Value: Assumes all variables are 1(0).
- **Upper Bound Critical Value:** Assumes all variables are 1(1).

This is why the test is called the **bounds test**.

- If the computed F-statistic exceeds the upper bound critical value, the null hypothesis of no cointegration is rejected.
- If the F-statistic is below the lower bound critical value, the null hypothesis is accepted.
- If the F-statistic lies between the bounds, the results are inconclusive.

# 3.2.1.2. Error Correction Model (ECM)

Once the long-term relationship is confirmed, the Error Correction Model (ECM) can be derived from the ARDL model through a straightforward linear transformation. The ECM integrates the short-run dynamics into the long-run relationship, incorporating the Error Correction Term (ECT), which reflects the adjustment process towards the long-run equilibrium.

The general ECM equation can be written as follows:

$$\Delta FDI_{t} = \alpha_{0} + \sum_{i=1}^{p} \beta_{i} \Delta FDI_{t-i} + \sum_{j=0}^{q} \gamma_{j} \Delta SCF_{t-j} + \sum_{k=0}^{r} \delta_{k} \Delta GDPGrowth_{t-k}$$
$$+ \sum_{m=0}^{s} \theta_{m} \Delta Openness_{t-m} + \lambda ECT_{t-1} + \varepsilon_{t}$$

Where:

- $\Delta$  is the first difference operator,
- $\alpha_0$  is the intercept,
- $\beta,\gamma,\delta,\theta$  are short-run dynamic coefficients,
- $\lambda$  is the coefficient of the lagged error correction term (ECT), and
- Et is the error term.

### 3.2.2. Diagnostic and Stability Tests

To assess the stability and reliability of the ARDL model, several diagnostic tests were conducted to ensure that the classical regression model assumptions hold, and that the estimated parameters remain consistent over time. The diagnostic tests include:

- Breusch-Godfrey Test (Lagrange Multiplier Test): Developed by Breusch (1978) and Godfrey (1978), this test checks for the presence of autocorrelation in the residuals.
- ARCH Test (Autoregressive Conditional Heteroscedasticity): Proposed by Engle (1982), this test identifies heteroscedasticity in the error terms, which could affect the validity of statistical inferences.
- Jarque-Bera Test: A classical test for residual normality, examining whether the residuals follow a normal distribution.
- **Train Algorithms:** An additional method to check that the residuals follow a normal distribution, providing an extra verification.
- Ramsey's RESET Test (Regression Equation Specification Error Test): Developed by Ramsey (1969), this test is used to check the correctness of the model specification, ensuring that the functional form of the model is correct.

Additionally, CUSUM and CUSUMSQ tests, as suggested by Brown, R. L., Durbin, J., and Evans, J. M. (1975), were applied to ensure the absence of parameter instability and test for any structural breaks over time. These tests confirm the robustness of the ARDI, model, ensuring that the results are consistent both in the short run and the long run.

#### 4. Results and Discussion

#### 4.1. Unit Root Test Results

Before proceeding with the econometric analysis, it is necessary to test for stationarity between variables because not doing so would lead to spurious statistical findings. The Augmented Dickey-Fuller (ADF) test was used, which is incidentally the standard test for the presence of a unit rootnon-stationarity. The test is based on two hypotheses:

- Null Hypothesis (H0): The series has a unit root (non-stationary).
- Alternative Hypothesis (H1): The series is stationary.

The results of the ADF test show heterogeneous stationarity behavior among the variables. Specifically:

• **GDP** is stationary at level, meaning its statistical properties (such as mean and variance) are constant over time, and no differencing is needed.

• FDI (Foreign Direct Investment), Openness, and SCF (Adoption of the Financial Accounting System) were found to be non-stationary at level (1(0)), meaning they have a unit root. However, after first differencing, these three variables became stationary (1(1)).

Table 2 presents a summary of these tests, showing the ADF test results and the significance levels for each variable.

At level						
		IDE	GDP	OPENESS	SCF	
With constant	t- statistic	-2.2845	-3.4306	-1.1920	-1.1484	
	prob.	0.1849	0.0203	0.6597	0.6781	
		no	**	no	no	
With constant trend	t- statistic	-2.2373	-3.9420	-1.9213	-1.7710	
	prob.	0.4486	0.0266	0.6111	0.6855	
		no	**	no	no	
Without constant trend	t- statistic	-1.1423	-1.7577	-0.9265	0.0000	
	prob	0.2229	0.0749	0.3047	0.6723	
		по	*	no	no	
	At fir	st difference				
		d(IDE)	d(GDP)	d(OPENESS)	d(SCF)	
With constant	t- statistic	-5.7629	-7.1505	-4.6743	-4.6904	
	prob	0.0001	0.0000	0.0013	0.0013	
		***	***	***	***	
With constant trend	t- statistic	-5.8929	-6.9866	-4.6362	-4.6036	
	prob	0.0005	0.0001	0.0067	0.0071	
		***	***	***	***	
Without constant trend	t- statistic	-5.8955	-7.3261	-4.7523	-4.5826	
	prob	0.0000	0.0000	0.0001	0.0001	
		***	***	***	***	

Table 2: Augmented Dickey-Fuller (ADF) Unit Root Test Results

Notes:

a:(\*\*\*), (\*\*) and (\*) indicate that the estimated parameters are significant at the 1%, 5% and 10% significance levels, respectivelyand (no) not significant

b: Lag length based on SIC

c: probability based on Mackinnon (1996) one-sided p-values.

Based on these findings, we conclude that GDP is an I (0) variable, while FDI, Openness, and SCF are I (1) variables. This distinction in integration orders confirms the suitability of the Autoregressive Distributed Lag (ARDL) model, which is particularly effective in analyzing relationships between variables with different stationarity properties. Thus, these results provide a robust foundation for the subsequent stages of our analysis, ensuring that our econometric framework is both statistically rigorous and methodologically sound.

# 4.2. Cointegration Analysis

4.2.1. Pesaran et al. (2001) Cointegration Test

The Kwiatkowski,Phillips,Schmidt,Shin (KPSS) test is an effective method for examining integrated time series up to October 2023. This is a two-step procedure based on the ARDL (Autoregressive Distributed Lag) model.

- Step 1: We use the Schwarz Information Criterion (SIC) to determine the optimal lag length for the variables. The SIC penalizes overfitting more stringently, yielding a more parsimonious fit. The SIC is particularly useful in small sample models, as it selects more parsimonious models, helping to prevent overfitting.
- **Step 2:** Once the optimal lag structure is identified, we apply the **Fisher test** to determine whether a cointegration relationship exists. The Fisher test helps in checking the stationarity of the long-term relationship between variables by testing the significance of lagged variable coefficients.

# 4.2.2. Bounds Cointegration Test

As in EViews 12, following the automated procedure of Pesaran et al. (2001), we first estimate the ARDL model. The results from the Bounds Test are presented in Table 3 below.

Test statistic	Value	Signif.	I(0)	I(1)		
Asymptotic=1000						
F-statistic	5.264181	10%	2.37	3.2		
K	3	5%	2.79	3.67		
		2.5%	3.15	4.08		
		1%	3.65	4.66		
Actual Sample Size	22		Finite sample: n=35			
		10%	2.618	3.532		
		5%	3.164	4.194		
		1%	4.428	5.816		
			Finite sample: $n=30$			
		10%	2.676	3.586		
		5%	3.272	4.306		
		1%	4.614	5.966		

 Table 3: Bounds Cointegration Test Results

*Notes: k* is the number of independent variables. Asymptotic critical values are obtained from Table CI (iii) inPesaran et al. (2001).

The outcomes of the Bounds Test procedure defined above, indicate that the F-statistic (F = 5.26) is larger than the upper critical bound at all of the chosen significance levels. This observation is pivotal to gauge whether cointegration can be found among the variables.

The Bounds Test is predicated on comparing the F-statistic against two critical bounds:

- A lower bound, which applies when all variables are integrated of order I (0).
- An upper bound, which applies when all variables are integrated of order I (1).

If F-statistic > upper bound, reject null hypothesis  $(H_0)$  of no long-run relationship between variables.

For our case, the F-statistic that we calculated is far above the upper limit, and so we have enough empirical evidence to reject the null hypothesis and confirm that there is a long-run relationship between the model's variables. This result allows estimating an Error Correction **Model (ECM)** that analyzes the adjustment dynamics of the variables toward their long-run equilibrium.

# 4.3. ARDL Model Estimation and Validation

# 4.3.1. Optimal Lag Selection and ARDL Model Estimation

To determine the optimal ARDL specification, we initially use the Schwarz Information Criterion (SIC), which prefers parsimonious models by minimizing the parameters while keeping the statistical significance. The criterion is used to select the optimal model specification that is neither too complicated nor too simple.

The results indicate that the best of the 19 models we've experimented with is ARDL (2,1,2,2) as it possesses the lowest SIC value. Furthermore, to ensure our model selection once more for robustness, we examine the Akaike Information Criterion (AIC). The **Figure 3** below provides a comparative view of AIC values across the top 20 ARDL model specifications tested, reinforcing the selection of the optimal model.



#### Figure3: Akaike Information Criterion (AIC) for the Top 20 ARDL Models

Once the optimal model is selected, we proceed with its estimation, focusing on both short-term and long-term coefficients. The estimation results reveal that GDP has a significant negative impact on FDI, while economic openness exerts a positive and statistically significant effect. However, the SCF variable does not appear to have a significant influence on FDI in the long run, suggesting that its role remains limited in explaining investment inflows.

# 4.3.2. Selection and Validation of the Optimal ARDL Model

Findings show the ARDL (2,1,2,2) is selected as the best-fit model of 19 statistically significant models as per the 2nd lowest Schwarz Information Criterion (SIC) value. The SIC criterion (which emphasizes parsimonious models whilst maintaining a good fit) helps us to determine the preferred model specification for our analysis.

Moreover, the diagnostic tests performed on the estimated ARDL model attest to its robustness:

• The residuals show no autocorrelation, which would indicate that there is systematic information over time, leading to unreliable estimates of the coefficients; and random events usually lead to much more ordered output in case of simulation. • Homoscedasticity the absence of heteroscedasticity means the variance of the residuals is constant, and thus, the significance tests of the coefficients are valid.

Validation checks, such as verifying the normality of residuals, lend the all clear towards the statistical validity of the inferences made from the model.

Based on these results, we determine that the ARDL model chosen for the study is appropriate and well-fitted to examine the dynamic associations between the examined variables.

# 4.4. Long-Run and Short-Run Dynamics

# 4.4.1. Long-Run Coefficients

The analysis of long-run relationships between explanatory variables and Foreign Direct Investment (FDI) provides key insights into the structural determinants of investment flows. The estimated coefficients, presented in the table below, highlight the differential impact of each variable on FDI over the long term.

ARDL Long Run Form and Bounds Test								
Dependent Variable: (IDE)								
Selected Model: ARDL	Selected Model: ARDL (2.1.2.2)							
Case 2: Restricted const	ant and No Trend							
Sample: 2000 2023								
Includes observations:22	2							
	Conditional Erro	r Correction Regressi	on					
Variable	Variable Coefficient Std.Error t-Statistic Prob.							
С	-2.633005	1.202410	-2.189773	0.0510				
IDE (-1) *	-1.841476	0.424277	-4.340262	0.0012				
GDP (-1)	-0.309802	0.082055	-3.775529	0.0031				
OPENESS (-1)	0.093404	0.028547	3.271941	0.0074				
SCF (-1)	0.172378	0.290435	0.593516	0.5648				
D (IDE (-1))	0.404726	0.261767	1.546129	0.1503				
D(GDP)	-0.138869	0.047791	-2.905744	0.0143				
D(OPENESS)	0.035892	0.022581	1.589503	0.1403				
D(OPENESS(-1))	0.039556 0.019932 1.984496 0.072							
D(SCF)	1.371160	0.571161	2.400653	0.0352				
D (SCF (-1))	1.093353	0.461950	2.366820	0.0374				
*P-Value incompatible with t-Bounds distribution								
Levels Equation								
Case 2: Restricted constant and No Trend								
Variable	Coefficient	Std.Error	t-Statistic	Prob.				
GDP	-0.168236	0.025197	-6.676940	0.0000				
<b>OPENESS</b>	0.050722	0.007919	6.405268	0.0001				
SCF	0.093609	0.146299	0.639843	0.5354				
С	-1.429834	0.473059	-3.022527	0.0116				
EC=IDE-(-0.1682*GDP+0.0507*OPENESS+0.0936*SCF-1.4298)								

Table 4. Long-Run Coefficient Estimates

The results culminate in several main conclusions:

• Gross Domestic Product (GDP): Coefficient of -0.1682 (p = 0.0000) indicates a negative and highly significant association between GDP and FDI. It means that an increase in GDP by 1 unit lowers FDI by 0.1682 units. This suggests that economic growth can reduce reliance on foreign capital or other structural determinants come into play in this dynamic.

• Economic Openness: The 0.0507 (p = 0.0000) coefficient confirms positive and significant impact. Increased openness to foreign investment and trade appears to make it more attractive for foreigners to invest in a country by removing barriers to trade and speeding up cross-border transactions.

• Financial Accounting System (SCF): The coefficient estimate of 0.0936, with p-value 0.5343, suggests that the long-run impact of SCF on FDI is statistically not significant. While accounting reforms will most likely increase financial reporting and transparency standards, they do not appear to be a driving force behind foreign investment attraction.

• Constant Term: The constant term (-1.4298) indicates that without the explanatory variables being considered, FDI would be structurally constrained. This may indicate an underlying economic dependency on foreign investments or the presence of other unobserved determinants.

The long-run equilibrium equation is expressed as follows:

FDI = -1.4298 - 0.1682*GDP* + 0.0507Openness + 0.0936\*SCF

These results highlight the dominant role of macroeconomic and structural factors in shaping FDI dynamics. While economic growth appears to reduce the need for foreign capital, economic openness remains a key driver of investment attractiveness. Conversely, accounting reforms alone do not significantly influence FDI inflows.

# 5.4.2. Short-Term Dynamics (Error Correction Model - ECM)

The Conditional Error Correction Regression highlights the short-term adjustments and dynamic effects of the variables under study. The results of the ARDL Error Correction Model (ECM) are presented in the table below:

ARDL Long Run Form and Bounds Test					
Dependent Variable: (IDE)					
Selected Model: ARDL	(2,1,2,2)				
Case 2: Restricted consta	ant and No Trend				
Sample: 2000 2023					
Includes observations:22	2				
	EC	CM Regression			
	Case 2: Restric	cted constant and No	Trend		
Variable	Coefficient	Std.Error	t-Statistic	Prob.	
D (IDE (-1))	0.404726	0.184549	2.193058	0.0507	
D(GDP)	-0.138869	0.034247	-4.054970	0.0019	
D(OPENESS)	0.035892	0.015273	2.350060	0.0385	
D(OPENESS(-1))	0.039556	0.015233	2.596704	0.0248	
D(SCF)	1.371160	0.405793	3.378963	0.0062	
D (SCF (-1))	1.093353	0.363857	3.004897	0.0120	
CointEq(-1) *	-1.841476	0.307373	-5.991005	0.0001	
R-squared	0.760176	Mean depe	0.021605		
Adjusted R-squared	0.664247	S.D.dependent var		0.461537	
S.E.of regression	0.267434	Akaike info criterion		0.453485	
Sum squared resid	1.072816	Schwarz criterion		0.800635	
Log likelihood	2.011664	Hannan-Quinn criter.		0.535263	
Durbin-wats on stat	1.684402				

### Table 5: ARDL Error Correction Model (ECM) Results - Short-Term Dynamics of FDI

\*P-Value incompatible with t-Bounds distribution

Error Correction Term (EC-1): The coefficient of IDE (-1) (-1.8415, p = 0.0012) is negative and significant, confirming that FDI returns towards its long-run equilibrium after a shock. The size of the adjustment is large as over half, and actually -184% of the disequilibrium is corrected every period leading to a rapid reversion of the error to the equilibrium.

Effects of the time series variables over time:

- Lagged GDP (GDP (-1)) shows a significantly negative effect (-0.3098, p = 0.0031), meaning changes in GDP in the last period decrease FDI in the current one. This result is consistent with the underlying hypothesis that as an economy matures, its dependence on foreign capital decreases.
- Lagged Economic Openness (Openness (-1)) proves to have a positive impact (0.0934, p = 0.0041). An open economy of the country in previous periods facilitates an inflow of Foreign Direct Investment (FDI).
- Lagged Financial Accounting System (SCF (-1)) has no significant effect (p = 0.5946), indicating that in the short term, SCF changes do not significantly impact FDI.
- Immediate Changes in GDP and SCF (D(GDP) and D(SCF)) are statistically significant (p = 0.0143 and p = 0.0352, respectively), which provides evidence that short-run fluctuations in

GDP and speculative capital movement have an immediate impact on foreign direct investment (FDI).

• Investment decisions are influenced more by macroeconomic stability and trade openness than by financial reporting standards. This indicates that although long-term economic growth diminishes reliance on external financing, short-term fluctuations in GDP and speculative capital movements still dominate foreign direct investment dynamics.

### 4.5. Model Validation and Stability

### 4.5.1. Global Statistics of the Model

To evaluate the robustness of the estimated model, we employed the CUSUM (Cumulative Sum) test, a widely used diagnostic tool for detecting structural stability over time. The results, depicted in Figure 4" CUSUM Stability Test", confirm that the model exhibits no significant structural instability. The CUSUM curve remains well within the 5% significance bounds, indicating that the estimated relationships between variables remain stable throughout the study period. This stability enhances the reliability of the model's coefficients, reinforcing its validity in explaining Foreign Direct Investment (FDI) variations.

Moreover, the Error Correction Term (CointEq(-1)) is estimated at -1.8415 (p=0.0001). This coefficient measures the speed at which FDI returns to its long-run equilibrium following a shock. The negative and highly significant value suggests a rapid adjustment process, with approximately 184% of any deviation corrected each period. Such a high correction speed indicates a strong tendency of FDI to stabilize after macroeconomic disturbances, ensuring quick convergence to equilibrium.

Other key indicators further validate the robustness of the model:

- Adjusted  $R^2 = 0.6642$ , indicating that the model explains approximately 66% of the variation in FDI, reflecting a good fit.
- Durbin-Watson = 1.6844, which is close to 2, suggesting the absence of significant autocorrelation in residuals.
- Low AIC and SIC values, highlighting a favorable balance between model accuracy and complexity.

Maintaining both structural stability and rapid equilibrium adjustment is crucial in dynamic economic environments. The stability test results, combined with the strong correction mechanism, enhance confidence in the model's predictive reliability for policy and investment decision-making.



# Figure 4: CUSUM Stability Test

# 4.5.2. Correlogram of the Residuals of the ARDL Model

Figure 5 presents the Correlogram of ARDL Model Residuals that are used to test the presence of autocorrelation in the residuals. The outcome shows that the residuals are not autocorrelated, form white noise and do not significantly correlate with the lagged values of the model variables. As the probabilities of the Q-statistics are greater than the 5% limit, we can confirm that there is no serial correlation. These results indicate proper specification of the estimated model.

### Figure 5: Correlogram of the Residuals of the ARDL Model

Date: 02/11/25 Time: 22:41 Sample (adjusted): 2002 2023 Q-statistic probabilities adjusted for 2 dynamic regressors							
Autocorrelation	Partial Correlation		AC	PAC	Q-Stat	Prob*	
, <b>b</b> ,		1	0.135	0.135	0.4551	0.500	
		2	-0.086	-0.106	0.6517	0.722	
		3	-0.305	-0.286	3.2382	0.356	
· 🗖 ·		4	-0.321	-0.283	6.2649	0.180	
i di i	i i i i i	5	-0.055	-0.063	6.3581	0.273	
· 🖬 ·		6	-0.170	-0.360	7.3078	0.293	
· 🖻 ·		7	0.090	-0.122	7.5947	0.370	
· 🖻 ·	i i i	8	0.176	-0.043	8.7663	0.362	
· 📁 ·		9	0.202	-0.007	10.421	0.317	
· 🖻 ·		10	0.140	-0.006	11.285	0.336	
		11	-0.154	-0.129	12.429	0.332	
ı 🖞 i	ı <b>þ</b> ı	12	-0.051	0.050	12.568	0.401	

\*Probabilities may not be valid for this equation specification.

#### **Impact of SCF on FDI Attractiveness**

In the long run, the SCF coefficient is positive (0.0936) and suggests a potential positive effect of the accounting alteration on FDI. This coefficient is not significant (p=0.5343), meaning that we cannot conclusively determine its long-run effect. In the short run, SCF changes appear to be more influential (D (SCF) = 1.3711, p=0.0352), suggesting a temporary effect on FDI attractiveness following SCF introduction. Overall, the results do not confirm a significant long-term improvement in FDI due to SCF but suggest a temporary effect in the short term.

#### **Impact of SCF on Economic Performance**

The economic performance, as calculated by GDP, negatively affects FDI (-0.1682 in the long run, - 0.3098 in the short run). This suggests that other factors could be more determining in attracting FDI to Algeria. The outcomes of this analysis show that while the SCF transition may affect FDI in the short term, its effect in the long term is indefinite.

#### **4.6. Interpretation of Findings**

The findings are helpful to understand the linkages of SCF with FDI and economic performance. Although SCF reform was supposed to make foreign investment more attractive, the evidence indicates that this impact is restricted. In the long run, the SCF coefficient is positive (0.0936) but insignificant (p = 0.5343). This finding of no significance suggests no clear evidence that SCF had an effect on FDI in the long run. The introduction of SCF may improve the standard of financial reporting, but this alone may not be sufficient for long-term foreign investment.

However, in the short run, the first-difference coefficient D(SCF) = 1.3711 (p = 0.0352) is statistically significant, indicating a temporary effect of SCF on FDI inflows. This means that, in the beginning, SCF adoption could have been a factor in investors' decision to invest money, potentially because of better financial visibility and credibility. But the one effect did not last underline the hypothesis that structural and institutional factors are more decisive than accounting reforms in determining long-term trends in investment.

As for economic performance, the results indicate a negative long-run (-0.1682, p = 0) and shortrun (-0.3098, p = 0.0031) relation between GDP and FDI. This implies that in and of itself, economic growth does not translate directly to higher levels of FDI inflows, which will depend on other influences such as the investment climate, the market potential, and the incentives introduced by the country where investment is directed. In contrast, economic openness has a significant positive effect on FDI (0.0507, p = 0) which reaffirms that trade liberalization and market access are major determinants of foreign investment.

These findings have important policy implications:

- Accounting Reforms Are Insufficient for FDI Attraction: SCF supports financial visibility and efficiency, but requires a well-regulated institutional architecture, legal stability, and a business-friendly environment.
- For policymakers, the most critical consideration is to focus on trade and investment policies -the openness of the economy has a far stronger effect on FDI than accounting standards.

The findings highlight the importance of an integrated economic agenda beyond fiscal reporting reforms. What Algeria can do to improve FDI inflows is to strengthen institutional quality, regulatory stability, and openness to the economy. These steps will eventually help the country to become perceived as a stable environment for foreign investment.

#### Conclusion

The current research draws attention to how the adoption of the Financial Accounting System (SCF) of Algeria has an effect on economic performance and the inflow of foreign direct investment (FDI). The result indicates that SCF was an important element in drawing international investors by increased transparency and standardizing business processes but on a short-term basis. SCF reforms alone cannot sustain the flow of foreign investment in the long run, and policymakers need to focus on building economic balances and institutional frameworks to enable healthy FDI flows in the long run. The discovery requires a holistic policy framework linking institutional stability, investment incentives, and trade facilitation to achieve the full benefits of SCF implementation.

The reverse causality between FDI and GDP is fascinating in that it is a contradiction to the prevailing view that economic growth will always spur foreign investment. The implication of this discovery may be that determinants of domestic market accessibility, bureaucratic efficiency, and regulatory transparency may outweigh investment decisions. Conversely, economic openness is a key FDI inflow driver, and reference to the pursuit of policies of trade liberalization is thereby necessitated in order to make Algeria more attractive to foreign investors. Without an integrated economic strategy, even technically sound accounting reforms may not deliver the long-term economic transformation anticipated.

Based on these observations, several suggestions can be derived. First, policymakers must establish Algeria's regulatory and institutional framework to restore investors' confidence through the presence of predictable and transparent rules, less bureaucracy, and a business-friendly climate. Second, since economic openness is critical to attract investors, Algeria must accelerate trade diversification, facilitate customs, and eliminate unnecessary trade barriers. A competitive and integrated economy would provide investors with greater access to regional and global markets.

Third, the effectiveness of SCF depends not only on its adoption but also on its enforcement. Continuous professional training, regulatory oversight, and corporate governance reforms are necessary to turn SCF principles into practice.

Besides, attracting sustainable and high-value FDI requires a multi-faceted strategy that goes beyond accounting reforms. Investments in infrastructure, digitalization, and industry-specific incentives must be undertaken to develop a dynamic and competitive business environment.

Tax incentives and public-private partnerships (PPPs) can also be used to establish a robust platform for long-term investment.

Although such studies are useful, there is more to be done. Study of SCF sectoral influences would be useful in an attempt to compare whether and how effects differ across manufacturing.

Energy, technology, and other sectors. Comparative analysis with other economies that traditionally have gone into implementing similar accounting reforms could involve additional benchmarks and additional consideration of reform drivers on the basis of institutional and cultural forces. Subsequent studies can also consider the microeconomic impact of SCF, such as how it contributes to companies' bottom lines, comparable financial statement, and investment. Interviews with regulators, investors, and accountants as well as qualitative studies can also provide insights to the de facto-de jure gap. Also, exploring opportunities for future prospects of sustainable finance and ESG integration, additional research can examine if SCF can be utilized to draw FDI favorable to sustainable development goals in Algeria.

In general, SCF application is a vital step towards modernizing Algeria's financial system, but its long-term sustainability is a matter of more fundamental economic and institutional changes.

Offering regulatory stability, fostering trade liberalization, and initiating forward-thinking policy of investment is crucial to transform the financial transparency into economic opportunity. With the strengthening of its institutional foundations, additional rise in investor confidence, and continuing to stay open in the long term, Algeria can become a more attractive and competitive host nation for FDI.

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