

In recent decades, one of the significant issues for businesses in developing countries has been the increasing impact of the environment on business. It is a world open to all the environmental contingencies presented, particularly in the phenomenon of globalization, the importance of commercial exchanges, technological innovations, and the functioning of economic-political structures (Lecerf, 2006).

Globalization has opened up unprecedented opportunities for SMEs and has created a new, open and intense international environment imposed on SMEs in developing countries. These SMEs are forced to adapt to these environmental contingencies. The decision to engage in an adaptation program is motivated by the desire to oppose a decline in the performance results of the SME, which are likely to call into question the relevance of the strategic options currently implemented, OECD (2004). This book gives concepts, theoretical solutions and theoretical foundations to embark on a program of adaptation for your company; We wish you a good reading.



Mr. Boudjemaa Amroune holds a Ph.D. in administration, an international management option in entrepreneurship from the School of Management Sciences of the University of Quebec in Montreal and a master's degree in industrial management from the Polytechnic School of Montreal, Canada.



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# Theoretical foundations of adaptive corporate behaviour

Adaptation behaviour of the SMEs in an open and intense environment



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# **Theoretical foundations of adaptive corporate behaviour**

Adaptation behaviour of the SMEs in an open  
and intense environment

Dr. Boudjemaa Amroune

# Abstract

One of the major issues for businesses in developing countries in recent decades has been the increasing impact of the environment on business. It is a world open to all the environmental contingencies presented, particularly in the phenomenon of globalization, the importance of commercial exchanges, technological innovations, the functioning of political structures, the complexity of social and cultural life, without forgetting the decisive weight of the economic factor (Lecerf, 2006).

Globalization has opened up unprecedented opportunities for SMEs and has created a new, open and intense international environment that is imposed on SMEs in developing countries. These SMEs are forced to adapt to these environmental contingencies. Furthermore, through the implementation of upgrading programs, SMEs strive to change their behaviour in the face of these harsh environments in order to create or strengthen competitive advantages, ensuring them satisfactory level of performance (OECD, 2004).

The decision to engage in an adaptation program is motivated by the desire to oppose a decline in the performance results of the SME, which are likely to call into question the relevance of the strategic options currently implemented.

Long before, upgrading programs were developed in Southeast Asian countries, the countries in transition of Eastern Europe and Russia, and this in the development of aid programs for SMEs called upgrade programs. We cite, among others: economies in transition (Johnson and Loveman, 1995;

Konopielko and Bell, 1998; Kolodko, 2003), Poland (Konopielko and Bell, 1998; Fogel and Zapalska, 2001), Romania (Anton et al ., 1996) and Hungary (Smallbone and Welter, 2001). Moreover, in Southeast Asian countries, this is the case in Malaysia (Lall, 1999; Habaradas, 2008), Indonesia (Tambunan, 2007), China (White and Linden, 2002), India (Shridhar, 2006) and Taiwan (Lin and Chen, 2007).

So, the upgrading program or generally upgrading is only a tool for adapting the SME to its open and intense environment. This partial work is taken from a doctoral thesis by Mr. Boudjemaa Amroune. This thesis received the mention of excellence. It was prepared at the School of Management Sciences of the University of Quebec in Montreal (ESG UQAM) in Quebec, Canada, with the aim of obtaining a doctor of philosophy in administration.

The thesis was initially written in French. So, in order to explore better visibility and ensure wide reading of this thesis, we made this first attempt, and this to make a partial translation of this thesis in English. The translation style followed is a free translation. The translation of this part of the thesis is the main objective of this work due to the imposition of the phenomenon of adaptation in the business world. Adaptation has become crucial lately in a changing environment.

**Keywords:** open and intense environment, SMEs in developing countries, upgrading of SMEs, adaptation of SMEs, performance analysis.



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# Introduction

The species most likely to survive is neither the strongest nor the smartest; it is the one that adapts.

**Darwin (1859)**

In a changing and constantly changing world, small and medium-sized enterprises (SMEs) continue to suffer the adverse effects of economic globalization and the conditions of the open and intense environment. These companies face tough and fierce competition to the disadvantage of SMEs that are truly uncompetitive, especially in a developing country context. This new business climate requires taking into account the development of SMEs and inserting it into the arena of both national and international competition.

As a result, public authorities in developing countries, aware of the future challenges and the potential of this business sector, have implemented programs that support the development of the SME sector. These programs are commonly known as upgrade programs. The objectives of these programs are to develop small and medium-sized enterprises “SMEs.” This development aims to improve the performance of SMEs, raise their competitiveness and adapt it to their environmental context, both nationally and internationally.

In order to improve the performance of SMEs, the content of these programs does not do only concern the internal functional activities of the company but also covers improvements in the immediate contextual environment of the

company. The improvement of this environment mainly encompasses the institutional environment, the economic environment, the environment of support and entrepreneurial support, the financial and banking environment, the legal and regulatory environment and the improvement of the infrastructure of the country in question.

So, this perspective fits our present work in order to shed more light on this business sector, to better understand the phenomenon of adaptation through the concretization of the upgrading programs of the SME sector and its link with performance. In fact, upgrading is only means or tool for adapting the economic enterprise to its environment, which is constantly changing.

This study will take on an international dimension. It will deal with the phenomenon of adaptation of small and medium-sized enterprises while going through the implementation of an upgrading program in emerging and developing countries.

To accomplish this work well, this comprises a total of five chapters. We begin with the problematic chapter on the adaptation of small and medium-sized enterprises. This chapter relates the underlying problem, the possible solutions, the objectives of this work and finally leads to our research question. Briefly, the chapters, which will be developed later, are presented below:

**Chapter 1:** Problems of adaptation of small and medium enterprises in developing countries;

**Chapter 2:** SMEs in developing countries;

**Chapter 3:** Open and intense environment: the case of SMEs in developing countries;

**Chapter 4:** Adaptation and performance of the SME in an open and intense environment;

**Chapter 5:** Theoretical foundations of the study.

In fact, this partial work is taken from a doctoral thesis by Mr. Boudjemaa Amroune. This thesis received the mention of excellence. It was prepared at the School of Management Sciences of the University of Quebec in Montreal (ESG UQAM) in Quebec, Canada, with the aim of obtaining a doctorate in philosophy in administration.

The thesis was initially written in French. So, in order to explore better visibility and ensure wide reading of this thesis, we made this first attempt, and this to make a partial translation of this thesis in the English language, the language of science and the language of communication. We do not forget that the English language is ranked in first ranks globally. The translation style followed is free translation. The translation of this part of the thesis is the main objective of this work.

I said the first attempt with the aim of translating the entire thesis for a second purpose in order to ensure better reading, visibility and to shed more light on the problem of the fight against this type of vulnerable business, to this unstable, complex and hostile environment, particularly in developing countries.

Academically, we try to equip researchers and practitioners with the context, concepts and principles of adaptation of SMEs in developing countries. We try to give a deep theoretical perspective allowing us to deeply understand the problem of adaptation of this economic enterprise to its open and intense environment.

Consequently, public authorities in developing countries, in order to ensure the adaptation of this SME to its ecosystem, have developed upgrading programs in collaboration with international institutions such as the International Development Organization. Industrial "UNIDO," the International Monetary Fund "IMF," the European Commission in charge of the upgrade and the World Bank "WB." Also, with a view to adapting the SME to its very difficult, do .not

forgetting that the public authorities themselves in developing countries have developed upgrading programs by the Nation-States Union. ,

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# **Chapter 1:**

## **Problem of adaptation of small and medium enterprises in developing countries**

### **1.1 Introduction**

Small and medium-sized enterprises (SMEs) in developing countries face political, economic and business environment that is relatively unstable, structurally weak and institutionally precarious. This sector is exposed to tough and fierce competition to the disadvantage of companies that are truly uncompetitive (Kuo et al., 2013). So the issue of small and medium-sized enterprises in developing countries is rich and complex.

Therefore, this present chapter, which is intended as an introduction to our study, relates the problem of the SME sector in developing countries: a short presentation on upgrading programs in developing countries, an explanation of a few fundamental notions on the concept of upgrading and then a presentation on the objectives and questions of the research.

### **1.2 Problems of SMEs in developing countries**

One of the major issues for businesses in developing countries in recent decades has been the increasing impact of the environment on business. It is a world open to all the environmental contingencies presented, particularly in the phenomenon of globalization, the importance of commercial exchanges, technological

innovations, the functioning of political structures, the complexity of social and cultural life, without forgetting the decisive weight of the economic factor (Lecerf, 2006).

Wiji Suratno (2013) argues that businesses in developing countries, including Indonesia, face tough and fierce competition. Similarly, for the Egyptian context, El-Shobery et al. (2010) argue that currently in a globalized economic system, the Egyptian manufacturing sector is facing declining terms of trade and the Egyptian economy is under severe international competitive pressures.

Lecerf (2006) also adds that global competition, technological changes and customer requirements are at the root of a turbulent, complex and uncertain environment. This turbulence has generated a significant production of theoretical knowledge and know-how. Some of the various sub-constructs of environmental uncertainty include customer uncertainty, supplier uncertainty, competitive uncertainty, and technology uncertainty. The latter consequently provoked economic reforms which led to radical changes in the functional approach. This is the case of SMEs in developing countries.

Thus, concerning Developing Countries, the economic context has not been spared by this state of affairs. It has undergone significant changes both at the macroeconomic level and at the microeconomic level. At the micro level, SMEs have been affected by these environmental transformations. But, in reality, according to Zahra and George (1999), they are not passive vis-à-vis their environment, insofar as they interact with it positively or negatively to ensure their viability, even their growth.

With this in mind, with regard to the impact of this open environment on all contingencies, Pierre-André Julien presents the changing context of Small and Medium Enterprises "SMEs" in a globalized world as follows: "...the movement of globalization which has accelerated in the last decade can be explained by the

increase in trade not only of goods, but above all of services, particularly in developing countries (...) this movement can have a very significant effect on SMEs by intensifying competition on all local markets and by disrupting export markets” (Julien, 1994, pp. 58-61).

The same author asserts that, generally speaking, in all countries, whatever their category (developed, emerging or developing), SMEs are considered to be engines of economic development and among the main contributors to the creation of businesses sustainable jobs and increased added value (Julien, 1994).

Although SMEs remain at the heart of economic development in developing countries, they have not fulfilled their intended mandates due to a number of known structural constraints (Pyke and Sengenberger, 1992). Entrepreneurs always face problems in any country. However, entrepreneurs in developing countries, including poor countries and countries in transition, have more problems because the political, economic and business environments are relatively more unstable, according to Oyelaran-Oyeyinka and Lal (2006) . The problems related to the creation and development of new businesses in the economies in transition which refer to the former USSR, to certain countries of Eastern Europe, South-East Asia and certain African countries are serious.

Specifically, in Developing Countries, especially in countries in transition, SMEs throughout their history, although they have witnessed a difficult movement, are known to have another important role, namely to be a important engine for the development and growth of exports, especially in the production sector (Tambunan, 2007). This situation stems from evidence showing that the most successful cases of SME development in Southeast Asian countries, such as South Korea, Taiwan, Hong Kong and Singapore, are directly linked to trade and the adoption of strategies, export oriented. The experiences of these countries indicate that SMEs can effectively compete in national and international markets.

By consensus, SMEs generally constitute the majority of enterprises in both developed and developing countries. They employ a large segment of the working population in the countries and contribute significantly to national production (Habaradas, 2008).

It is recognized that a strong, efficient and dynamic SME sector plays a key role in creating international competitive advantage (Hall, 2003) and ensuring economic development (APBSD, 2004). However, according to Habaradas (2008), SMEs in developing economies face various problems and constraints, for example, limited financial resources, lack of management skills, lack of competent personnel and limited access to information of the market that threatens their viability.

Raja and Kumar (2008) argue that SMEs in developing countries, especially in India, are characterized by low or even limited capitalization, geographical diversity and high mortality of these companies. We can also cite the lack of access to capital markets, the intensity of cash transactions, the lack of information on credit, the poor financial situation due to tax problems carried out based on lending on the guidelines of the Central Bank and the perception of high risk which led to borrowing costs.

According to Chu, Benzing and McGee (2007), other problems faced by entrepreneurs in developing countries and economies in transition are due to a generally weak economy, limited access to financial capital, an inability to recruit reliable employees and intense competition. In addition, another common problem for entrepreneurs in developing countries is over-regulation which often leads to long and costly delays in permits and approvals (Macculloch, 2001).

In Kenya, for example, entrepreneurs complain of long delays in approval procedures for obtaining business licenses and registering their businesses.

Complicated tax forms, heavy government scrutiny and outright misinterpretation of laws are common problems faced by small business owners (Chu, Benzing and McGee, 2007). On the other hand, the protectionist policy in some transition countries has created an economic environment where SMEs have experienced very little competition. However, in India, SMEs are no longer protected and have started to feel the pressure of external competition (Shridhar, 2006). The increase in the intensity of competition due to the reduction of trade barriers that is driver for SMEs.

Furthermore, in most developing countries, entrepreneurs face an unstable and highly bureaucratic environment. Laws governing private enterprises, especially business registration and the tax system, are very complex and difficult to understand (Benzing et al., 2009). Contracts and private property rights are often poorly designed and poorly enforced. As Kiggundu (2002) and Pope (2001) argue, the unfavourable institutional regulatory environment is often accompanied by the additional expenditure of corruption.

In recent years, increasing attention has been paid in these countries to how SMEs should respond to the new competitive landscape characterized by anti-SME trends. Theoretical research on entrepreneurship has highlighted the need to explore new business opportunities through innovation, proactive behaviours, risk-taking and adaptation of the business to its new context.

In fact, the SME sector in transition economies is therefore composed of newly created enterprises, spin-offs of large enterprises and enterprises established before the start of the transition (Kolodko, 2003). The role played by SMEs in countries in transition is preeminent. The SME sector is called upon to play a vital role in economic restructuring, providing the necessary impetus for economic growth, reducing unemployment and relieving the political pressure of discontent among employees in the public enterprise sector. This role also has important political ramifications (McIntyre, 2003).

According to Wickersham (2012), "In today's global and competitive business environment, entrepreneurs are increasingly focused on improving the financial performance, productivity and profitability of their businesses. One method of improving profitability is to focus on a strategy that improves productivity by streamlining processes and reducing the costs of doing business." Many companies are also adopting new technologies in order to improve productivity and reduce the unit cost of the product.

In addition, more particularly, Algeria is not exempt from this open and intense environment. A good number of factors acted in this new context with both advantages and disadvantages for the business world. The SME in Algeria also experienced a rich and complex problem and is not spared from this state of affairs. This SME comes from a deficient socialist planning economic system, a really cruel and complicated problem, according to Mebtoul (2010). Algeria's transition from a planned economy to a liberal economy has created a new context. According to Lecerf (2006), this context directly influences the environment of the company evolving in an increasingly competitive market, even unfavourable, in particular for private SMEs.

Therefore, to overcome these disadvantages and with the aim of improving performance, raising competitiveness and adapting SMEs to their environment, which is constantly changing, governments in some developing countries have set up the implementation of SME development programs (Konopielli and Bell, 1998; Moati, 2001). Known as SME upgrading programs, these SME development programs aim to implement actions both at the company level and in its contextual environment.

### **1.3 SMEs upgrading programs in developing countries**

In developing countries, in order to overcome this unfavourable situation for SMEs, public authorities have implemented programs to develop the SME sector. In Poland, the unexpected growth of the SME sector has given a big boost to job creation. The main objectives of SME support programs are job creation, structural development assistance, identification of markets for the SME sector, financial assistance in the form of loans or loan guarantees for finance the investment and expansion of the SME, the provision of advisory services and the granting of training on good business and management practices, according to Konopielko and Bell (1998).

The case of Romania is a good example for countries in transition. Indeed, according to Anton et al. (1996), Romania has been able to adapt its SME sector thanks to a series of measures: helping and organizing consultancy activities for entrepreneurs, eliminating discrimination between state companies and the private sector, encouraging the development of between private companies, align the incentives and facilities granted to Romanian investors with those offered to foreigners, facilitate the access of private entrepreneurs to the infrastructure facilities necessary to start and develop their businesses. These measures also aim to set up a national network of advice and training centers to serve entrepreneurs, which will also give them the capacity and competence to approve the documents necessary to obtain loans.

Building on the work of Habaradas (2008), who studied the entrepreneurial development case of Malaysia, upgrading programs for the SME sector in Malaysia was implemented. It shows that the experience of this country in the development of this sector of economic activity is valuable and deserves to be a source of inspiration for other countries with the same economic context. According to Tambunan (2007), since the early 1960s, the Indonesian economy

has undergone a great structural transformation. An economic change where the agricultural sector has played a dominant role in the country's GDP has an economy where the contribution of the import of products and services becomes much more or less important.

China, one of the emerging economies, is a country considered to be in transition. It has developed its SME sector thanks to the improvement of the contextual environment of its enterprises, the empowerment of public enterprises and the opening of its national market to foreign direct investment, specifically multinational enterprises (Liou, 2012). White and Linden (2002) argue that as part of the overall reform policy, China was able to establish decentralized power over state-owned enterprises and opened its markets to foreign competition. Apart from the example of Romania and Poland, North African countries such as Morocco, Tunisia and Egypt are good examples of how to institute "upgraded" adaptation programs to support their sectors of SMEs, according to Bennaceur et al. (2007, p. 10).

In short, the upgrading programs in these four North African countries have made it possible to contribute directly or indirectly to improving the business environment. For some countries like Tunisia, the upgrading program explicitly includes a component dedicated to improving the business environment and infrastructure. The other countries have embarked on policies to improve institutions, and the legal framework for business, in addition to improving infrastructure, without this component, is initially included in the project. The implementation of upgrading programs served as a stimulus for other aspects of economic policy and had a positive effect on economic reforms in general (Bennaceur et al., 2007).

In the same perspective, the Algerian public authorities have drawn up and implemented upgrading programs for the Algerian SME sector. These programs are developed and overseen by an advisory board responsible for upgrading the



SME. Upgrading programs have so far managed to put a few thousand SMEs in order to insert them into the arena of national and international competition and improve their performance. These programs are initiated by several national and international organizations. Thus, an overview of the upgrade programs and the upgrade concept turned out to be interesting. Indeed, for more detail on upgrading programs in developing countries, see the section in this present work, "2.4.6 Upgrading, adaptation and performance of SMEs in developing countries" of the next chapter.

## **1.4 Some fundamental notions on the concept of SME upgrading and adaptation**

Theoretically, studies of the effects of the environment on organizational behaviour have generally focused on two fundamental aspects of the environment. The first is its uncertainty as perceived by entrepreneurs (Lawrence and Lorsch, 1967; Yasai - Ardekani, 1986), and the second is access to scarce and critical resources for the proper functioning of the organization (Pfeffer and Salancik, 1978).

In developing countries, including Algeria, environmental constraints have led the authorities to develop and implement upgrading programs. In fact, hundreds of thousands of small businesses have benefited from the upgrading programs. These programs have become widely used in business. However, questions arise, for example: what about upgrading, its definition, scope and purpose?

Upgrading is a new concept developed by the United Nations Industrial Development Organization (UNIDO, 2002). According to Bouzidi (2010), the mechanisms of business upgrading and rehabilitation programs are designed to help the business cope with the requirements of economic openness, competition and free trade. The goal is to help companies control costs and improve the

quality of their products, develop creativity and modernize their production equipment. Bougault and Filipiak (2005, p. 15) support the definition of Bouzidi (2010).

They argue that "the measures provided for in the upgrading program aim to eliminate certain constraints affecting the business environment (institutions, regulations, etc.), to encourage businesses to become competitive in terms of cost, quality, of innovation and to strengthen the capacity of these companies to monitor and control the development of technologies and markets."

From this perspective, upgrading is an "action to improve the performance of the company (production and growth) and its competitiveness to enable it to fight effectively in its new competitive field, to maintain itself there and to 'grow there' (UNIDO, quoted in Madaoui and Boukrif, 2009).

For the European Commission in charge of the upgrading program in Algeria, "An upgrading program is concretely defined through its main objective, which is to support SMEs to enable them to significantly improve their competitiveness and performance by aligning itself with international standards of organization and management in order to consolidate and oversee their future development," CEPMA (2007, p. 7).

In this sense, UNIDO (2002, p. 7) corroborates with the last two definitions and argues that "upgrading reflects a double ambition for an industry/enterprise to become competitive in terms of price, quality and efficiency innovation. The company will also be able to monitor and control the development of technologies and markets. Concretely, for the UNOD (2002, p. 7), "upgrading is a great dynamic design with the realization of major changes in the global environment. It is a continuous process that aims to prepare and adapt the company and its contextual environment". As a corollary, according to the previous references, most upgrading programs have two objectives:

- a) focus on improving the institutional environment, such as administrative or judicial reform;
- b) improve the adaptability of the company and its performance.

Like UNIDO (2002, p. 7), in the same perspective as the aforementioned definitions, Bougault and Filipiak (2005, p. 15) also link to the concepts of upgrading the dimension of adaptation of the company to its environment. They define "an upgrading program as a continuous process which aims to prepare and adapt the company to its environment and to meet the requirements of free trade."

Bennaceur et al. (2007) confirm the dimension of adaptation of the company to its environment following the realization of an upgrading program. They define it as "the adaptation of the structures, resources and management processes of small and medium-sized enterprises in order to improve its performance and insert it into the arena of both national and international competition."

UNIDO (2002), Bougault and Filipiak (2005), Bennaceur et al. (2007), Madoui and Boukrif (2009) confirm that the upgrading program aims to adapt the small business to its contextual environment, improve its performance and increase its competitiveness both nationally and internationally. Because of this retrospective on the concept of upgrading, it turned out that the determinant "adaptation" is a major objective for the modernization of small businesses in developing countries, among others Algeria.

Broadly speaking, adaptation refers to an organizational change in structure and behaviour by which an organization increases its chances of survival and responds to current or future environmental conditions. According to Cameron (1984), adaptation generally refers to a process, not an event, whose variations are constantly engaged in the organization. For Tushman and Romanelli (1985),

adaptation is a general term describing a period of gradual, long, continuous and progressive change in response to difficult environmental conditions.

Upgrading is, therefore, an organizational change that aims to adapt the company to its contextual environment, ensure its performance and promote its competitiveness. It provides support for investment in productivity, modernization of businesses and providing sustainable growth over time, following changes in the national and international environment.

In this work, we will use these two concepts, upgrading and adaptation, to explain the process of the rehabilitation of the company to its immediate environment. A theoretical overview of the relationship between upgrading and adaptation will be made in the next chapter, which focuses on the literature review.

In summary, in the case of Algeria, three upgrading programs have been carried out or are in the process of being carried out since 1999. Several billion US dollars have been committed up to now, and phenomenal human and material resources have been devoted to this purpose. However, the question that arises is whether these upgrading programs have really contributed to the achievement of the expected objective.

We recall that the objective was to improve the performance of the Algerian SME and to insert it into the arena of both national and international competition. As far as we are concerned, in the summer of 2011, we conducted some informal interviews with a few entrepreneurs who benefited from the upgrading programs, and this only in the region of the capital Algiers. The aim was to survey entrepreneurs on the impact of these upgrading programs on improving the competitiveness and performance of their businesses. We were surprised to learn, in light of their statements, that the effect of the upgrade

programs on day-to-day activities was minimal and that these programs were a kind of a waste of money.

This is what reinforces our conviction to want to study this phenomenon in-depth in order to understand the impact of these upgrading programs on the performance of SMEs in developing countries in general and specifically in Algeria.

## **1.5 Objectives of the study**

The problem mentioned above is clearly stated in developing countries, particularly in Algeria, there is a link between performance, competitiveness, the environment and SMEs. But the main objective of this study is to conduct a performance analysis on SMEs in developing countries in an open and intense contextual environment. This analysis will allow us to know the impact of upgrading programs on the performance of SMEs in developing countries. Our concern is also to find the company's critical success factors and analyze the effect of the contextual environment on the SME.

We will take the context of the Algerian SME sector as a practical case. Data collection will be on a large sample covering all sectors of activity and the entire Algerian territory to maximize the variance.

For the specific objectives, in the capitalization of the experience of Governments in developing countries in terms of the implementation of SME upgrading programs, this research aims to optimize the following colossal upgrading programs granted by various government agencies and international institutions. Through this study, we will also try to make, in an implicit way, an academic evaluation of these upgrading programs already undertaken by various national and international organizations.

More explicitly, while linking the problem of this research, the objectives of the study and the theory, Miles and Snow (1978) consider that the process of adaptation "referring to the levelling which is a mechanism of adaptation of the company to its contextual environment" is made up of three components: variation, selection and retention.

Desreumaux (1998), in his work, explains well the principle of Miles and Snow (1978). The first component, variation, is the generation of various practices by borrowing from other companies, incremental adjustment of existing approaches, creating original solutions, or even a random or somewhat blind process. This component resembles, in our case, the upgrading programs of SMEs. Other companies have mainly borrowed these programs, and in other countries, both developed, emerging and developing.

The second component, selection, is a process by which successful and unsuccessful practices can be discriminated against. This latter refers to the use of predictive organizational performance indicators. This second principle fits our study, which focuses on the search for critical determinants of performance, success factors and the effect of these programs on the performance of the Algerian SME.

The third component, which deals with retention, is the maintenance or cessation of organizational practices based on the evaluation following the second component, selection. Patterns that appear to strengthen organizational performance will be maintained. On the other hand, the others which are not will be eliminated or remedied. To consolidate the retention stage in our research, we will make sure to communicate our recommendations, once the study is completed, to the national and international bodies that are supposed to make decisions to optimize these upgrading programs or adaptation of the SME based on the key success factors that will be determined.

Like in developing countries, particularly in Algeria, the upgrading or adaptation of SMEs is so far in the phase of variation, according to the principle of Miles and Snow (1978). The European Commission study supports this state of affairs carried out by Bennaceur et al. (2007, p. 55) entitled "Evaluation of policies for upgrading businesses on the southern shore of the Mediterranean: the cases of Algeria, Egypt, Morocco and Tunisia." These authors maintain "that no study concerning the quantitative aspects (performance indicators) is available to date in Algeria and that no reflection on the qualitative aspects is either. The notes of the Ministry of Industry state testimonies concerning the improvement of the organization and the mentalities of the personnel, the productivity and the production capacities, the quality of the products, the increase in turnover and the creation of new jobs.

Based on this observation and using the most reputable scientific and academic databases in management and our examination of the data collected from the documentation of the Ministry of Industry, Small and Medium Enterprises and Investment Promotion in summer 2008, summer 2011 and winter 2013, on the one hand, and on the other hand, our examination in the documentation center within the National Agency for the Development of SMEs "ANDPME" in summer 2011 and winter 2013 it turned out that there is a gap in the literature for the treatment of this research topic. In this sense, our study fits to fill this gap in the literature by an academic quantitative survey.

Therefore, we summarize the research objectives into main objectives and specific objectives.

### **1.5.1 Main objectives**

- 1) Analyze the adaptation of small and medium enterprises in an open and intense environment.

- 2) Involve the performance dimension in the adaptation of SMEs in a changing environment.
- 3) Propose the theoretical foundations supporting the adaptation of the SME in its hostile, unstable and complex environment

### **1.5.2 Specific objective**

- 1) Propose solutions to optimize the next colossal upgrade programs granted by the various government agencies.

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## **Chapter 2:**

### **SMEs in developing countries**

This chapter relates the literature that explains the adaptation and performance of SMEs in an open and intense environment. The chapter begins with definitions and background on SMEs in developing countries. Likewise, it explains the purpose and categorization of the open and intense environment, especially in the case of developing countries, among others, Algeria.

Then, we present the theoretical foundations supporting the adaptation of SME structures to their environment. At the end of this chapter, we set out the literature review explaining the adaptation and performance of SMEs in such an open and intense environment. This chapter is made up of five sub-chapters or sections. Each sub-chapter begins with a small partial introduction and ends with a small summary giving a partial conclusion. Finally, the fifth sub-chapter describes the theoretical framework of the research.

#### **2.1 Definitions and general information on SMEs in developing countries**

##### **2.1.1 Partial introduction**

In "DC" developing countries, SMEs are placed at the heart of economic news because they correspond well to the quality of the workforce already available

and the relatively weak existing means of financing. Indeed, according to Gupta (1987), SMEs contribute to developing countries by offering work to a broader public, which consequently helps promote democracy, political stability, and the well-being of the entire population.

Moreover, over the last three decades, in comparison with large companies in developing countries, the economic weight of SMEs has increased thanks to their particularities, namely: the flexibility of the structure, the absence of bureaucracy and the small size of the company, which favours the social proximity of the factors of production. Thus, SMEs in developing countries are the only entities to have progressed in terms of the number of employees, while large companies have massively lost jobs (Duchénault, 1996). Overall, developing countries recognize the need to develop SMEs to strengthen their national economy.

### **2.1.2 Definition of Small and Medium Enterprises "SME."**

SMEs constitute a very heterogeneous group and are present in very diverse activities. The definition of SMEs varies from country to country due to differences in business law and both physical and legal infrastructure (Storey, 1994). SMEs are generally defined as private enterprises that are relatively small compared to other businesses in the same market or industry, and that is not formed as part of large corporations or business groups (Storey, 1994).

In an attempt to define the average company, several authors refer to the quantitative aspect. According to specific references, they classify it according to the number of its workforce, which is between 50 and 500 employees for France, Canada and Africa, including Algeria. This conception has been criticized by other authors, who attest that the average size of a company corresponds instead to a workforce of between 150 and 2000. On the other hand, a small company employs between 10 and 49 employees.

SMEs can be distinguished according to their size (Cerrada and Janssen, 2006). There are medium-sized enterprises (ME), small enterprises (SE) and tiny enterprises (VSE) or micro-enterprises (MiE). SMEs can also be distinguished according to the life cycle in which they are located. An SME is very different in its life cycle: start-up, growth, maturity, or decline phases.

Julien (1998) groups attempt at typological definition into two main categories: quantitative typologies on the one hand and qualitative typologies on the other. As their name suggests, quantitative typologies are based on quantitative criteria such as workforce, turnover, market share, etc. Qualitative typologies are based on a much more managerial and organizational approach.

The statistical definition of SMEs varies by country and generally considers the number of employees, the amount of turnover and the value of assets. As the corresponding information is easy to collect, the most commonly used variable is the number of employees. In this sense, the definition of the SME in some developing countries, according to the number of employees, inspired by the work of François, Mcqueen and Wignaraja (2005), is well represented in "Table 2.1" as well as the percentage of exports attributable to SME.

**Table 2.1:** Quantitative definition of SME

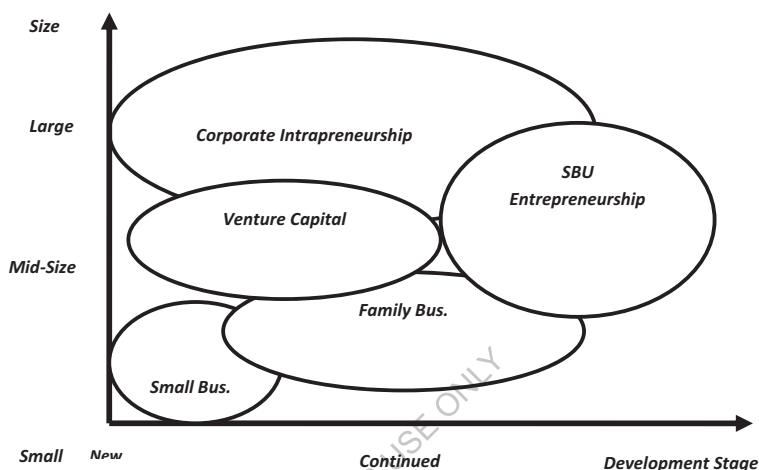
**Source:** Wignaraja and Ganesh (2003)

DEVELOPING COUNTRIES			
Country	Country	Definition of SME	Percentage “%” of exports of manufactured goods attributable to SMEs
Chinese	Beginning of the	< 100 employees	56%

Taipei	years 90		
China	Beginning of the years 90	< 100 employees	40%-60%
Korea	Beginning of the years 1995	< 300 employees	42.4%
Vietnam	Beginning of the years 90	< 200 employees	20%
India	1991/1992	< INR 30 million investment in facilities and equipment	31.5%
Singapore	Beginning of the years 90	< 100 employees	16%
Malaysia	Beginning of the years 90	< 75 employees	15%
Indonesia	Début des années 90	< 100 employees	11%
Thailand	Beginning of the years 90	< 100 employees	10%
Mauritius	1997	< 50 employees	2.2%
Tanzania	2002	< 50 employees	<1.0%
Malawi	2003	< 50 employees	<1.0%
Studies: Korea (Kim and Nugent, 1999), India (Badrinath et al., 1997), Mauritius (Wignaraja and O'Neil, 1999), Tanzania and Malawi (estimates based on Wignaraja's fieldwork), other countries (OECD, 1997).			

As a corollary, according to Naman (1994), entrepreneurial organizations are often defined and discussed from various perspectives, as we have already seen. But, in reality, this variety can be conceived in two dimensions: the size of the SME and its stage of development. In the small size and the first stage of development, we find the small unit, which is in the location of creation and in a more advanced stage of development, there is the family unit. In a medium-size, the venture capital unit is the first place, and in the second place, the more advanced stage is mainly related to the entrepreneurship of the SBU "Strategic

Business Unit" type. However, in large organizations, "corporate intrapreneurship" is most dominant (see Figure 2.1).



**Figure 2.1:** Business ranking concept map.

**Source:** Naman (1994)

### 2.1.3 Characteristics of the SMEs

By its nature, the SME has specific characteristics like large companies. For example, according to Marchesnay and Julien (1987), the SME is characterized by a concentration on management and decision-making. One of the definitions of a small business is precisely how the manager assumes technical and financial responsibility, that is, the control and development of his SME.

We can summarize the characteristics of the SME according to the following authors: Walker and Cochran, 1981; Welsh and White, 1981; Marchesnay and Julien, 1987; Rotch, 1987; Delone, 1988; Chen, 1993; Cragg and King, 1993;

Gaskill et al., 1993; Holtzinger and Hotch, 1993; Delvecchio, 1994; Reynolds et al., 1994; Murphy, 1996; Westhead and Storey, 1996; Bunker and MacGregor, 2000; Dennis, 2000; Hill and Stewart, 2000; Miller and Besser, 2000; Raymond, 2001; Tetteh and Bum, 2001; Barry and Milner, 2002; Khan and Khan, 2002; Drakopolou-Dodd et al., 2002; MacGregor and Vrazalic, 2004.

These authors gave an overview of the characteristics of the SME through the following elements:

- small size;
- centralization and customization of management around the owner-manager;
- low labour specialization;
- intuitive or poorly formalized strategy;
- vital proximity of actors in a regional network;
- simple and not very formalized structure (flexible);
- simple external information system based on direct contacts;
- ability to innovate quickly to adapt to the market.

According to some of these authors, the following elements can also be added:

- the proximity between boss and employees;
- use of non-primary writing because of the importance of mutual adjustment;
- flat structure, no or significantly few hierarchical levels;
- organization in networks: the SME is structured with other SMEs. Distribution of tasks occurs (research, production, marketing, etc.).

Similarly, according to the latest authors, the assets of the SME reside above all in the dynamism of certain managers, the team spirit and the adaptability of the

company faced with new challenges imputed to a hostile environment, particularly in developing countries.

Thus, Tahari (2009) maintains that the main character is expressed by the concept of the proximity "mix" used by specific studies, for example, Torres (1997), and thus accounts for the organizational reality and the behaviour of these small and medium enterprises (see Table 2.2).

**Table 2.2:** SMEs as a local mix

**Source:** Torres (1997), cited in Tahari (2009)

Characteristics of SMEs	Types of proximity
The dominant role of the leader and personalization of management	Hierarchical proximity
Low specialization of tasks, high professional versatility	Functional proximity
Decisions based on the manager's experience and intuition, little use of expertise, therefore informal strategy and a strong preference for the short term	Temporal proximity
Direct information system and preponderance of orality	Local information system
Direct contact with customers	proximity marketing
High concentration of capital in the hands of the owner-manager and therefore confusion of the company's assets with that of the owner	Local finance
Strong territorial insertion	Spatial proximity

### **2.1.4 SMEs in developing economies**

The SME private sector has played an essential role in developing the changing economies of Eastern Europe and Southeast Asian countries. Generally speaking, the communist regime in these countries removed it from the economic sphere as it was illegal to start a business. According to Dickinson (2008), entrepreneurial activity was seen as socially wrong, and anyone who was engaged in unofficial business was threatened with arrest and imprisonment. Before the Gorbachev era, in the former Soviet Union, it was common for top business people to be accused of corruption and hooliganism every year.

Indeed, during the 1970s and 1980s, in socialist countries, communism prohibited the development of the private sector. The socialist economy was linked to the Marxist ideology, which fights against the market economy. According to Van Pham and St-Pierre (2009), this planned economic model was dominant in socialist countries such as the Soviet Union, Central and Eastern European countries, China, Vietnam, Cuba and Algeria. At the end of the 1970s, the economic crisis in socialist countries highlighted the disadvantages of public enterprises and the planned economy. In reality, public enterprises have not achieved the results expected by the state.

These last two authors argue that the break-up of the Soviet Union and the Eastern European bloc forced the socialist countries to undertake reforms. These countries then entered a period of transition from a planned economy to a market economy. While observing the economic success of capitalist countries, socialist countries have recognized the critical contributions to the development of the economy by private financial components and SMEs in particular. Therefore, these companies have become essential players in the economy, thus promoting and accelerating their pace of development.



For more than a decade, all the countries of the former Soviet Union and generally the former socialist countries have experienced as much economic transition as political transition. During this transition, significant achievements are the development of the private sector and the entrepreneurial environment (Szabo, 2000).

During the Soviet period, the economy of the Union was mainly structured in such a way that each state depended on the production of the other states. This dependence has led to the economic underdevelopment of the States. Damis and Shipilov (2002) stated that one way to transform this system is to develop industries and achieve economic growth.

The challenge for these countries is the creation of private companies and encouraging entrepreneurial activity. These companies are introducing new products and services and creating new employment opportunities in countries formerly focused on industrial and military production instead of consumer products. Entrepreneurs are one of the essential elements both in economic transition and in the creation and stabilization of democracy, according to the report OECD (1999).

Yalcin and Kapu (2008) reaffirm that countries in transition are witnessing an economic shift towards the right to business ownership. This period was, therefore, a challenge. The latter argues that the need to learn capitalist business rules and practices and to deal with national and international competition was not easy for these companies to find a way out and resist these adverse conditions.

### **2.1.5 Contribution of SMEs to the national economy**

The SME sector has overgrown over the years and contributes nearly 40% of total industrial output. This sector occupies an important place in generating income for the countries because the growth rate in this sector has always been higher than the average industrial growth rate (Bruya and Julien, 1994). Raja and Kumar (2008) add that SMEs in India is considered one of the economy's most dynamic sectors. According to Dickinson (2008), drawing on SME Bank (2005) data, SMEs are seen as engines of growth in both developed and developing countries because they employ low costs, and the unit cost of employees is lower both for SMEs and for large units.

In addition, SMEs help in regional and local development. They contribute to the equitable distribution of wealth and the regional dispersion of economic activities. They contribute significantly to export earnings due to their labour-intensive, low cost. SMEs positively affect the trade balance because they generally use local raw materials. In addition, they help create an entrepreneurial culture by bringing together skills and capital through loans and different skills upgrading schemes. Finally, they provide resilience to economic upheavals and retain a reasonable growth rate.

As a corollary, the World Bank (2002-2004) gives three main arguments supporting the idea that SMEs can function as the engine of growth in developing countries. At first glance, SMEs consolidate competition and entrepreneurship and, therefore, have external advantages on the economy's efficiency through innovation and productivity growth. Thus, SMEs are generally more productive than large companies. Therefore, the financial market and other institutional failures and unfavourable macroeconomic environmental aspects impede the development of SMEs.

In addition, according to this last source, the World Bank believes that SMEs can stimulate economic growth and development in these countries. The advantages of the SME sector in national growth are proven in the study of Habaradas (2008). His study was conducted in the ex-Socialist countries of Eastern Europe. It illustrates the contribution of SMEs to gross domestic product (GDP) and employment participation for countries in transition.

However, the Algerian SME experienced almost the same conditions as the SME in the developing countries, but taking into account historical factors, the private sector of the SME in Algeria is very nascent. This sector emerged mainly in the period of the 2000s. As a result, the SME sector in Algeria is very young.

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## 2.1.6 Synthesis

The growing interest in the role of SMEs in the development process continues to be at the forefront of political debates in developing countries, particularly in Algeria, over the past two decades. Still, in the developing countries, according to Cunningham and Rowley (2007), the development of China and the importance of SMEs have been the subject of increasing attention in political and popular discourse, the media and universities. Since the 1990s, SMEs have played an increasingly important role in this economic growth. Fencing (2008) and Mashhadi et al. (2012) argue that SMEs play multiple roles in developing countries regarding job creation, income generation and ensuring a fair distribution of limited resources.

In the OECD report (2004) and throughout the world, specifically in developing countries, it is agreed that strong economic growth contributes to economic and social development and poverty reduction. At the same time, it is increasingly recognized that the impact of change on poverty depends on the quality of growth in the SME sector, given its composition, distribution and more or less durability.

Note that two significant facts in the world of entrepreneurship remain to be noted:

**First:** is the phenomenon of SME governance emerging and is beginning to attract more attention. In this sense, the SME is then controlled by its manager. This concept of controllability is expressed in the ability to maintain control over the functionality and development of a set of resources. This notion is at the

heart of the current debate. Such a characteristic suggests the risk of loss of controllability and therefore authorizes the existence of abnormal situations in the SME's form (Torres, 2000).

**Second**, the SME market is often local, and few SMEs export to foreign markets. Several authors suggest that the globalization of the SME can constitute a "phenomenon" that implies profound changes in its mode of operation (Walthers and Snice, 1990; Morin, 1992). Gilson. An et al. ii (1993) consider a contradiction between the export activity and the identity of the SME, etc. In many respects, the context of the internationalization of the SME seems altered in its form while considering the SME as an economic entity. From this perspective, the next chapter relates this issue of the changing environment of SMEs in an open and intense world in developing countries. We will also try to expose the turbulent environment underlying the SME sector in Algeria.

## **Chapter 3:**

### **Open and intense environment: The case of SMEs in developing countries**

#### **3.1 Partial introduction**

Although the performance levels of SMEs have been attributed to management factors (Stegall et al., 1976; Albert, 1981), external environmental factors have a significant impact on the viability of SMEs and their growth (Mashhadi et al., 2012). However, according to Perrott (2008), the market has become more complex and challenging. Increasing competition, fluctuating business cycles, globalization, market fragmentation, consumer demands, e-business considerations, market regulation and deregulation, rising costs, and customer loyalty require special attention (Johnson et al., 2005).

Thus, rapid and unpredictable changes put pressure on the decision-making process. Process approval is when the organization is required to give prompt responses. Additionally, increasing environmental turbulence and emerging strategic issues challenge how a company plans and executes its strategy. Entrepreneurs and decision-makers find little room to counterbalance the status quo and propose step advancements in the constraining environment (Perrott, 2008) which requires analysis.

Desreumeaux (1998) specifies that although many proposals aim to set the relevant attributes of the analysis of the business environment, a comprehensive examination leads to retaining three essential characteristics, which can be grasped in terms of categories distinct, namely:

- a) the degree of complexity (the environment is simple or complex);
- b) the degree of dynamism (the environment is stable or unstable);
- c) the availability of resources (the environment is hostile or munificent).

This distinction requires careful consideration. However, this last author adds that the constituent variables or factors of the environment are economic, demographic, socio-cultural, technological, ecological, public authorities, competition and the labour market.

### **3.2 Definition of open and intense environment**

Boulding (1956) also points out that the open and intense environment was made explicit by Katz and Kahn (1978). These last two authors recognize that internal and external organizational elements interact. Scott (1981) explains that open system models emphasize the reciprocal links that link the organization with these elements. He further states that "the environment is seen as the ultimate source of materials, energy and information, all of which are essential to the furtherance of an organization" (1981, p.120). For Emery and Trist (1965), Kahandwalla (1972), Duncan (1972), Pfeffer and Salancik (1978), the open and intense environment is characterized by uncertainty, dynamism, heterogeneity, and complexity, instability and turbulence.

According to these last authors, these characteristics describe well the open and intense environment and have a strong influence on the decision of the company's adaptation. Moreover, for Kalpan (1986), the open and extreme

environment is characterized by two environmental dimensions: dynamism and hostility. For Kuo et al. (2013), the intense environment is characterized by arduous and fierce competition.

Lawrence and Lorsch, 1967 have studied dynamism; Khandwalla, 1977; Miller and Friesen, 1982; Dess and Beard, 1984; Miller, 1987 have also been mentioned in the literature on variability between voluntarism and determinism (Child, 1972) and turbulence (Emery and Trist, 1965; Lenz and Engledow 1986). Other constraints are represented by the unpredictable market variations, industry, technology, economic sphere, social and political.

Concerning hostility, it has been studied by authors such as Child (1972); Khandwalla (1976, 1977); Miller and Friesen (1983) and represents the degree of threat to decision-making. The peaceful or non-hostile environment has been studied by Emery and Trist (1965) and munificence by Dess and Beard (1984). The munificence and placidity of the environment provide stable, fertile environments and low-risk conditions conducive to organizational activity. Dynamism is associated with environmental change and innovation (Burns and Stalker, 1961) and organicity (Mintzberg, 1979). Hostility is associated with competition and limited resources. Hence proactivity and risk-taking encourage rapid intervention.

In recent decades, with the complexity of the environment, there has been a substantial advance in research on the interaction between the organization and the environment (Cyert and Mars, 1963; Emery and Trist, 1965; Thompson, 1967; Terrenceberry, 1968; Starbuck, 1976). One of the objectives of these studies on the "organization-environment" duo is the organization's adaptation to its environment.



## 2.3 Typology of the environment in an open and intense world

According to Rojot (2005), the definition of the environment is an essential concept since the efficiency of the company will be judged from its exterior. It includes all the elements that affect organizations and businesses in particular. However, the author qualifies by stating that all the events that organizations face do not necessarily have an impact on them.

Regarding the types of environments in which companies operate, according to Emery and Trist (1965), they are classified into four types: stable (placid), random, regular, structured, unstable, reactive and turbulent. The kind of environment of an organization is determined by the degree of predictability of change (turbulence), threats and opportunities. According to Glaser (1985) and Elliott (1990), in a random placid environment, opportunities and threats are randomly distributed.

Hence no particular marketing strategy should yield significantly better results. Students. Emery and Trist (1965) place their analysis of the environment in an evolutionary perspective and consider that the four types of environment follow one another logically by the very effect of the responses that organizations deploy in the face of each situation. They present their typology of the environment in interaction with the structure of the market and the behaviour required. This latter relates to the environment's interdependence, uncertainty, and complexity (see Table 2.3).

However, studies made by various authors on environmental categorization inform us even more on this subject. Hafsi et al. (2007) classify the environment as: "stable (Dill, 1958; Miller and Friesen, 1983; Dess and Beard, 1984); benign (March and Simon, 1958; Khandwalla, 1977); hostile (March and Simon, 1958; Khandwalla, 1977); dynamic (Thompson, 1967; Miller and Friesen, 1983; Dess

and Beard, 1984); volatile (Bourgeois, 1985; McKee et al., 1989); complex (Child, 1972; Mintzberg, 1979; Tung, 1982) and turbulent (Davis et al., 1991; Naman and Slevin, 1993)".

**Table 2.3:** Typology of environments

**Source:** Emery and Trist (1965)

<div style="display: flex; align-items: center; justify-content: center;"> <div style="writing-mode: vertical-rl; transform: rotate(180deg);">Interdependence Complexity Uncertainty</div> <div style="margin: 0 10px;"> <div style="text-align: center;">-</div> <div style="text-align: center;">↑</div> <div style="text-align: center;">↓</div> <div style="text-align: center;">+</div> </div> </div>	Types of environment	Market structure	Required behavior
	stable, random	pure and perfect competition	tactical
	stable, structured	monopolistic competition	strategy
	unstable, reactive	Oligopoly	strategy
	turbulent	?	collaboration

According to Rojot (2005), the turbulent environment is increasingly noticeable in various economies because of the following three reasons:

- increased interdependence between economic aspects and other aspects of society;
- the consequences of organizational efforts that further complicate the environment;
- the increased role of research and development to face competition.

The organization must continually reassess its relationships and develop new products and services in this environment. One example is the computer industry in the 1980s.

Ward and Lewandowska (2008) argue that the turbulent environment manifests in dynamic environments such as reactive disturbed environments. Playing the business in turbulent environments is like chess with lots of players who can compete and cooperate. It is a match with no fixed rules in which pieces have goals of their own, and the interaction between parts and players may change over time due to previous interactions. There is no overarching goal by which winners and losers are clearly defined. Today's winners can be tomorrow's losers, and vice versa, and the game never ends.

Thus, Rojot (2005) classifies the turbulent field environment as more complex, dynamic and random. It is unstable and uncertain. This uncertainty, however, no longer comes from the random distribution of elements but a permanent movement. The aspects of the environment are disconnected and independent but react and act on each other. Multiple organizations interact there as well as the environment itself. The consequences of the actions taken are becoming less and less predictable.

From this perspective, the notion of environment encompasses all the uncontrollable factors influencing the success of a decision-making process. For example, the concept of non-controllability includes events and elements over which the companies has no degree of control but are likely to have a current or future influence on it (Boutaleb, 2006). According to Lesca (1994), several definitions coexist for the concept of "environment" the sciences of management and the theories of organizations define the environment as: "the set of forces, decisions and constraints external to the company, which are not created by itself, but which are likely to influence its activity and its development."

Indeed, Lesca (1994) distinguishes three types of environment underlying the company, namely:

- 1) the macro or meta-environment: which consists of the "societal variables" in which a company operates and which are likely to influence its strategy;
- 2) the meso environment or general environment: which is located at an intermediate level between the inclusive societal environment and the immediate environment of the company;
- 3) the microenvironment or specific environment: all of the company's direct partners and the tangible and intangible resources.

Hence, what position does the SME occupy in this environmental typology?

Covin and Slevin (1989) argue that intense and hostile environmental dimensions threaten the viability of small businesses. The latter is characterized by industry insecurity, intense and challenging competition, an overwhelming business climate and a relative lack of exploitable opportunities.

On the other hand, the munificent or benign environment provides a safe framework for business operations because of their overall level of munificence, a wealth of investments and marketing possibilities (Khandwalla, 1976/77; Miller and Friesen, 1983). Moreover, the adverse effects of environmental hostility probably pose an even more significant threat to small businesses due to their limited resources and inability to survive the consequences of poor management decisions (Covin and Slevin, 1989).

Slevin and Covin (1990) also showed that the hostile environment elicits entrepreneurial behaviour. They argue that given the scarcity of market opportunities and the high level of competition in hostile environments, successful firms respond by aggressively trying to gain or maintain competitive advantage through entrepreneurial actions.

These last authors add that entrepreneurial activity can often constitute an unnecessary risk for companies in a more benign environment. This type of behaviour's consequences is generally less predictable than conservative behaviour. Likewise, the hostility of the environment seems to be linked to the structural dimension of organicity, "organic structure." In short, entrepreneurial behaviour appears to be much more significant in hostile than benign environments.

### **3.4 Vulnerability of the SME to its environment**

Uncertain, unstable or hostile environments can make operating conditions difficult for all for-profit businesses. However, for SMEs, their margin of error can be particularly indeterminate. Although the impact of external contingencies can have considerable actions on large companies, small companies are less likely to overcome them (Pett and Wolff, 2007). O'Regan et al. (2005) argue that SMEs are less likely to exert influence over their environment and must rely on their internal resources to compete.

In addition, SMEs with limited possibilities to exert a direct effect on the market structure have to be creative in launching new business concepts. However, the latter authors add that being creative for SMEs is often made difficult by financial and cultural constraints and their inability to analyze their own capabilities, identify gaps, or ask for help to address them.

Pett and Wolff (2007) point out that small businesses will need to look inward and rely on internal characteristics to cope with an uncertain or hostile economic environment. The flexibility of the SME and its entrepreneurial behaviour, namely innovation, proactivity and risk-taking, can mitigate the effects of hostile environments (Covin and Slevin, 1989; Lau et al., 2004). Small firms can also be characterized by aggressiveness under challenging environments (Covin and Covin, 1990).

### **3.5 SME environment in developing countries**

SMEs in developing countries live in challenging conditions and must overcome several obstacles: the difficulty of the macro environment, the problem of the complex institutional environment, weakness of the economy, lack of infrastructure, high risks linked to innovation activities, costs of innovation, lack of financial resources, lack of skilled workers, lack or absence of regulations and technical standards, frustrated organizational management, lack or inadequacy of quality management, lack of information on technologies and lack of market information (Caputo et al., 2002).

According to Todd and Javalgi (2007), the challenge for these firms is to create a business environment that encourages SMEs not only to improve their organizational capabilities, to innovate and improve, but also to procure the necessary resources from other organizations, such as government agencies, support institutions, universities, financial institutions, banks and many other private enterprises. A presentation of the cruellest problems is in order.

#### **3.5.1 Issues related to the SME environment**

Environmental issues are the identified exogenous environmental factors impacting the business world due to the operation of businesses in a given

country. The exogenous factors are the economic, legal, regulatory environment, tangible and intangible infrastructure, governmental and non-governmental support institutions and socio-cultural forces.

Environmental factors can also be defined as the source of changing trends and events that create opportunities and threats for businesses (Lenz, 1978). For example, Smallbone and Welter (2001), in their study of entrepreneurs in Poland and the Baltic States, stated that entrepreneurs are affected by an external environment that is socially, economically and politically hostile. The business environment can be described as unstable and structurally weak in ex-socialist countries.

These major environmental problems have been judged to change legal rules, high tax rates and hazardous economic conditions. McMillan and Woodruff (2002) indicate that the most striking factor in recreating an unfavourable entrepreneurial environment is the expropriation of profits, which refers to the out-of-court payments needed to obtain government services, licenses and business records to start their businesses.

SMEs are most vulnerable to changes in the environment, forcing them to be flexible and adaptive (Jones, 2003) and shaping the terrain in which competitive business strategies are set (Lim et al., 1996). Another dimension of the environment is that the entrepreneurial environment is not as favourable in Russia as in Poland for reasons of entrepreneurial spirit. It is followed by other types of problems: corruption and mafia activities that hinder investments and the establishment of a business. In addition to these unofficial problems, unfavourable tax policies, regulations, formalities, and delays are other obstacles in the daily practices of entrepreneurship (Yalcin and Kapu, 2008).

According to a recent study by Smallbone and Welter (2009), Central European countries such as the Baltic States, Hungary, the Czech Republic, and Poland are

characterized by a more advanced market reform and SME development stage. Otherwise, in these countries, issues such as creating an appropriate legal framework are no longer the most immediate problem for small private enterprises.

The latter two authors argue that SME development is generally more constrained by a financial infrastructure that still requires adjustment to the needs of the nascent private sector. But SMEs in these countries experience shortcomings in business support infrastructure and particularities of the external environment associated with emerging market economies.

### **3.5.2 Weak Economy**

The weak performance of the national economy has been reported as a significant constraint preventing entrepreneurs from achieving their goals. Cetindamar (2005) found that many Turkish entrepreneurs struggled due to uncertainty in the economic environment. For example, in a study involving Kenya and Ghana, Chu, Benzing and McGee (2007) found that a weak economy is considered the most painful problem experienced by entrepreneurs. According to Benzing, Chu and Hove (2005), Entrepreneurs in Romania confirmed that the weak economy was the third most serious problem that hinders entrepreneurial development.

In their study on Bulgaria, Benzing, Chu and Callanan (2005) confirmed that the weakness of the economy emerges as a crucial problem. A weak economy is a problem for entrepreneurs because it leads to a decline in consumer spending and business investment. This drop in demand reduces the revenues and profitability of all businesses and causes low purchasing power for the entire population.



### **3.5.3 Institutional constraints, corruption and lack of infrastructure**

SMEs in developing countries face a lack of institutional and infrastructural support. However, SMEs, especially small enterprises "SE", are more vulnerable to these problems (Tambunan, 2006). However, there is evidence that in the former socialist countries of Central and Eastern Europe, the communist legacy left a gift of severe institutional weaknesses, especially concerning business activity (Estrin et al., 2006).

Considerable literature bears witness to the importance of the stability of the rule of law in the existence and application of a commercial code, an efficient judicial system and a robust private sector in order to ensure the development of small businesses-economic entities (McMillan and Woodruff, 2002). However, many authors also indicate that support for institutions is particularly problematic in Russia (Estrin, 2002). This last author demonstrates that Russia's legal and regulatory framework is marred by numerous inconsistencies, particularly with several old Soviet regulations that are still in force.

Another crucial indicator of institutional weakness in developing countries is the pervasiveness of corruption. According to the Corruption Perception Index established by "Transparency International," governments in transition generally have higher corruption levels than Western countries. A higher level of corruption is recorded in countries, including the former Soviet Union.

Thus, Tanzi (1998) argued that corruption reflects a multidimensional impact of poor entrepreneurial performance. The corruption of institutions then represents a more regulated inefficiency with civil servants endowed with discretionary power (Djankov et al., 2002). Russian entrepreneurs were also more corrupt than the general population (Djankov et al., 2005). This latter may be due to the legal

practices of tax institutions because they are more vulnerable to extortion by government officials. Expectations of such disadvantageous behaviour may thus discourage potential entrepreneurs from starting a business.

For infrastructure issues in developing countries, poor and costly infrastructure such as transport, including roads and highways and fast rail, industrial land, large-scale markets, storage facilities, water, energy, telecommunications infrastructure, lack of work premises and material resources are non-existent or poorly developed in developing countries (Tambunan, 2006).

These infrastructure obstacles are more or less interrelated and create vicious circles of poor business performance or outright business stagnation that can cause the low competitiveness of SMEs in developing countries compared to their counterparts in developed countries. The main reasons for lack of infrastructure are that SMEs cannot access these infrastructural resources and various institutions such as banks and other financial institutions, training and educational institutions, marketing service institutions and consulting firms for the benefit of SMEs. These multiple obstacles generate an overall context that constitutes a barrier to business development or improvement (Tambunan, 2006).

### **3.5.4 Weight of the informal sector**

Another issue, which is particularly relevant in a developing country context, is the weight of the informal sector caused by the burden of tax burden imposed on entrepreneurs, which encourages entrepreneurs to settle in the underground economy (Arendarsky et al., 1994). In his study, Schneider (2003) assessed the weight of the informal sector in 22 economies in transition (the countries of the former Soviet Union and Central and Eastern Europe) and 21 OECD countries over the period between 2000 and 2002. He concluded that the informal sector represents, on average, 16.7% of the Gross Domestic Product (GDP) in the

OECD countries, 29.2% in the countries of Central and Eastern Europe and 44.8% in the countries of the former Soviet Union. This last percentage confirms that the informal sector is a handicap in countries in transition; almost half of GDP escapes from the formal national economic sphere.

### **3.5.5 Tax burden**

Furthermore, one of the most severe problems entrepreneurs face in Turkey is the obscure and complex tax system (Benzing et al., 2009). Turkey has recognized this problem in its ninth development plan. According to this plan, the tax system's complexity is a large number of taxes, and the cost of transaction tax remains high.

Similarly, for ex-Soviet countries, Yalcin and Kapu (2008) indicate that the tax rate is high and that the tax system is unclear, expensive and extensive. However, one entrepreneur said that many people from six different establishments asked him for money when his shop opened. According to the entrepreneur interviewed, these unofficial practices have become commonplace in the region.

This example and others show how difficult it is to establish, operate and survive a business in unstable and opaque systems. Smallbone and Welter (2009) argued that difficulties for most entrepreneurs face establishing a new company when such an environment persists in Central European countries. They add that corruption among tax officials is an additional burden for small business owners, which can be illustrated by referring to a case study of a small consultancy firm in Kyiv. The owner has been subject to frequent inspections by the tax police, who always arrive abruptly, asking him to pay taxes.

### 3.5.6 Difficulty of financing SMEs

SMEs are presented as engines of economic development, but they come up against enormous difficulties, particularly financing difficulties (Pairault, 1993). According to Van Pham and St-Pierre (2009), despite the interest shown by governments, SMEs in transition economies still experience difficulties in terms of their growth. However, funding difficulties have long been an issue. The lack of capital remains a problem in many countries, even in industrialized countries. This cruel problem invites us to examine the problems faced by SMEs in securing their financing. Two forms cover the word financing.

**First:** according to Bekolo and Beyina (2009), the "investment" form initiates the birth, creation and establishment of any new business.

**Second:** is the form of "working capital," which ensures the operation and survival of the SME in all phases of its life cycle.

Yalcin and Kapu (2008) present the problem of access to capital in the case of Kyrgyzstan. They indicate that nearly one (1) in twenty (20) start-ups "starting a business" can obtain bank credit. This requires entrepreneurs to depend on their family members or friends as funding sources for their businesses. This situation can be explained by a very underdeveloped banking and financial system. In this case, entrepreneurs do not have many options to find the capital they need except to rely on friends and relatives. Thus, although governments have created support programs and put pressure on financial institutions, SMEs' access to external financing is a chronic problem (Van Pham and St-Pierre, 2009).

### **3.5.7 Shortage of qualified human resources**

In developing countries, there is strong evidence justifying the shortage of skills and skilled labour at all levels, especially in technical fields (Habaradas, 2008). Companies complain of constraints to improvement and performance due to the lack of specific skills and the high turnover rate of qualified personnel between companies.

As a result, they find it difficult to maintain qualified staff (Jomo, 2007). Also, there is the problem of the weakness of the education system in these countries. For example, in India, it is reported that 42% of children drop out before completing primary education and 43.5% of children aged five to nine are not in school (Todd and Javalgi, 2007).

As a result, in Thailand, most SME entrepreneurs in the past have relatively little formal education. For example, Nakhta (2007) found that 58.5% of entrepreneurs have primary or secondary education, while university graduates make up only 14.5%. They also have little chance of developing their performance through formal means of training due to the difficulty of accessing training programs or the absence of specialized training centres. For example, Malaysia does not have enough science and engineering graduates and needs an increase in graduates as a proportion of the population to reach the same levels as Singapore, South Korea and Taiwan (Best, 2007).

In the same perspective, although Turkey has 76 higher education institutions, only 33% of these entrepreneurs have completed higher education (Benzing et al., 2009). Among the students enrolled in higher education, 45% are enrolled in applied social sciences, of which business management is one of the possible significant specialties. According to their study in Turkey, Benzing et al. (2009) assume that there could be great interest in two years when degree programs will

be offered in business sciences and management. Because access to universities is limited in Turkey, two schools might be better placed to provide accounting and business coursework. A better understanding of accounting would help entrepreneurs better measure their profitability and how to improve their business performance.

### **2.5.8 Ineffective entrepreneur, commercialization and marketing networks**

Given Russia's weak institutional context, informal networks seem likely to be even more critical in the start-up phase for business development in both their formal and informal parts than in more developed economies. As a result, individuals have already developed networking strategies to obtain scarce resources in their environment, specifically in developing countries (Ledeneva, 2006).

In their comparative study of business leaders in Russia and China, Djankov et al. (2006) show that social networks play a significant role in explaining the entrepreneurial spirit in the two ex-Socialist countries. For example, they indicate that an entrepreneur with a father who was a Communist Party member in Russia increases the likelihood of becoming an entrepreneur, even though the Communist Party has lost its dominance. The informal networks set up, therefore, remain influential.

Nevertheless, Puffer and McCarthy (2001) noted that commitment and trust among network members in Eastern Europe are generally low, ties are fragile, the acquaintance network is poor, and few participants. However, entrepreneurs who do not have access to business networks are more vulnerable to opportunistic behaviour by the defrauding of responsible officials at the level of

public power (Aidis and Adachi, 2007). The relational role impacts the supply of raw materials and the marketing of products manufactured by the SME.

However, a study done in 2003 on small and medium enterprises shows the typical problems of enterprises in Indonesia. As a result, in marketing activities, SMEs generally do not have the means to explore their markets due to the weakness of informal and formal networks. This is attributed to the fault of the contact networks of government institutions. Instead, entrepreneurs rely heavily on their business partners to market their products through production networks, local subcontracting relationships, or custom orders.

In the previous pages, we have just given an overview of the issue of the environment of SMEs in developing countries. However, the SME environment in Algeria is not spared from this inventory.

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### 3.6 Synthesis

From this review of the literature on entrepreneurship, particularly in developing countries, an earnest desire on the part of the public authorities to provide more support for SMEs has emerged. This view suggests that SMEs in these economies will need systemic help to cope with domestic competition, the opening of the global market and the increasingly hostile and turbulent environment. Liou (2012) confirms that to ensure the development of the SME sector, China has undertaken political and economic incentives.

According to some studies, the open and intense environments in developing countries, which generated constraints hindering the development of SMEs, are generally identical. Benzing et al. (2009) state, that the problems encountered by entrepreneurs in developing countries are often very similar.

Tambunan (2006) argues that the issues in developing countries are identical, but they differ from one region to another and from one industry sector to another. Although the problems still vary between individual companies within the size class and within an industry, some issues are common to all SMEs: high taxation, unstable regulations and economic conditions, inefficient banking systems, the existence of corruption, prevalence of the old business mentality, difficulty in obtaining capital and loans, institutional weakness, unfavourable environment and flourishing of the entrepreneurial spirit.

Algeria is not spared from this inventory either. We do not underestimate the growth rate of the SME sector, which is around 9% annually, nor the battery of short and long-term measures already taken by the Government. However, after two decades of reforms, Algeria has not yet been able to establish a functioning



market economy. Boukhari (2009) reaffirms that Algerian SMEs face a turbulent environment hampering their development.

This environment is characterized by the formation of prices outside the market and hinders them from the competition and free entrepreneurship. The Algerian public authorities should also make it possible to stimulate the growth of SMEs, develop the Algiers Stock Exchange and fight against the informal sector by reducing tax charges and compulsory contributions.

The solutions proposed and implemented on the ground to deal with this unfavourable environment, particularly in developing countries and countries in transition, are fruitful and deserve to be transferred to other SMEs in these countries. The spectacular rise of SMEs in the emerging nations of Asia and Eastern Europe is an excellent example to follow. Especially for countries with the same culture, primarily if the decision-makers in other countries in the same category ensure the transmission of this experience, we cite the rise of SMEs in Morocco and Tunisia as an example for Algeria.

Indeed, in the same stratum, while relying on a study by Deshpande et al. (2004), they compare, in their research, the organizational culture in China, Japan, Hong Kong, India, Vietnam and Thailand on several business performance variables. They found significant differences in organizational change between countries based on history and culture. Although some authors have stated that the problems in developing countries are almost similar, this idea leads us to note that it is vital better to adapt the solutions to each organizational context and society.

Among the experiences that deserve to be passed on, let us cite, for example, the development of support programs for SMEs initiated by several countries, both emerging and developing. These programs are more prevalent in transition economies, and their ultimate goal is to strengthen entrepreneurial activity.

According to Habaradas (2008), there are at least 12 ministries and 38 government agencies supporting and developing SMEs in Malaysia. Each of these organizations has been tasked with developing specific objectives aimed at particular target groups of SMEs.

The Turkish government is also committed to supporting the growth of the SME sector by accepting the European Charter for Small Enterprises in 2002 and by participating in the Multiannual Program for Business and Entrepreneurship (Benzing et al., 2009). The development plan includes objectives aimed at improving the country's business environment. In addition, this plan would increase SMEs' access to financial markets, improve Turkey's infrastructure and facilitate the use of new communication technologies.

We have tried to expose purely empirical studies to support our thesis in these last two subsections. We wonder, however, what theoretical contribution explains it. Thus, the next chapter on the theoretical foundations sheds light on the main theories that support our research problem and thus allows us to understand, we hope, the concept of performance through the realization of upgrading programs. This last program is a mechanism for adapting the SME to its immediate, open and intense environment. Let us discover them.

## **Chapter 4:**

# **Adaptation and performance of the SMEs in an open and intense environment**

### **4.1 Partial introduction**

Let's assume that upgrading is a mechanism for adapting the company to its immediate environment. An essential evolution in research has been that it treats the organization as a system open to all contingencies and interacts with its environment (Cyert and Mars, 1963; Katz and Kahn, 1966; Duncan, 1972; Pfeffer, 1973; Starbuck, 1976). Moreover, studies of adaptive environmental influences on organizational behaviour have generally focused on two fundamental aspects of the environment.

The first is the uncertainty of the environment as perceived by entrepreneurs (Lawrence & Lorsch, 1967; Yasai-Ardekani, 1986) and the second concerns the scarce and critical resources that ensure the excellent functionality of the organization (Pfeffer and Salancik, 1978).

Thus, for many years, adaptation to changes in the environment has been a central element in the study of organizations (Hrebiniak and Joyce, 1985). The increasing complexity and the accelerated pace of change make "adaptation" one of the central concepts of management sciences. Toffler (1970) reports increasing attention to the dramatic consequences of maladaptation on organizational change. Schon (1971) confirms that the instability and turbulence

of the environment make the traditional problem of resource scarcity particularly ineffective in achieving an adaptation process. So, the power of the environment always remains decisive and judges the organization's adaptation to its context.

Although the theoretical literature on organizational adaptation has generally argued that environmental change leads to organizational change, this question has not been the subject of much empirical investigation (Boeker and Goodstein, 1991). Therefore, our quantitative empirical research is part of this framework to provide evidence on this subject. However, several studies in this direction have taught us that organizational change, including adaptation, is a mediating variable leading to organizational performance (Ford and Baucus, 1987; Boeker and Goodstein, 1991).

In this chapter, we will present a brief overview of the adaptation of companies, specifically in an open and intense environment. We will also explain the link between organizational change and transformation. In addition, we report the effect of adaptation on performance in a few sections. Similarly, we will also discuss the adaptation strategies and barriers companies face in implementing an adaptation program.

We will nevertheless ensure that this is in an SME context. Finally, we believe that it is also exciting to explore the adaptation of the SME in developing countries, without forgetting the adaptation of the Algerian SME, the object of the application of our research on the upgrading programs level or adaptation in a complex environment that prevails in developing countries.

## **4.2 Overview of SME adaptation in an open and intense environment**

This topic discusses organizational adaptation in an open and intense environment, introduces the various definitions for the concept of adaptation, and outlines the typology and conceptual models of adaptations.

### **4.2.1 Adaptation of the organization in an open and intense environment**

**First**, the organization adapts to changes in the environment to survive and remain viable. However, it seems advantageous to generalize the functional notion of adaptation by defining it as a response to a reaction or a decline in the whole system's performance rather than the effectiveness with which the organization fulfills a function (Sachs and Meditz, 1979).

**Second**, the organization's adaptation to its environment has been marked in many ways and has been approached by different researchers, according to Kalpan (1986). Third, the literature on organizational adaptation is relatively new, according to Cameron (1984).

Desreumaux (1998) explains that the theme of the organization's adaptation is one of those associated with very contrasting opinions. Some authors speak of permanent adaptation with which organizations can change themselves. In short, adaptation is part of the dynamics of the organization as a field of questioning.

Indeed, the adaptation between the organization and its environment was studied by Chandler 1962; Lawrence and Lorsch, 1967; Thompson 1967; Miles and Snow, 1984; Venkatraman and Camillus 1984; Drazin and Van de Ven, 1985; Miller, 1992. The concept of adaptation has its roots in the biological sciences. It

relates to the way adjustment is achieved between living systems. In modern literature, adaptation is represented by authors such as Ashby (1956), Mamey and Smith (1964) and Berrien (1968). These authors define adaptation in terms of "survival." A system is adaptive if it manages to survive in the environment in which it exists (Berrien, 1968). An instance of adaptive behaviour occurs when an environmental disturbance threatens to produce an imbalance in the organization (Bateson, 1972).

Adaptability is a concept rooted in biology, and in the context of the "organization-environment" couple, adaptability occurs between the organization and its ecological niche (Hallen, Johanson and Seyed-Mohamed, 1991). Indeed, several terms have been used to describe how companies themselves adapt to changes in the environment, including flexibility (Boynton and Victor, 1991), responsiveness (Kohli and Jaworski, 1990; Jaworski and Kohli, 1993; Kohli, Jaworski, and Kumar, 1993) and adaptability (Miles and Snow, 1978; Hambrick, 1982; Hrebiniak and Joyce, 1985).

On the other hand, we evoke the phenomena of inertia, resistance to change, and preference of organizations for stability, as many elements that we often associate with the large size and the seniority of the organization, according to Sachs and Meditz (1979). Ultimately, the notion of adaptation is used in organizational theories and is rooted in the systemic approach to treating the organization as a system open to all contingencies.

In addition to what we have already seen in the chapter on the theoretical foundations, Kalpan (1986) maintains that there are different theoretical approaches to understanding the organization's adaptation, namely the structural system and the perspective of choices. Strategies two approaches to contingency theories that explain this phenomenon of adaptation. These two theories exclusively explain environmental determinism versus environmental voluntarism.

A related implication in the existing literature is the assumption that a binary distinction between voluntarism and determinism captures the reality of organizational behaviour and the magnitude of change. The use of one or the other directs attention to the fact that both are essential for an accurate description of organizational adaptation, according to Hrebiniak and Lawrence (1985). Astley and Van de Ven (1983) concluded that exciting research questions about organizational adaptation would have:

- i. to accept both deterministic and voluntarist views;
- ii. to juxtapose these points of view, study their reciprocal interactions and explain their interdependence over time.

According to Hrebiniak and Lawrence (1985), researching the issue of voluntarism versus determinism and the relationship between them will result in changes over time. The question that arises is how voluntarism is both a cause and a consequence of environmental influences and how cause and effect interact and lead to noticeable organizational adaptations.

From this perspective, Hrebiniak and Lawrence (1985) argue that the most obvious conclusion of this study is that the interdependence and interactions between voluntarism and determinism define adaptation. The presentation of each is insufficient, and both are necessary for a satisfactory explanation of the adaptation of the organization. Their second conclusion is that adaptation is a dynamic process resulting from the relative power strength between determinism and voluntarism.

So, what about the environment and the adaptation of the SME?

In creating their businesses, entrepreneurs start with a vision of the external world. In case of the environment's complexity, the SME's adaptation is made to

the external environment in which the young company operates. SMEs seeking to adapt to the requirements of the environmental context interact with their environment by collecting information inputs, market signals, and potential problems and evaluating these inputs and opportunities that act on these ecological requirements.

For SMEs, timely adaptation is one of the most important factors explaining entrepreneurial success. The entrepreneur, familiar with adaptation, allows his small business to evolve as he gains experience with products, markets, suppliers, employees and other key variables relating to the company, according to Stoica and Schindehutte (1999).

So, after this overview of the power of the open and intense environment on adaptation, a question deserves to be asked: How do theorists and practitioners define the concept of adaptation?

#### **4.2.2 Various definitions for the concept of adaptation**

Desreumaux (1998) indicates that the word “adaptation” itself calls for clarification. Although the concept is frequently used, there is hardly a clear and operational definition. The term is often more or less explicitly equated with that of survival. This last author defined it as follows: “in the biological sense, adaptation designates the state of survival for an organism.

By analogy, a state of adaptation for an organization is a state in which it survives in the face of the environment “. In a broader definition, Desreumaux (1998, p. 209) confirms that adaptation is a: “a term designating both a state and a process. On the one hand, the state is the fact for an organization to be in tune with the expectations of its environment to survive. On the other hand, the process is how an organization responds to the changing demands of its territory.



Ashby (1956), Mamey and Smith (1964) and Berrien (1968) agree with Desreumaux (1998) in his conception of the definition of adaptation. They define adaptation in terms of “survival. “ An organization is adaptive, if its main variables are within limits necessary for survival in the environment in which it exists ” (Berrien, 1968, p. 63) . In this sense, Chakravarthy (1982) defines adaptation as “the state of adaptation, in a biological sense, describes a state of survival for an organism. Analogously, a state of adaptation for an organization is one in which it can survive under the conditions of its environment.

However, Sachs and Meditz (1979) invoke the concept of performance to define adaptation instead of the concept of survival in the following definition: “An instance of adaptation of an organization occurs when the performance of the organization is reduced, the organization adapts by recovering at least part of the lost performance.”

In addition, the two proponents of adaptation theory (Hrebiniak and Joyce, 1985) describe adaptation through an organizational change to align the organization’s capacities with environmental contingencies. This state of affairs allows proactive or reactive organizational behaviour, anticipation or reaction to exogenous variables to adapt the organization. For Miles and Snow (1978), adaptation is a behaviour comprising both proactivity and reactivity. It has a more specific denotation of reaction to external forces or environmental demands (Astlev and Van de Ven, 1983).

However, for Cameron (1984, p.123), “Adaptation generally refers to a process is not an event by which organizational modifications are instituted.” Miles, Snow, Meyer and Coleman (1978, p. 547) define adaptation as “a dynamic process of responding to environmental change and uncertainty, maintaining effective alignment with the environment, and managing internal interdependencies. “.

As to Tushman and Romanelli (1985), “adaptation is a general term that describes a period of gradual, long, continuous and progressive change in response to difficult environmental conditions.” However, for Miller and Friesen 1980, “adaptation follows a revolutionary change leading to a major transformation in the reorientation of an organization.”

Moati (2001) defines adaptation as: “two types of the learning process.

**The first process**, which is inseparable from adaptation, is initiated by the entrepreneur’s awareness to modify his behaviour.

**The second process** concerns the perception of adequacy between the results of the firm and its objectives and the identification of commercial, productive and technological opportunities. It also relates to observing changes in the environment, which bring new threats or opportunities”.

From the perspective of the adaptation and learning process, the National Agency for the Development of SMEs in Algeria, ANDPME (2010), defines the upgrading or adaptation of SMEs as follows: “upgrading level is above all a continuous process of learning, reflection, information and acculturation, to acquire new attitudes, reflexes, entrepreneurial behaviours and dynamic and innovative management methods.”

After knowing the decisive weight of the open and intense environment on adaptation and the short passage on the different possible definitions of the supporters of the concept of adaptation in organizations, we must prospect the best-known models that explain adaptation and how they classify it.

### 4.2.3 Typology and conceptual models of adaptations

Although other models explain the phenomenon of adaptation well, the most popular model that classifies it is Herbiniak and Joyce (1985). This model, which explains the relationship between strategic choice (voluntarism) and environmental determinism (significant environmental constraints) in organizational adaptation, shows the organizational choices that allow the organization to adapt to the demands of a changing environment. As suggested by Herbiniak and Joyce (1985), the types of corporate options vary across the different quadrants of the typology (see **Figure 2.3**).

These last authors, in their model, which is a function of environmental determinism and voluntarism, classify the type of adaptation into four categories.

**In quadrant 1**, with high environmental voluntarism (strategic choice) and low environmental determinism, adaptation is by design and is characterized by munificence that gives the organization significant leeway and abundant resources within its environment.

**In quadrant 4**, with high environmental determinism and common strategic choice, adaptation is subject to natural selection by the environment, where the most successful organizations might survive.

**In quadrant 2**, environmental determinism is high, strategic choice, adaptation is within constraints, leeway is very minimal, and resources in the environment are scarce and critical. However,

**for quadrant 3**, environmental determinism is weak, as is a strategic choice. Adaptation, in this case, is a fluke.

## Integration between conceptual frameworks

Following the last development of Chakravarthy (1982) in terms of integration between the framework of Herbiniak and Joyce (1985) and the framework of Miles and Snow (1978), we find it interesting to associate with each quadrant in the framework of Herbiniak and Joyce (1985) the appropriate type of coping strategy, according to the taxonomy of system in the Miles and Snow (1978) framework, presented in Figure 2.6 under "2.4.5.1 Coping Strategies".

- a) **Quadrant 1:** Prospector;
- b) **Quadrant 2:** Analyzer;
- c) **Quadrant 3:** Defender;
- d) **Quadrant 4:** Reactor.

Knowing that the model of Sachs and Meditz (1979) classifies adaptation to the environment into inactive adaptation, reactive adaptation, proactive adaptation and pre-active adaptation, then adaptation occurs following significant changes in the environment. Thus, the objective of adaptation strategies lies in the concern to improving the degree of concordance between the internal behaviours of the company and the characteristics of its contextual environment (Moati, 2001).

Referring to the degree of power of the environment, deterministic or strategic choice, and closer to the taxonomy of the adaptation model of Sachs and Meditz (1979), four types of adaptation have been distinguished, which incline well with the four quadrants of the Herbiniak and Joyce (1985) framework, namely:

- a) **quadrant 1:** proactive adaptation to influence the environment;
- b) **quadrant 2:** exploratory adaptation expressed by seeking opportunities in the environment;

- a. **quadrant 3:** interactive adaptation by experiencing the power of the environment;
- b. **quadrant 4:** reactive adaptation in response to changes in the environment.

Sachs and Meditz (1979) explain this adaptation taxonomy with the following examples.

**Quadrant 1:** proactive adaptation to influence the environment

In this case, the company does not just seize the opportunity or the opportunity in the environment, but it produces it. For example, a company conducts its research and development to improve its technology and thus create new possibilities for proactive adaptation.

**Quadrant 2:** Exploratory adaptation through seeking opportunities in the environment

In this case, the constraints of the environment are considerable. Therefore, the company seeks the possible means to adapt. For example, a company, which aims to sell its products by consolidating its marketing and promotion department, manifests an exploratory adaptation strategy.

**Quadrant 3:** interactive adaptation by experiencing the power of the environment

In this case, the company seizes a new opportunity that presents itself in the environment. An example is a company limited to the simple purchase of new technologies available than developing its R&D department.

**Quadrant 4:** reactive adaptation in response to changes in the environment

An example of a reactive type is the reaction of bringing the temperature of a room back to the desired temperature when a person reaches heat. Thus, the company responds to the drop in performance by regaining all or part of the lost performance. According to the four quadrants of the framework of Herbiniak and Joyce (1985), this taxonomy is presented in **Figure 2.3**.

As a corollary, the integration between the framework of Herbiniak and Joyce (1985), the framework of Miles and Snow (1978) and the adaptation model of Sachs and Meditz (1979), presented in **Figure 2.3**, turns out to give an integrating framework that contributes to the understanding of the phenomenon of the adaptation of the company to its contextual environment. This integration will also allow us to fully understand the phenomenon of upgrading, which is a mechanism for adapting the company to its environment.

<div>Environmental determinism</div> <div>Choix stratégique</div>	LOW	HIGH
	<div>1</div> <div>Maximum choice</div> <div>Adaptation by design</div> <div>Prospector</div> <div>Strategy      Proactive</div> <div>Adaptation</div>	<div>2</div> <div>Differentiated choice</div> <div>Adaptation within constraints</div> <div>Strategy Analyzer</div> <div>Adaptation Explorer</div>
HIGH		
LOW	<div>3</div> <div>Indifferent choice</div> <div>Random adaptation</div> <div>Defender Strategy</div> <div>Interactive adaptation</div>	<div>4</div> <div>Minimum choice</div> <div>Natural selection</div> <div>Reactor strategy</div> <div>Reactive adaptation</div>

**Figure 2.3:** Integration between the three frameworks of Herbiniak and Joyce (1985), Miles and Snow (1978) and Sachs and Meditz (1979).

**Source:** Adapted from Amroune, Hafsi, Bernard and Plaisent (2014c).

In light of this overview of adaptation, another question arises:

What is the content of a plan for adapting an organization to its surrounding conditions?

While supporting the typology of Sachs and Meditz (1979), Desreumaux (1998) explains that adaptation should not necessarily be understood in a simply reactive sense, but its reality is analyzed as a change in structure, perception or behaviour. Or even in interactions of these three elements. He considers that adaptive capacities are of two types:

- "material" capacities: financial, technological, equipment resources, etc.,
- "human and organizational" capacities: the ability to gather and process information, diagnose, design new arrangements, etc.

Given that the upgrading program is only one of the adaptation mechanisms of the company while aligning with Desreumaux (1998), the content of the adaptation plan of Algerian SMEs should emerge, from clear, the needs in:

- material resources: linked in particular to the modernization of equipment, the acquisition of new technologies and possible extensions;
- intangible resources: relating mainly to:
  - i. the development of human resources and training;
  - ii. improving administrative management;
  - iii. marketing and export development;

- iv. the introduction of new management concepts;
- v. the establishment of a quality assurance system;
- vi. looking for technical, commercial and financial partners;
- vii. to the protection of the environment...

The business adaptation program in Algeria, in the broad sense, also affects the general environment at the macro level and the environment of intermediation governance at the meso level, according to CEPMAN (2007).

### **4.3 Passage on organizational change, adaptation and performance**

This section presents the elements of the overview on organizational change and its link with adaptation, relates the agent of this organizational change, and finally puts the link between organizational change and performance.

#### **4.3.1 Overview of organizational change and its link to adaptation**

Assume that both proponents of adaptation theory, Hrebiniak and Joyce (1985), describe adaptation through organizational change to align organizational capabilities with environmental contingencies. Also, Miller and Friesen (1980) define adaptation as a revolutionary organizational change leading to a significant transformation in the reorientation of the organization.

The theoretical literature on organizational change assumes that environmental change leads to organizational change (Zajac and Shortell, 1989). Miller and Friesen (1983) describe the environment as being composed of two distinct characteristics: "rate of change" in terms of speed or volatility and "unpredictability of change" in terms of contingency.



So, although the environment has become more complex and evolving more rapidly, organizations have been called upon to interact with the environment through effective dynamics and strategies, according to Song (2003). Hafsi and Demers (1997, p. 85) put forward a proposition showing that "any increase in the degree of environmental uncertainty (e.g. increase in turbulence and heterogeneity) increases the pressure for change." Change efforts can be forced on an organization's by-laws, regulations, customer demands, or other environmental factors (Finstad, 1998).

In systems theory, Ackoff (1994) explained that the organization should be viewed as an open system that interacts with the contextual environment to survive. In this sense, quoted in Hafsi and Fabi (1997, p. 348), "It is then clear that the environment decisively influences the ability of an organization to survive in the long term (Andrews, 1987; Miller, 1990)". Therefore, organizations change in response to changes in their environment, according to Boeker and Goodstein (1991).

Recardo (1995) defines change as the organization's process to design, implement and evaluate appropriate initiatives. This process makes it possible to cope with the demands imposed on them by the external environment. Thus, the need for change is often driven by a sense of crisis urgency for corporate survival, both at the leadership and employee levels (Prahalad, 1998). However, for McGreevy (2008), change often occurs spontaneously, unexpectedly or urgently. But it would be convenient to think that the change is planned, a deliberate process, a product of conscious reasoning and arising from a clear cause. It is the effect of a well-organized rational process and is translated into actions on the ground (Mintzberg, 1989).

Robbins (1998, p. 629) argues that "organizational change literature and management literature find that organizational change is much-discussed." Change involves doing different things. For example, some organizations treat

change as an accidental occurrence, carrying out radical transformations or restructuring. But the author retains that organizational change is defined as “change activities that are intentional and oriented towards a specific goal.” Indeed, change is never easy because it involves a new power, influence and control (Nadler, 1998).

Ackerman (1997) gives a more or less detailed definition. He says that change has been classified as planned or emergent, revolutionary or evolutionary, rational or chaotic, continuous or episodic change, transactional or transformational, adoptive or adaptive. He explains that it can be understood in terms of its breadth and scope, with three distinct types of change: developmental, transactional, and transformational.

Johnson (2004) shows that for the pursuit of organizational change, several factors must be considered: planned or unplanned change, intentional or unintentional, continuous or discontinuous, incremental or quantum leaps, event or programmed “systemic change,” of transformation or transition, without forgetting the degree of change. Knowledge of these factors is essential for the successful implementation of change.

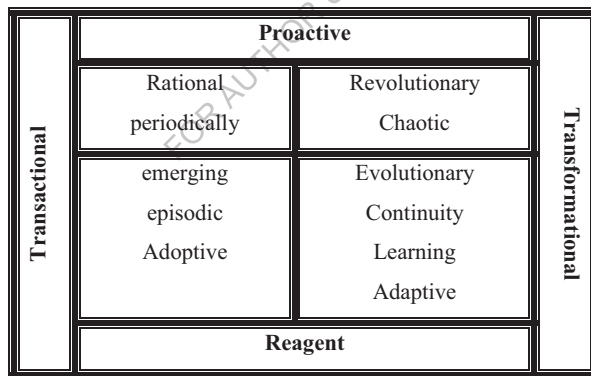
McGreevy (2008) classifies these various types of change into four quadrants with transactional or transformational change and reactive or proactive change in

**Figure 4.2.**

McGreevy (2008) clarifies that transactional change aims to achieve a desired known state that is different from the existing one and tends to be seen as episodic, planned or radical. However, transformational change is often identified as the need for companies to change as the environment changes (Munro, 1992).

It requires a change in the assumptions made by the organization and can result in an organization that differs significantly in structure, process, culture and strategy (Senge, 1990). Blumenthal and Haspeslagh (1994) articulate that the goal of all transformations is to improve performance, creating behavioural change, a time-consuming and challenging process that requires concerted and persistent effort from organizational management.

On the other hand, developmental change improves or corrects current aspects of the organization, focusing on improving a skill or process. This change can be planned or emergent but undoubtedly first-order or incremental (McGreevy, 2008). For Johnson (2004), evolution can be divided into planned or unplanned categories. For Finstad (1998), planned change is driven by the idea of “isomorphism,” which describes passive or incremental adaptation in response to environmental cues.



**Figure 4.4:** Four quadrants describing approaches to change.

**Source:** McGreevy (2008)

Revolutionary change happens in rapidly changing or high-rivalry environments, often jeopardizing organizational survival. Revolutionary change can stifle

creativity and participation and exclude feelings of security and well-being. In this type of change, people who are forced to accept the will of others feel condemned and wish to escape this unfavourable situation (Noer, 1993). Hafsi and Fabi (1997, p. 354) propose that “the period of revolution, when it appears, is often triggered by a performance crisis or by the arrival of new leaders.”

In contrast, evolutionary change seeks to engage people in the process of change by using their intrinsic need to challenge and adapt. Changes in the external environment can provide people with challenges that stimulate their ability to question, learn, and modify their behaviours to achieve success (McGreevy, 2008).

However, adaptive change responds to an environmental challenge, unlike adoptive change. An adaptive system changes its behaviour in response to its environment and often replicates itself to achieve a goal, according to McGreevy (2008). The word “adaptive” implies that the organization and its sub-components can study and analyze the environment and take action internally. This adaptive change makes it possible to adjust the organization to the external environment and fulfill its objectives (Bennett and Bennett, 2004).

McGreevy (2008) gives an example of adaptive behaviour that can be seen in nature in individual plants, animals, humans, or social groups. An example of adaptation is the growth of a plant around obstacles. The evolution of this plant will change if there are obstacles and the specific change that occurs depends on the arrangement of the blocks. The plant then adapts to its environment. An example of animal's rats, which inject a marker into their urine to warn other rats of impending danger, especially if there is the prospect of death, and so they learn to adapt quickly to this risk. We see the immune system, the nature of ecosystems, computer models, and organizations with human beings.

As a corollary, adaptive change is systemic, affecting the roots and branches of an organization. In adapting to changes in the external environment, organizations may need to develop new strategies, clarify their values and beliefs, and learn new ways of operating (Heifetz and Laurie, 1997).

In the organizational change model with related industry change, Meyer et al. (1990) classify adaptive to change as first-order with incremental modifications (see **Table 2.5**). This adaptive change certainly tilts with the mechanisms dictated by the perspective of resource dependence. Thus, the resource dependence theory suggests that organizations often resort to behaviours to increase their control over the resources essential to their survival or even to ensure their performance. These behaviours constitute, among others, fundamental changes that can include mergers and acquisitions, diversification, growth and the creation of negotiated environments such as the supply of rare and critical resources (Pfeffer and Salancik, 1978).

Organizational theories hold that an organization's ability to change is limited by internal and external structural conditions (Hannan and Freeman, 1984; Amburgey et al., 1993). However, in the traditional view of organization theory, Pennings (1975) asserts that organizations can adapt to changes in the environment because of their ability to generate changes within the organization in response to external pressures. This last case applies, of course, to programs for upgrading or adapting Algerian SMEs.

For an adaptive change, the work of Nelson and Winter (1982), relating the perspective of adaptation, assumes that organizations can act on their strengths and weaknesses. Thus, organizations can implement adaptive strategies that reduce their mortality. For example, Dobrev (1999) argues that organizational change increases organizational mortality when organizations face a high level of risk.

**Table 4.5:** Patterns of change within the organization and industries

**Source:** Meyer et al. (1990), cited in Johnson (2004)

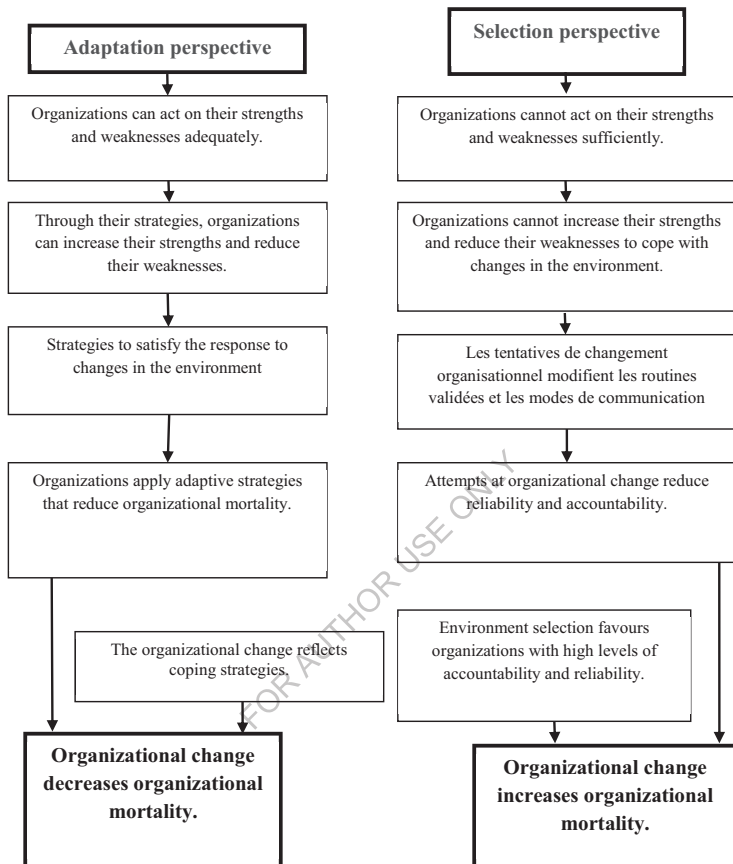
	First-order change	Second-order change
Company-level	Adaptation Focus: incremental change in the organization Mechanism: incrementalism Resource dependency	Metamorphism Focus: Framework for breaking change within the organization Mechanism: Life cycle stage Setup Transitions
Industry-level	Evolution Focus: incremental change within established industries Mechanism: Natural Selection Institutional isomorphism	Revolution Focus: emergence, transformation and decline of industries Mechanism: punctuated balance Quantum speciation

So, organizational change decreases the mortality of the organization when it faces a low level of risk. The adaptation perspective assumes that organizational change decreases organizational mortality and, conversely, the selection perspective assumes that organizational change increases organizational mortality, according to Singh et al. (1986). The selection perspective assumes that organizations need to mobilize scarce resources in order to survive (e.g. capital, skills, member commitment and legitimacy) (see **Figure 2.5**). The reason for this perspective is that change occurs through the replacement of existing organizations with new organizations (Hannan and Freeman, 1984).

For Dos Santos Paulino (2009), the main distinction between selection and adaptation arguments is not whether organizational change would occur or not, but what change brings consequences with regard to chances of survival or organizational performance. Indeed, both perspectives are rooted in the evolutionary approach. Each perspective displays different views in terms of

how organizations deal with changes in threats and opportunities offered by the environment. Figure 2.5 clearly shows the distinction between the adaptation perspective and the selection perspective in a context of change.

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**Figure 4.5:** Perspectives d'adaptation et de sélection.

**Source :** [Dos Santos Paulino \(2009\)](#)

### 4.3.2 Agent of change

Also, assume that organizations change when individuals change (Song, 2003). So the change agent plays a significant role in managing that change. It is the most sought resource by companies pursuing significant organizational changes



(Sherman, 1995). Change agents refer to those who take responsibility for managing change activities (Robbins, 1998), Dalziel and Schoonover (1998) emphasize that change is an attitude and a state of mind. Finally, they argue that the success of change efforts lies in the capabilities and motivation of individuals within an organization.

The critical role of change agents is to determine how to use resources, when and why. Thus, the organization managers must perceive the need for change when they see a gap between the current performance and the desired performance of the employees (Song, 2003). Dalziel and Schoonover (1988) present the change agent as a facilitator who has a shared responsibility to help change the organization. Additionally, Sherman (1995) argues that change agents are typically in the 25-40 age brackets and tend to be more flexible, people-oriented, function with more than one leadership style and make leaps of change.

Song (2003) confirms that change requires time, effort and human and material resources. To keep employees competent so they can have job security and are encouraged to become champions of change, the same author argues that organizations must promote human resource training and development. He adds that organizations must invest more in developing the human resources necessary to cope with organizational transition in response to changes in the contextual environment.

#### **4.3.3 Link between organizational change and performance**

Change management is recognized as one of the most difficult challenges for managers in organizations. Academics and practitioners have examined the management of change in organizations since the emergence of management science (McGreevy, 2008). They concluded that the central objective of developing strategic change is to improve organizational efficiency and

performance (Storey, 1995). Such change expects that it will increase competitiveness, optimize organizational agility, enhance the quality of products, reduce operating costs, and exceptionally maximize organizational performance, according to McGreevy (2008).

Hafsi and Demers (1997, p. 94) postulate a proposition that “a significant gap between current performance and desired performance pushes leaders to find solutions that generally lead to organizational changes.” Cameron, Kim and Whetten (1987, p. 234) prove that “poor performance leads to lower resistance to change, lower conflict and lower innovation, etc.” The most obvious is that poor performance pushes managers to overcome resistance to change. On the other hand, change offers a chance to do things differently, legitimizing actions for change that have already been politically difficult (Hall, 1976).

Similarly, Hafsi and Demers (1997, p. 95) put forward two propositions in which “a significant change in the performance of an organization, whether positive or negative, increases the pressure for change” and then “a decline in an organization’s performance relative to its competitors constitutes a greater pressure for organizational change than a decline relative to its past performance.” Long before supporting these two propositions empirically, the two studies (Cyert and March 1963; Kiesler and Sproull, 1982) presented models of organizational action in which a decline in performance leads to corrective management measures. As a result, these lead to major or minor changes.

#### **4.4 Performance and adaptation in an open and intense environment**

The section first exposes the link between performance and the company’s immediate environment by presenting a definition of performance. Second, we seek to link performance, success and survival and show the link between

adaptation and performance. Finally, we relate the link between small and medium-sized enterprises and performance.

### **2.4.1 Performance and environment**

The literature has shown significant growth that treats the organization as an open system and interacts with its contextual environment (Cyert and Marh, 1963; Katz and Kahn, 1966; Starbuck, 1976). The contextual environment has been defined as the set of external factors that impact or have the potential to affect its operation (Emery and Trist, 1965; Thompson, 1967). For Pugh and Hickson (1969), Mintzberg (1980), Porter (1980); Miller (1988); Joshi and Campbell (2003), the external environment is a contextual factor that has long been and remains a topic of interest in the management literature of organizations.

Moreover, for Khandwalla (1977), the environment is also the source of constraints, contingencies, problems, and opportunities. In this perspective, Lenz (1978, p. 32) argues that the environment can be defined as “the source of changing trends and events that create opportunities and threats for businesses.”

The environment is a multidimensional concept composed of factors relating to the market, government regulations, technology, innovation, and the availability of scarce and critical resources. In categorizing the environment, Bourgeois (1980) divides it into two levels: micro and macro. We find suppliers, consumers, distributors, government institutions, competitors, etc. In short, the micro-level represents all the actors with whom the company has relations and can impact the company.

However, the macro-level corresponds to factors indicating changes or trends in social, political, technological, demographic, cultural, legal, natural and

economic life. Bourgeois (1980) maintains that these two levels significantly influence the company's performance.

Indeed, for the opportunity side of the environment, Mavondo (1999) concludes that the attractiveness of the business environment determines effective organizational strategies, increases the importance of market orientation, increases the importance of human resource management, leads to more excellent investment to reduce manufacturing costs and is positively related to financial performance.

In this sense, Ray (2004) argues that the environment's efficiency contributes directly to reducing the uncertainty encountered by companies. In a thriving environment, with more improvement in infrastructure and government institutions, we will see a lower degree of uncertainty faced by companies, more availability of inputs for companies, and more opportunities for diversification (Chandler, 1962; Beattie, 1980).

In developing countries, specific countries in transition, White and Linden (2002) point out that the liberalization of markets, induced by the policy of openness to the globalized environment, requires a wide range of changes in companies that were formerly protected often regulated. This new environment is generally characterized by a dramatic change in the basis of competition and business viability. It affects most economic activities.

However, Ray (2004) reports that economic liberalization provides more manageable economic access to various resources and better business for most firms. This leads to environmental munificence (Pfeffer and Salancik, 1978; Aldrich, 1979). With the increase in the generosity of the environment, managers perceive more opportunities and aspire to more revenue growth to achieve a better return on investment. So, the munificent environment creates conditions for growth and profit (Dess and Beard, 1984). For the categorization of the

environment, in an empirical study, Dess and Beard (1984) used factor analysis and extracted three aspects of the environment: munificence, dynamism and complexity.

The dynamism factor covers both the level of stability-instability (capacity of unpredictability) and the level of turbulence (volatility of the environment). The complexity factor is composed of homogeneity-heterogeneity and concentration-dispersion. However, for Hafsi and Demers (1997), instability, which refers to dynamism, relates to the frequency and importance of changes in the environment, while complexity refers to the diversity and interdependence between elements of the environment.

Lumpkin and Dess (1996) define the munificence of the environment by the availability of scarce and critical resources and the abundance of opportunities. Moreover, munificence captures the capacity of the industry in comparison to the growth in the market. Lumpkin and Dess (1996) argue that dynamism, munificence, and structural factors, such as decentralization of decision-making, can influence firm performance.

In this sense, Hafsi and Demers (1997, p. 84) emphasize that the intensification of rivalry, which refers to the level of resources available in the environment and the attractiveness of the industrial sector, characterizes the dynamic environment. They propose that "any change in the competitive structure of an industry (e.g. increase in the intensity of rivalry, the importance of barriers to entry, the power of suppliers or customers and the attractiveness of substitute products) increases the pressure for change." This organizational change, like the adaptation of the company to its environment, would positively affect the competitive performance of the company.

#### 4.4.2 Definition of performance

Performance is a multidimensional concept whose definition is contextual (Reijonen and Komppula, 2007). For Stannack (1996), performance as an idea suffers from domain problems. So it is a social construct that is often vague in use. Performance is often used interchangeably to describe efficiency, effectiveness, improvement, or fit issue. Furthermore, Laitinen (2002, p. 66) defines performance as "the ability of an object to produce results in a determined dimension, a priori concerning a target." Dobbins and Pettman (1997) define success and performance as achieving goals. Reijonen and Komppula (2007) point out that the terms success and performance are often very closely linked and are sometimes even used as synonyms in the search for entrepreneurship.

In the design of O' Shaughnessy (1992, p.13); Belout, (1998); Ika (2009), many authors and practitioners consider the concepts of success, efficiency, effectiveness and performance as synonyms, and this confusion is relatively frequent in the literature. Performance is defined in terms of effectiveness and efficiency. Effectiveness is "doing the right things," i.e. achieving the objectives. However, efficiency is "doing things well with fewer resources," i.e. maximizing outputs for a given level of resources. The latter authors add that efficiency is more important than effectiveness.

Often, the divergence in performance definitions arises at the measurement level. Furthermore, performance has traditionally been measured in financial terms (Murphy et al., 1996; Laitinen, 2002). However, financial measures are not sufficient for decision-making in modern companies and should include financial and non-financial performance measures (Laitinen, 2002). Indeed, the disparity in the performance measures was always in the items that measure financial and

non-financial elements, which usually depend on the context and the domain of use.

#### **4.4.2.1 Link between performance, success and survival**

Our literature survey spoke of performance but not of success or survival. Concerning the company's survival, Rojot (2005) indicates that organizations survive only if they are efficient, that is to say, only insofar as they manage the demands of the interest groups on which they depend for their resources and support. He adds that efficiency is critical to success. Effectiveness is a standard of success controlled, judged and decided by those outside the organization, while efficiency is an internal standard controlled by organization members. The author also maintains that an effective organization satisfies the demands of the environment that gives it its support and conditions its survival.

Dollinger (1984), on the other hand, associates firm performance with two dimensions: success and survival. Success is a relative measure of business performance when the business creates value for its customers in a sustainable and economically efficient way (Barney, 1991; Schumpeter, 1934). Survival is, unlike failure, an absolute measure of a firm's performance and expresses its ability to continue to function as an economic entity (Barney, 1986).

In our conception, surviving indicates how SMEs maintain their activities in a turbulent and sometimes hostile environment. It implies competitiveness and legitimacy. To not close its doors, the company must satisfy its customers and find support from the main stakeholders.

#### **4.4.3 Link between adaptation and performance**

An organization's ability to adapt is a catalyst for organizational change (Greenwood and Hinings, 1996). On the other hand, various studies point out that managers perceive change as complicated and risky. Change is dangerous and is associated with an increase in the threat of survival for the company in the short term (Amburgey et al., 1993; Ruef, 1997;). However, managers, in this case, entrepreneurs, are interested in maintaining the status quo (DiMaggio and Powell, 1983). Even if they have an incentive to change their companies, the turbulent external environment could discourage them.

Moreover, adapting the contextual environment to a company could be a source of internal adaptation pressure for the company (Leonidou et al., 2002). However, the environment arises as a moderating variable in the relationship between strategic adaptation and firm performance (Miller and Friesen, 1984; McKee et al., 1989), a connection to which we will return in the chapter on the theoretical model.

For Ojeda-Gomez et al. (2007), the company's adaptation to its environment involves the ability to overcome the adverse effects due to the insufficiency of the strategies or the failure to integrate the resources with the environmental requirements (Chakravarthy, 1982). Adaptation results from a deliberate approach with good planning of official or conceivable activities. These activities are applied to products, services, markets and management methods (Schindehutte and Morris, 2001). These last authors reveal that companies, which develop more adaptive capacity, which have adaptation strategies and adapt more over time, will demonstrate superior performance than those with less emphasis on adaptation.



Schindehutte and Morris (2001) conclude that adaptation impacts the performance of small businesses. Indeed, the tendency to adapt over time is positively associated with the growth of profits and sales or increased yields compared to the leading competitors. They add that tangible and intangible resources and related activities contribute to adaptive capacity. Similarly, at high levels of adaptation, Woo et al. (1991) found that adaptation alters the relationship between environmental hostility and SME performance.

Naman (1994) attests that adaptation is related to performance because adaptive behaviour is continuous evaluations and adjustments. Each action of the adaptation initiative should improve performance by some incremental maneuvers. For example, Stoica and Schindehutte (1999) argue that the relationship between adaptability and performance in small businesses is nonlinear.

They add that very strong or feeble adaptive capacity tends to harm performance. Also, they demonstrate that most companies that adapt do not have high performance. Also, in large companies, some researchers have suggested that this relationship may be nonlinear (Bourgeois, 1980; Hrebiniak and Joyce, 1985; McKee, Pride and Varadarajan, 1989).

Stoica and Schindehutte (1999) uncover the disconnect between coping behavior and performance. They maintain that adaptation is not a constant, some companies adapt better than others to certain periods. Schindehutte and Morris (2001) announce that the entrepreneur recognizes the need for the permanent adaptation of the elements of his business. At the same time, the tendency to adapt varies among entrepreneurs and businesses.

However, major adaptation may take longer to produce lasting results than minor adaptation does (Schindehutte and Morris, 2001). They insist on including other contextual variables on the relationship between adaptation and performance in

small businesses. The main contextual variables are the dynamism, the turbulence, the munificence of the environment and the organizational structure of the company. In order to perform effectively, Randolph et al. (1991) argue that small businesses need to take more care to properly align their internal structure to the rate of change in their environment. These changes affect, among other things, technologies because SMEs are able to adapt at a lower cost than large companies.

#### **4.4.4 Small and medium enterprises and performance**

SMEs are the most vulnerable to an uncertain and changing environment, especially in developing countries. Man et al. (2002) argue that the turbulent nature and lack of power of new emerging markets make many SMEs vulnerable to outside influences. Thus, the external environment is, therefore, particularly influential in determining the competitiveness and performance of the SME.

SMEs seem to function better in highly competitive countries in hostile environments (Covin and Slevin, 1989). Uncertain environments lead entrepreneurs to examine the firm's resources and capabilities to pursue various courses of action in response to environmental conditions, according to Pett and Wolff (2007). These last authors add that to ensure better performance, SMEs should react in two ways: expand the geographical space of the markets served or capture a greater proportion of the current needs.

In addition, SMEs do not have sufficient endowment of resources to ensure daily functioning and more performance. This lack can be compensated by flexibility, agility and the ability to innovate (Acs and Yeung, 1999; 1997; Qian and Li, 2003). Innovation and proactivity as a response to environmental uncertainty can lead SMEs to the process of improving or modifying products. Zahra and

Nielsen (2002) argue that innovative products facilitate market share growth by attracting customers from rivals.

In any context, to resist environmental changes, it is necessary to ensure better adaptation and better performance, so "a company can be made to manage an increased complexity of the environment, if (...) its capacity to process the 'information is more enhanced' (Chakravarthy, 1982, p. 37).

The definition of an organic structure offers a better opportunity for more open communication, the circulation of a flow of information and network relations (Covin and Slevin 1989). Organicity facilitates the processing of data and ensures the change in behaviour of the personnel of the SME (Khandwalla, 1977; Covin and Slevin, 1989). On the other end, the mechanical organizational structure is associated with highly structured operations and promotes stability and vertical chains of communication (Burns and Stalker, 1961).

## **4.5 Business adaptation strategies and obstacles**

This section explains the strategies adopted when adapting a company and the obstacles that prevent it from adapting to a constantly changing environment.

### **2.5.1 Coping strategies**

By adaptation strategy, we mean all the changes in behaviour undertaken by a company to improve its performance results and be competitive in the market. Therefore, the objective of adaptation strategies lies in the concern to enhancing the degree of concordance between the internal behaviours of the company and the characteristics of its external competitive environment (Moati, 2001). However, we also consider that those coping strategies are not peculiar to companies in difficulty. For example, even if "the fear of losing often turns out

to be more powerful than the hope of winning" (Porter, 1999, p.172), companies achieving "satisfactory" results can initiate an effort of adaptation under the influence of several orders of motivation.

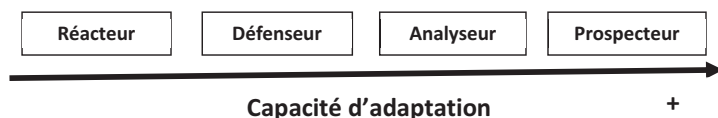
Therefore, more fundamentally, the desire to engage in adaptation strategies can come from the awareness that the competitive environment is constantly changing. The company must anticipate the future state of its contextual environment and start now the efforts of adaptation to ensure the adequacy of its future behaviours to the state of the market, according to Moati (2001). Adaptation strategies aim to bring the company's behaviours closer to the contextual requirements of the environment in all its factors. These are, therefore, reactive or proactive strategies.

These adaptation strategies effectively include a set of actions known as "adaptation programs" aimed at changing all or part of the company's sub-functions "production, marketing, logistics, training, human resources, etc. towards the desired state, i.e. a "strategic purpose" supposed to make it possible to achieve the company's objectives (Sanchez and Thomas, 1996).

According to Moati (2001), coping strategies strive to influence the characteristics of the contextual environment in a way favourable to the company. For example, the adaptation strategy can act through actions on the structures "creation of barriers to entry" or on the primary conditions "technological breakthrough, the transformation of buyer preferences".

The literature evokes the typology of strategies of Miles and Snow (1978). Four adaptation strategies have been identified: prospector, defender, analyzer and reactor. Indeed, we move along a continuum of more or less great adaptability from the regular operation of the reactor to the prospector. The business reactor and advocate are businesses whose coping strategies are based on internal

business considerations, while the analyzer and prospector use information from the external environment (see **Figure 2.6**).



**Figure 2.6:** Types of strategies that relate to adaptability.

**Source:** adapted from Miles and Snow (1978), cited in Stoica and Schindehutte (1999)

While using the typology of strategies of Miles and Snow (1978), Chakravarthy (1982) maintains that organizations with a high level of adaptation would present a prospecting strategy and an organic structure, while organizations with a low level of adaptation would feature a defender strategy and mechanical system. In the sense that the prospector-type adaptation strategy leans on the search for and the permanent realization of new business opportunities, avoiding long-term involvement in a single technological process, adopting specific organizational systems and coordinating numerous activities.

And they are varied. On the other hand, the adaptation strategy defender seeks a stable domain of activity, chooses the most efficient technology and maintains strict control of operations to build a position of excellence in the company, according to Miles and Snow (1978).

More practically and in terms of adaptation programs for the Algerian SME, a set of adaptation strategies, namely the status quo, growth, refocusing, partnership, redeployment, innovation, effort, marketing, skimming, niche, rebuilding, bailout and handover (MIR and UNIDO, 2003). However, according to this last source, the strategies envisaged in the adaptation programs of

Algerian SMEs are essentially three in number: refocusing, partnership and finally, flexibility.

In an SME context, adaptation refers to the entrepreneur's willingness and ability to make appropriate adjustments to his small business, according to Stoica and Schindehutte (1999). Given their flexible structures, the speed of decision-making, and the limit of internal and external decision-making constituencies, SMEs are better able to implement an adaptation strategy. However, they differ markedly in terms of internal or external focus.

Furthermore, to realize an adaptation strategy, they have cash and debt constraints that can limit their ability to evolve in new directions and, generally, suffer from underdevelopment, collection and data analysis. On the other hand, they do not have staff in extended functions such as marketing or R&D (Stoica and Schindehutte, 1999). After this review of the strategies, a question arises: what are the obstacles that companies encounter in implementing an adaptation strategy?

#### **4.5.2 Obstacles to adaptation**

The paths of adaptation are far from being a long calm river. Companies demonstrate a differentiated ability to overcome obstacles likely to thwart adaptation ambitions. Firms that are unable to adapt or adapt too slowly or in the wrong directions of adaptation risk disappearing. Therefore, the study of obstacles to adaptation is an essential step in the prospective reflection phase of an analysis of the business sector (Moati, 2002).

Obstacles are probably analogous to frictional forces, "opposing forces" (Staw, 1982). Some studies pose the barrier of institutional dynamics (Miller and Friesen, 1980) or organizational inertia (Fredrickson and Iaquinto, 1989),

resistance to change or presentation of rigidity within an appropriate time frame (McKinley, 1993), previous poor results of an adaptive change experiment (Kanter, 1983; Lant, Milliken, & Batra, 1992), information collection and analysis policy, planning, and systems control can also impede adaptive changes (Davenport, Eccles and Prusak, 1992). However, these barriers could pose a real problem for an adaptation initiative.

For organizational inertia, Fredrickson and Iaquinto (1989) argue that organizational considerations can hinder the firm's adaptability. They add that strategic change is likely to challenge internal balances and provoke defensive reactions from company members at different levels of the organization. Moati (2001) confirms that organizational inertia increases with firm size. Large companies show more organizational inertia than SMEs, taking into account the complexity of the structure of large companies.

In addition, according to Moati (2002), the decision to engage in an adaptation strategy can be thwarted by the existence of obstacles. These obstacles are schematized in the opportunity cost of the process, the commercial risks and the difficulty of accessing the necessary financing. In this sense, it is essential to estimate the intensity of the financial obstacle companies is subjected to when implementing their adaptation strategies. In other words, the financial constraint limits the level of business investment effort (Malécot and Hamon, 1986; Fazzari et al., 1988).

Ultimately, to reduce the obstacles to the company's adaptation, the company should have incentive mechanisms designed based on appropriate evaluation criteria and time horizons. These reward risk-taking and do not condemn the failure of the adaptation initiative. Indeed, a successful adaptation strategy requires that most company members have a practical and personal interest in implementing the new strategic axes and that the expected results accompany this implementation. In addition, the success of an adaptation strategy assumes

that competitors do not quickly imitate the new behaviours resulting from it. The creation of competitive advantages based on a complex set of specific resources is a favourable condition for the sustainability of the effects of adaptation, according to Moati (2001).

#### **4.6 Adaptation and performance in an SME context**

Schindehutte and Morris (2001) argue that adaptation is necessary for most small businesses to ensure performance and competitiveness. Small companies actively seek to adapt over time. Learning and adjusting become essential skills to guarantee its growth. One of the reasons supporting adaptability for small businesses (Bird, 1989) is that SMEs innovate more quickly and are generally less concerned with retained earnings or the payment of profits. As a result, they have employees with less interest in how things are done or the allocated resources because the entrepreneur controls the whole business.

However, it is reasonable to expect that small businesses may resist adaptation for various reasons. Some of these reasons relate to environmental conditions that may limit the SME's ability to adapt. There are also reasons regarding the entrepreneur himself, including his willingness and ability to resist this change. For example, small businesses are more vulnerable to environmental forces than medium and large businesses, especially given their limited cash reserves and debt capacity. Many small businesses also suffer from a relatively narrow market presence, subjecting them to large swings in demand, aggressive competitive attacks, and a lack of support from suppliers and distributors, according to Schindehutte and Morris (2001).

Aldrich and Auster (1986) express the responsibility for the smallness of this class of firms in terms of problems in obtaining capital, fewer tax advantages, and proportionally greater costs of regulation. Especially in the early stages of



business, entrepreneurs are unaware of their roles and the company's roles and are prone to making a series of mistakes. In addition, business networks are not well defined or solidified, and intelligence gathering systems are generally rudimentary and not comprehensive.

Starting from the concept of "organizational inertia," where organizations are limited in their ability to adapt, Woo et al. (1990) indicate that inertia limits the adaptation of small enterprises, which depends on the stage of evolution of the SME, the size of the enterprise, its age and the previous experience of the entrepreneur with similar products. They also found that a dynamic environment would compensate for this inertia.

According to Hendry et al. (1995), the ability of the small business to adapt and grow is rooted in the initial resource conditions and the transformation of its existing knowledge base and work routines. In addition, a considerable volume of empirical studies has underlined the performance capacity of SMEs following adaptation actions. These studies have been devoted to the management of human resources and its impact on performance (Huselid, 1994; Marlow and Hannon, 2000; Huang, 2001), strategic planning and its effect on the performance of SMEs (Aram and Cowen, 1990; Yusuf and Saffu, 2005) and leadership and its impact on small business performance (Anderson and Sohal, 1999).

There have also been studies on the relationship between quality management and execution (Adam, 1994; Samson and Terziovski, 1999). Finally, fencing (2008) asserts that quality management is considered a strategic tool to improve organizational performance in companies, large and small, and in any part of the world. According to Hodgetts et al. (1999), small businesses that implement quality practices perform better.

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Thus, according to Cunningham and Rowley (2007), the literature characterizes highly skilled labour as the key to the adaptation and development of small businesses (Heneman et al., 2000; Hornsby and Kuratko, 2003; Storey, 2004). Theoretical and empirical studies also conclude that human resources can be a critical source of sustainable competitive advantage and increase business performance (Wright et al., 1994; Wright and Barney, 1998). Therefore, human resource management can provide a vehicle for SME development.

Mumby-Croft and Brown (2005) confirm that a major government concern for the SME sector has been the problem of skills shortages in SMEs, as these shortages are seen as an obstacle to their growth (Rae et al., 1995). In addition, Demick and O'Reilly (2002) argue that to adapt SMEs, the operation requires the development of skills of the human resource of the SME, exceptionally

entrepreneurs and managers. In this light, Mumford (1993) comments that to develop skills in SME managers, skills development programs should focus on "learning experiences" rather than the content of formal training.

Dubini and Aldrich (1991) suggest that business networks also have a significant role in skills development since networks of personal contacts are a valuable tool for entrepreneurs who want to grow their businesses. Butler and Hansen (1981) argue that these private networks are a decision-support mechanism that can play an essential role in introducing a more disciplined approach to decision-making. Carson (1993) further suggests that the need for these networks of personal contacts should be formalized by employers' associations, forums of business leaders and professional associations.

According to the OECD (2004), many actions will be taken to adapt SMEs, such as the establishment of a legal, regulatory and administrative framework conducive to the development of SMEs, improving their access to financing, setting up an institutional support structure for SMEs, providing the necessary skills and support infrastructure. At the macroeconomic level, this last source also cites the implementation of sound government strategies and the stabilization of the competitive exchange rate, the dismantling of controls and customs duties on imports, the rationalization of administrative formalities for exports such as imports, the modernization of customs administration and effective management of value-added tax.

Furthermore, the OECD (2004) adds that technical assistance from public authorities in quality management, productivity improvement, and metrology are necessary to help SMEs comply with standards and regulations applicable to products in export markets. In this sense, obtaining certification according to the ISO 9000/14000 standard, setting up accreditation mechanisms and creating support centers for improving productivity and designing products will enable SMEs to upgrade to international standards.

Konopielko and Bell (1998) explain that to adapt and develop the SME sector, certain SME service practices cited above and in specific growing and transition countries are grouped into development and adaptation of SMEs. We can mention the STRIDER program for the adaptation of SMEs in Poland as an example. It is an EU-sponsored program aimed at a wide range of SMEs. Its content includes vocational training and education, infrastructure projects, industrial services, development of information technology, implementation of networks between potential business partners and upgrading actions.

The main objectives of this adaptation program for SMEs in Poland are to help with structural development, to offer training and advisory services in good business practices, to identify markets for the SME and to provide assistance in the form of loans or loan guarantees to finance the investment and expansion of the SME. A concise presentation of the adaptation programs of SMEs in developing countries seems essential to explore the impact of these programs on the performance and competitiveness of the company.

## **Chapter 5:**

### **Theoretical foundations of the study**

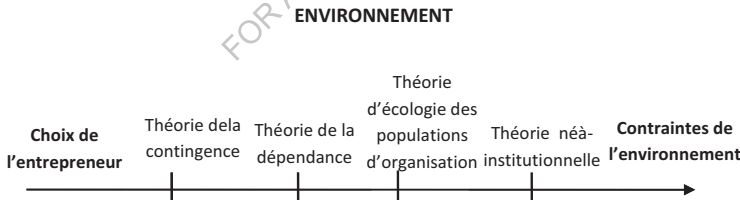
#### **5.1 Partial introduction**

While explaining survival, even performance, organizational development in the broad sense refers to many theories that deal with the relationship of the organization with its contextual environment. Three theories are successively presented, those contingencies, resource dependence and finally, the neo-institutional theory. In these theories, the environment is a significant factor that drives the behaviour of organizations. In fact, in the beginning, the systemic theory defended the idea that organizations are open to their environment.

The sources for the conception of contingency theories can be found respectively in the works of authors such as Burns and Stalker (1961), Thompson (1967), Woodward, Lawrence and Lorsch (1969), who have fueled what is agreed called the theory of structural contingency and the content of which can be roughly summarized in one idea: the structuring of the organization depends on the characteristic parameters of its operating context. Pfeffer and Salancik (1978) propose the resource dependence theory from the same perspective. The latter seeks to understand how the organization is connected to the other organizations that make up its environment and the organization's continuous search for access to resources to survive.

The neo-institutional theory is of the same family as the population ecology theory (Hernandez, 2001). In this last theory, Hannan and Freeman (1977) grant the environment a deterministic power, this leaves little room for strategic choice. However, for the neo-institutional theory, Selznick (1957) shows the weight of internal and external factors to the company's perimeter, which is linked to the values and their impact on the manager's behaviour, in this case, the entrepreneur. Within this same neo-institutional theory framework, DiMaggio and Powell (1983) emphasize the value of compliance with rules, norms, and corporate survivability.

However, the environment is not deterministic, but the entrepreneur is characterized by his desire to choose and act on his environment (Child, 1972, 1997). According to Hernandez (2001), the choice of the entrepreneur for his environment and his degree of complexity is presented on a horizontal axis going from the contingency theory, which is less constraining than the neo-institutional theory (see Figure 2.2)



**Figure 5.1:** Organizational theories and environmental constraints

**Source:** Hernández (2001)

To ensure the consistency of our study and to address the adaptation of SMEs in developing countries, our choice of theories focuses on the three theories mentioned above. The justification for our selection is that these three theories

mainly affect all categories of environments. We note that the first two theories, contingency and resource dependence, cover the physical environment, the economic environment, the competitive environment, the technological environment and the resource environment immediate to the firm. However, the neo-institutional theory of organizations covers the political environment, the social environment, the cultural environment, the legal environment and the institutional environment, according to Emery and Trist (1965) and Hernandez (2001).

## **5.2 Contingency theories**

### **5.2.1 Short introduction**

In research on contingency theory, many researchers have concluded that survival, and even performance, is dependent on the relationship between the organization and its external environment (Duncan, 1972; Miles and Snow, 1978; Venkatraman, 1989; Gresov, 1989). Contingency theory emphasizes the relationships between environment, strategy, organizational structure, and performance. This theory has developed over three decades and takes multiple forms: technological contingency (the 1950s), structural contingency (1960s) and strategic contingency (1970s).

In this theory, the company is conceived as an entity located outside its borders. Organizational results are influenced by environmental constraints and the adaptation they impose for the company to survive, in the sense that the latter must survive to succeed. The company, for its part, must manage the uncertainty resulting from the environment since it depends on the multiple and varied elements that compose it. Thompson (1967), Lawrence and Lorsch (1969), Child and Kieser (1981) and Donaldson (1996) conclude that the most efficient

companies are those that adapt to the degree of uncertainty in each type of environment.

Rojot (2005) distinguishes two types of contingency theories: those that link certain features of the structure of organizations to internal variables (age, size, technology and strategy) and those that connect them to characteristics of external variables (variability and increasing complexity of the environment and diversified adaptation to the environment). In our analysis, we review both external and internal variables to fully understand the issue of performance or even survival of SMEs in developing countries. More specifically, we deal with structural contingency, the strategic choice of the entrepreneur, "strategic contingency," and technological contingency while addressing its impact on the survival of SMEs. We will also see the weight of age and size and their effects on business performance. Finally, we will review the contingency theory in connection with the concept of adaptation of the company to its external environment.

### **5.2.2 Structural contingency in the SME**

This type of contingency is called structural contingency because changes in external variables will essentially affect the organization's structure. Burns and Stalker (1961); Lawrence and Lorsch (1967) present this approach through the significant progress made in taking environmental conditions into account. The central assumption of structural contingency theory, which is part of the functionalist tradition, is that the structural components of the organization must be integrated for the organization to survive or perform. The structural effects of the organization were articulated in current research by placing the firm in a mechanistic versus organic dimension.



This dimension has been spread thanks to the research of Burns and Stalker (1961), Lawrence and Lorsch (1967) and Khandwalla (1977) and many other authors. In short, the mechanical structures are complex, formalized and centralized. They perform routine tasks, make extensive use of behavioural programming, and have a limited potential to respond to unfamiliar situations: strict formal compliance with prescribed rules and procedures, strict control of information flows, and careful construction of subordinate relationships.

Conversely, referring to the same authors, the organic structure is characterized by decentralized decision-making, adaptability and organizational flexibility. Open communications and emphasis on formal rules and procedures. Emphasis is placed on lateral rather than vertical communications, influence is based on expertise and knowledge rather than positional authority, responsibilities are defined in broad terms, and emphasis is placed on exchanging information rather than issuing directives.

Burns and Stalker (1961) do not consider one type of organization superior to the other in any case. They are either equally good or bad, depending on the environment in which they have to operate. The same authors add that the mechanical structure is best suited to very stable environments. The organic system is best suited to dynamic and highly changing environments.

The question that arises is knowing: "what is the use of the structural approach in the entrepreneurial world?"

In response to this question, Covin and Slevin (1988) examined the moderating influence of organizational structure on entrepreneurship and found that the performance of a business leadership style has a positive effect on organically structured companies. For example, Miller (1983) asserts that organic forms allow companies to engage in entrepreneurial initiatives because such structures make "entrepreneurs aware of the need to provide the expertise and offer the

resources and a necessary framework for collaboration." Knowing that SMEs are characterized by flexibility and innovation, the organic structure determined by flexibility in administrative relations, informality and authority is vested in the entrepreneur's expertise. These determinants in the structure of the SME facilitate innovation, which is an essential component of an entrepreneurial style (Covin and Slevin, 1988).

Schollhammer (1982) argued that organizational structures with a high degree of formalization, such as mechanical structures, hinder corporate entrepreneurship. Similarly, some have revealed that the structural attributes of bureaucracy stifle entrepreneurial activity. These make the structure of the organization influence entrepreneurial behaviour (Drucker, 1985; Burgelman and Sayles, 1986).

The effect of the environment, as a contingent variable, was also examined for SMEs. Small firms in a hostile and turbulent environment, which is the case of SMEs in developing countries more generally, achieved better financial performance when their strategic behaviours were considered (Covin and Slevin, 1989). However, organic management is the preferred case for Algerian companies moving from mechanical management to organic management, given the context of transition that marks the SME sector. The performance of companies, in this case, the survival of SMEs in developing countries, is subordinated to the strategic and competitive tactics of entrepreneurial companies (Zahra, 1986; Covin and Adler, 1989), which leads us to the approach of the choice strategy of contingency theory or strategic contingency.

### **5.2.3 Strategic contingency in the SME**

According to John Child (1972, 1997) and Pfeffer and Salancik (1978), structural contingency theory implies that the environment determines the firm's organizational structures so that managers, in this case, entrepreneurs, seem to

have very little room for manoeuvre. Child (1972) denounces this position. According to him, managers' strategic choices allow them to control their environment partly. It is therefore imperative to make room for strategic choice in the contingency model to recognize the role of entrepreneurs. Admittedly, the environment constrains the organization of company structures, but decision-making contributes to the adjustment of the company to its environment.

Similarly, Child (1972) mentions in his founding article the relevance of this perspective. He was interested in developing strategic choice theory as a decision-making process, where ideology, expectation and power relations play an essential role. He believes that influential entrepreneurs refer to the name "dominant coalition." For Cyert and March (1963), entrepreneurs have the power to make choices that are only partially limited by the environment and the contingencies of the organization. He asserts that entrepreneurs are not prisoners of their environment but that they can influence it.

Similarly, Child (1997) refutes the idea that entrepreneurs are constrained to adopt a specific structure for organizational design. According to him, ideology, goals and the power of relationships play as important a role as administrative issues in determining the choices made. For example, child (1972) adopts a voluntarist position which puts at the opposite end the continuity between the authors who adopt a deterministic point of view.

Similarly, Porter (1980), one of the most influential authors of the perspective of adaptation vis-à-vis the strategic choices of the entrepreneur, affirms that any company that is born or launches a new product must seek to understand the rules of the competitive game in which it wants to participate thanks to strategic choice analysis techniques for industrial sectors. In other words, according to Porter (1980), every entrepreneur is obliged to act and react according to his famous model of the strategic analysis of industries.

Pfeffer and Salancik (1978) occupy an intermediate position between the deterministic environment and free perspectives. They argue for adopting an external focus on organizations by strongly criticizing the structural contingency theory as being the most focused on the organization's internal functioning of the organization vis-à-vis the work environment. For example, they claim that even though contingency theory recognizes the importance of the environment, it remains essentially subject to internal adjustments. Their position is that the main problem is the survival of organizations, which they see as a function of acquiring resources from their political and technical-economic environment.

For developing countries, especially countries in transition, the perspective of the strategic choice of firm growth is based on the assumption that the firm operates in a market economy where it is relatively free to make its own strategic choices (Peng and Heath, 1996). Thus, no organization company could survive in the long term without a strategy (Thomson, 2001). Therefore, the exercise of a strategic choice is a fundamental function of management and organization in all SMEs. Strategic choice refers to determining strategic lines of action that an organization should take into account (Child, 1997).

Indeed, to ensure the survival of an SME, its strategic behaviour revolves around three fundamental concepts: innovation, proactivity and risk-taking (Zahra and Covin, 1994). The capacity for innovation reflects a tendency to support new ideas, novelty, experimentation, and creative processes and thus deviating from pre-established practices (Lumpkin and Dess, 1996). Proactivity refers to anticipating and acting on the future of wants and needs in the market, thus creating the first advantage vis-à-vis their competitors (Lumpkin and Dess, 1996).

Risk-taking is associated with a willingness to devote many resources to projects whose cost of failure can be high (Miller and Friesen, 1982). It also involves committing resources to projects whose outcomes are unknown. Strategic

behaviour mainly reflects the strategic orientation of small and medium enterprises. In short, it is the competitive orientation.

### **5.2.5 Weight of age and size on SME performance**

Many researchers have also studied the impact of size and age on organizations. Age and height are correlated. For Rojot (2005), youth organizations are often small. However, large organizations are not necessarily old, but it is not excluded that many organizations grow with the passing years. These two determinants are essential for study in the context of SMEs. It is also noted that size was a factor retained in the analysis of the Aston group in their attempt to categorize bureaucracies and their evolution in the development of contingency theory.

The relationship between firm age and performance is well documented, but it presents controversial results. Some economists use age as a proxy for the firm's experience in its activities over time (Geroski, 1995). Consequently, after entry into the action, performance is positively related to the firm's age once the SME has survived for a sufficient period (Audrestch and Mahmood, 1994; Audrestch, 1995 ). Accordingly, in population ecology, age may reduce the probability of death for an enterprise that has proven its ability to survive during the initial period (Hannan and Freeman, 1989). Second, the long-term benefits of staying in the turbulent period decrease the risk of failure (Barnett and Amburgey, 1990; Barron et al., 1994). Thus, age increases the probability of survival of the MSY or even of performance.

### **5.2.6 Contingency theory and SME adaptation**

The company's performance depends on its ability to ensure a fit between these elements. However, the primary assumption of contingency theory, which is part of the functionalist tradition, is that the structural aspects of the organization

must be integrated into the organization for it to survive. Therefore, an adaptation change in one element of the structure must be followed by adaptation changes in other aspects of coherence, both around the company and its environment. In addition, contingency theorists argue that performance in a firm's adaptation program is dependent on achieving integrability between different characteristics of the situation (technology, environment, size and firm age) and structural characteristics (Lawrence & Lorsh, 1969; Pugh et al., 1971). These contingency theorists assume that entrepreneurs and decision-makers are rational and responsible for modifying the organization's characteristics to adapt it to the elements of consistency.

Burns and Stalker (1961), Woodward (1965), Thompson (1967) and Lawrence and Lorsh (1969) developed the situational approach to corporate adaptation. They see the company as an open system, and they have associated its growth and survival with adopting an adaptation model appropriate for a given environment. In this approach, the company is conceived as an integrated system of interaction with its environment and an instrument in the hands of rational entrepreneurs.

In most studies, the firm is described in terms of macro-structural variables "such as centralization, formalization and standardization" and macro-organizational characteristics such as functions, "activities," and systems (Lawrence and Lorsch, 1969; Pugh et al., 1971). The role of the environment is preponderant. It is essentially defined by the work environment of various organizations such as suppliers, customers, competitors and regulatory groups (Thompson, 1967), "which corresponds, in our case in Algeria, to the support structures offered for the company's benefit." In most studies, it is measured in terms of levels of uncertainty "degree of predictability," stability, "frequency and rate of adaptation," complexity, "degree of heterogeneity and interaction," and threat "degree of competition" (Burns and Stalker, 1961; Lawrence and Lorsh, 1969). As for the adaptation of the company, Hrebiniak and Joyce (1985), the

proponents of adaptation theory, summarize the foundations of contingency theories in four points:

- companies must adapt to their environment. The search for adequacy between the company and its environment is central;
- the coping process is reactive and deliberate;
- the change in the company's adaptation strategy to its context is gradual;
- the level of contractor discretion in completing the accommodation process is important

## **5.3 Resource Dependency Theory**

### **5.3.1 Short introduction**

An organization's vulnerability to its environment comes from its need for resources: raw materials, human resources, capital, equipment, knowledge and outlets for its products and services, etc. However, these resources are controlled by the organization's environment, which gives it power (Hernandez, 2001). The links with the business environment are far too numerous for the manager to be able to identify, track and manage them all. For these reasons, Pfeffer and Salancik, in their book "The external control of organizations: a resource dependence perspective" (1978), developed the theory of resource dependence on the environment. According to this theory, organizations are controlled by their environment, yet they still possess some leeway and strategic capability to meet the demands of their environment to survive. According to Pfeffer and Salancik (1978), the basic principle of this theory is the following: the analysis of the inter-organizational relations within their network can help the managers to understand better the relations of power and dependence existing between their organization and other actors in the network and thus better adapt to it and probably resist it.

### 5.3.2 Resource Dependency Theory and SMEs

Pfeffer and Salancik (1978) insisted that the environment constitutes a major constraint for organizational action. Although resource dependence theory is based on the assumption that organizations are controlled by their environment, these two authors also believe that entrepreneurs can learn to "navigate the stormy seas" of environmental dominance. . According to Oliver (1991), the basis of resource dependency theory is that analyzing inter-organizational relationships within the network can help entrepreneurs understand power and dependency relationships. Entrepreneurs can thus better anticipate the sources of influence of the environment and consider ways to counterbalance them by creating a counter-dependence.

Sherer and Lee (2002) explain that a company's vulnerability to its environment comes from its need for resources. The following dependency empowers the environment, especially for developing countries that lack critical and scarce resources. These impose requirements on companies such as competitive prices, products and services that meet compelling organizational needs, structures and processes. However, Pfeffer and Salancik (1978) add that government funding for research and development, business start-ups, or growth of small and medium-sized enterprises offers attempts to manage the firm's dependence on these resources. However, recruiting managers or other people working in competing companies can control dependency on skills and knowledge.

A helpful strategy for managing dependence on competing organizations and regulators fits into the formation of trade associations, adds Oliver (1991), such as, for example, the Patronat or the Forum des Chefs d'Entreprises "FCE." in Algeria. He explains that these associations allow their members to share the costs related to environmental monitoring and join forces, for example, by jointly hiring people to represent their common interests before government bodies.



Trade associations may be open to criticism and even legal action if they are not careful of their decisions on pricing and other business practices deemed unfair.

For example, in countries where regulations allow it, price agreements and consortia are common means of managing dependence on the environment of competitors. According to Pfeffer and Salancik (1978), managing resource dependency requires consciously defining and monitoring the environment and devising solutions that rebalance the firm's power over other actors.

Similarly, Oliver (1991) gives importance to the role of entrepreneurs in this hostile environment. To find ways to reduce their companies' dependence on resources, entrepreneurs systematically mitigate the power of essential suppliers. Thus, Oliver (1991) adds that the resource dependence theory suggests that managers analyze the links between companies. Another question that arises knows what is happening in terms of SMEs and entrepreneurship in the vision of the resource dependence theory.

A budding SME, more than any other, suffers from its environment. However, Child (1972, 1997) argues that it nevertheless appears that SMEs can act on their environment and not just be pressured. First, when this environment is rich and complex, it can be a development factor for SMEs capable of seizing their opportunities. Secondly, the SME must become aware of the importance of groups and networks to break out of its isolation. For example, many entrepreneurship researchers insist on the preference for a creator to be integrated into business networks to obtain scarce resources to support his business.

Finally, Aldrich and Zimmer (1986) insist that it is more important for the entrepreneur to ask himself the question "whom does he know?" instead of "what does he know?" For Nordstrom (2000), "the competitiveness of a person is equal to what he knows multiplied by whom he knows."

### **5.3.3 Resource Dependency Theory and SME Adaptation**

Some authors have developed alternative theories of business adaptation that give greater freedom of action to entrepreneurs, such as Pfeffer and Salancik (1978); Oliver (1991); Sherer and Lee (2002). The latter authors developed over time the theory of resource dependence, a theory of rational adaptation of the firm. Pfeffer and Salancik (1978) argue that this theory can explain the stability and the sensible adaptation of the firm to its context. Unlike previous adaptation perspectives, resource dependence theory sees a two-way relationship between firms and the environment. According to these views, the environment can be adapted to businesses, just as organizations adapt to the environment.

However, Weick (1979) and Child (1972) argued that the environment is not given but must be "fitted." This view of the environment is like a phenomenon that is perceived subjectively and socially constructed rather than an objective reality. Pfeffer and Salancik (1978) occupy a middle position between the deterministic environment and the perspective of the free will of the entrepreneur in adapting his business.

According to Tian et al. (2009), this theory stems from the need to adapt to the uncertainty of the environment and deal with SMEs' complex interdependencies and the control of resource flows in two ways. On the one hand, Rojot (2005) explains that the company can adapt its structures, values, products, etc., to avoid dependence on critical or scarce external resources. On the other hand, it can store them, try to control the terms of trade, integrate vertically or diversify its needs for alternative resources. On the other hand, Hernandez (2001) maintains that the resource dependence theory still leaves a significant place for the voluntary and rational adaptation of the company to its environment and the role of its internal functioning.

He also adds that managing dependency on resources requires consciously defining and monitoring the environment and devising solutions to rebalance the company's power against other partners when the situation becomes unfavourable to him. On the other hand, the same author affirms that ultimately if all these methods fail, for lack of being able to act sufficiently on its environment, there remains one last possibility for the company: to change the environment. For example, international SMEs do this when they change jobs or countries.

## **5.4 Neo-institutional theory of organizations**

### **5.4.1 Short introduction**

Although initiated by Selznick in 1957, the neo-institutional theory has undergone recent developments. These developments are conceptualized by the work of Douglas North in the last two decades and by other proponents of this theory. According to Meyer and Rowan (1977), the theory insists on legitimacy, favouring the company's insertion into the institutional environment. Therefore, it can be necessary to exercise actions in this unfavourable environment for companies, particularly in developing countries and SMEs working in a hostile or turbulent environment. As a result, SMEs must worry about their legitimacy as much as strictly economic aspects (Bensédrine, 1998).

### **5.4.2 Brief overview of neo-institutional theory**

Organizational population ecology theory and neo-institutional theory are related. Their common characteristic is that the environment imposes itself on organizations. Population ecology explains why organizations differ, while neo-institutional theory emphasizes why they are alike. The first describes the

influences generated by the economic, physical and technological environment. The second explains the effects caused by the cultural, legal, political and social environment (Hernandez, 2001).

As a corollary, these two theories describe organizations as relatively passive elements in the face of an environment that shapes them and determines their results. However, for Tian et al. (2009), companies are not always passive in front of the institutional environment, but there is nevertheless room for manoeuvre.

Many authors identify with the institutionalist current, citing Selznick, John Meyer, Brian Rowan, Paul J. DiMaggio, Walter W. Powell and Douglas North. For Selznick (1957), the founder of institutional theory, organizations must not only submit to economic and technical requirements but also cultural and social requirements. They must play specific roles in society, establish and maintain certain outward appearances, and be socially "correct." Meyer and Rowan (1977) propose that organizational structures, rules and procedures convey a set of beliefs and rationalized myths. A rationalized legend believes in the efficacy of law, process, or technique. For example, we can cite adopting certification practices or membership in a business network.

According to the latter authors, organizations that adopt these practices wish to increase their legitimacy in society and thus ensure their performance. As for DiMaggio and Powell (1983), the process by which organizations conform to environmental pressures is called an isomorphism. Hence it is difficult for the organization to cope with these pressures. Instead, they insist that three types of environmental stresses push organizations to adopt similar postures. These pressures are coercive, mimetic pressures and normative pressures.

North's neo-institutional theory (1990) explains two types of institutions (or constraints): formal and informal. Traditional institutions refer to written laws,

regulations, political and economic rules and contracts. At the same time, informal institutions are referred to by codes of conduct, norms of behaviour and social conventions that generally emanate from the culture of a society. Relaxed rules are considered unwritten rules. These are created, communicated and applied outside official channels (Helmke and Levitsky, 2004). Their execution occurs through sanctions such as expulsion from the community, ostracism by friends and neighbours or loss of reputation (Pejovich, 1999).

According to Tahari (2009), the distinction between formal and informal institutions should not hide their interdependence. Many standard rules are only an ex-post validation of relaxed rules stemming from tradition or custom. Conversely, a formal institution can be extended, even modified, by an informal institution. Formal and informal institutions can thus mutually reinforce, oppose or complement each other.

North (1992) defines institutions as "rules of the game" or humanly designed structures that provide incentives and constraints to economic actors, including firms. These economic actors are integrated into an external environment characterized by uncertainty and transaction costs (Baum and Oliver, 1992; Hollingsworth, 2002). The same rules of the game also provide the constraints and incentives that encourage economic actors to move from unproductive to productive activity and ultimately improve society's financial situation and welfare (North, 1990).

### **5.4.3 Neo-institutional theory and SME performance**

The question of the vulnerability of SMEs in the face of an open and changing world spells out an institutional change. This imposes an organizational change on SMEs to respond to the new constraints due to the new environment. Formal and informal institutions are the game's rules that structure political, cultural and

social interactions, specifically in SMEs (Tahari, 2009). According to Basu (1998), informal socio-cultural institutions contribute to small business survival and growth. For example, social standards teach work teams to work hard to ensure the development of the SME. The tradition of kinship and family support and community networks help to mitigate market failure or differentiation from the traditional financial market.

In this perspective, the family provides access to low-cost finance and cheap labour. Jones et al. (1994) find that Asian start-ups are much more likely to have been funded by start-up loans from family or friends than firms in Western countries, which focus on individualistic culture. Family networks also provide access to necessary and reliable information (Light et al., 1993).

Ram (1994) evokes the role of family networks as a source of collective strength for the creation of businesses and consequently to ensure their survival, and even their performance, in countries based on tradition, customs and culture. of community. Even invisible Asian communities in Western countries, a high degree of cooperation and trust is identified in Pakistani business communities in Manchester, England, providing finance and business practices (Werbner, 1990 ). However, this author considers that these networks are more important in influencing the entry of companies into the market and guaranteeing their survival.

Nkya (2003) shows, those institutions are an essential factor in developing entrepreneurship among small businesses. A favourable institutional framework, both formal and informal, mainly legal, does not constrain entrepreneurial activities, the development and sustainability of the entrepreneurial spirit. It is now recognized that the "new role" of the state is to develop an adequate institutional framework for which entrepreneurs respond positively to create economic value and improve growth. In addition, entrepreneurs demand a favourable institutional environment, which provides them with both innovative

and aggressive incentives to promote the creativity and development of their businesses. This last author adds that the political powers that provide the formal institutional framework must also work to facilitate networking, the pooling of resources, the lower interest rate, proxies for guarantee purposes and the availability of money. These are the guarantors of the favourable development of entrepreneurship.

From a neo-institutional perspective, an organization can't survive without legitimacy, Hafsi and Hatimi (2009). In this perspective, social legitimacy becomes a natural organizational resource. This notion is fundamental, and companies that brag about environmental, ethical, etc. concerns often do so to maintain the consent of the society in which they operate and maintain their social legitimacy there, according to Meyer et al. Rowan (1977); DiMaggio and Powell (1983).

These authors also explain that legitimacy does not mean efficiency but increases the chances of survival or even the performance of companies. For SMEs, certification to the ISO 9000 standard gives them legitimacy with their stakeholders to maintain their degree of survival or increase their market share. In short, as Bourcieu (2004) says, legitimacy favours the insertion of the company into the environment.

#### **5.4.4 Neo-institutional theory and companies in developing countries**

For the study of neo-institutional theory in developing countries, we have selected countries in transition, in this case, Algeria, because they present a remarkable dimension of the dynamics of institutional environments due to the situation of growth that drives them (Bourcieu, 2004). In the countries in transition, the changes occur acceleratedly, given the importance of the gap

between the previous institutional system and the institutional system being developed. Considering its status as the leader of the communist system, the Soviet regime is an excellent example of the transformation of the institutional framework. Bourcieu (2004) confirms that the neo-institutional approach to organizations in Russia brings out the following elements.

The Russian institutional environment is undergoing profound changes affecting all dimensions: political, economic, socio-cultural, normative and technological. Second, the transition process is far from complete. This institutional environment coexists, and institutions of different origins (Soviet and post-Soviet; planning and liberal, etc.) make it difficult to grasp. Marcotte et al. (2005) support this view and state that "institutional changes in emerging markets are not always linear and predictable, whether legal, political or financial (Hoskisson et al., 2000; Peng, 2001; 2003) ".

Thus, informal institutions' most remarkable change has been the gradual dismantling of the central planning regime and the administration of transaction market reforms to facilitate economic exchanges (Brus and Laski, 1989; Naughton, 1994). Peng and Heath (1996) add that the state gradually relinquishes its role in maintaining economic exchanges during the transition. State enterprises are gaining greater autonomy, and the government is increasingly tolerant of private ownership of enterprises, which requires an appropriate legal framework that enforces property rights (North, 1990).

In other words, a transition to a measure-based market economy without an adequate legal framework is a place of opportunism and high transaction costs (Peng and Heath, 1996). In any case, the formal constraints of the planning regime were weakened during the transition.

However, the necessary formal constraints of a liberal economy, namely well-defined property rights based on the legal framework, have also been lacking in



these countries (Clarke, 1991). According to the World Bank (1985), "a decentralized market economy cannot function properly without a comprehensive system of commercial laws." The absence of such a legal framework would result in high transaction costs (North, 1990). Peng and Heath (1996), in their study of planned economies that are in transition, such as Eastern Europe, former Soviet republics and China, mention that during changes, previous formal constraints (e.g. planning regime) have been weakened.

These are the legal framework, political stability and strategic factors of the market, which have also been improved. Consequently, informal constraints play a more critical role in regulating economic exchanges in these countries during the transition and have a considerable influence on the behaviour of individuals and companies and the generation of new formal constraints (North, 1990 ).

As for these informal institutions, the use of networks and personal exchanges certainly depends on the cultural rooting of such a practice (Child, 1980; Hofstede, 1980). During the transition, pre-existing affiliation networks remain active, and personal network ties become critical (Stark, 1992; Peng, 1993; Elenkov, 1995). In China, such practices may be more widespread due to the Confucian tradition in countries of collectivism (Earley, 1993; Kao, 1993). However, the notion of collectivism is not limited to China alone. This is also demonstrated empirically among workers in the former Yugoslavia in the study by Hofstede (1980). Thus, informal constraints may derive either from a long cultural tradition of a country or emerge as a consequence of more formal rules (North, 1990).

Based on the institutional framework of Asian firms, Basu (1998) blames the rapid growth of Asian firms on both formal and informal institutional sources. Asian entrepreneurs rely on family or community networks for finance or work. Asian entrepreneurs, who have rapidly expanded their businesses, invested their savings in start-ups and relied on family and friends for advice, workforce and

training for their employees. Formal institutions could offer long-term debt or equity financing, encourage investment in employee training, and provide appropriate training programs.

Finally, the institutional environment in developing countries is not inherently worse. It also introduced a new force into the competitive arena, namely a new class of private and collective enterprises that are no longer as entrepreneurial as their counterparts in the public sector in China (Nee, 1992; McCarthy et al., 1993). These challenges have created an environment where the typical public company can afford to be passive but must now join the competition. It is an irrevocable conviction. It is a time when an organization must "strategize" to respond to changes in the environment (Oliver, 1991)

#### **5.4.5 Neo-institutional theory and adaptation of the SME**

At first glance, we take for granted that the institutional theory of organizations is a theory of adaptation to a given environment, according to its founder Philip Selznick (1957). The latter argues that organizations adapt not only to the struggles of their internal groups but also to the external society's values. Companies conform to an open environment through the legitimacy of institutions. For example, Meyer and Rowan (1977) and DiMaggio and Powell (1983) affirm that the concept of adaptation of the organization to its environment is explained by the organizational isomorphism, the legitimacy of the organization in a societal environment, the norms and values.

The same authors (1983) state that applying institutional theory to analyze a particular organization (e.g. SME) requires studying how the organization adapts to its institutional context. The study examines the regulatory authorities, legislation, social and cultural expectations, and the types of coercive, normative and mimetic pressures that the environment exerts on the organization. Finally,

they add that legitimacy could explain the organization's adaptation within its institutional context.

However, the concept of organizational isomorphism is the one that best explains the adaptation of the organization to the requirements of the new institutional environment. DiMaggio and Powell (1983) argued that the process by which organizations conform to environmental pressures is called an isomorphism. Organizations often develop operational practices and similar modes of behaviour because of their conjunction with an institutional field, which pushes them to mimetic, normative or coercive isomorphisms, as the case may be (DiMaggio and Powell, 1983).

Finally, they argue that the constraining environment causes an organization in a population to resemble other organizations that face the same environmental conditions. This is well explained by the concretization of programs for the adaptation of Algerian SMEs to their environmental context to ensure a similar performance for all SMEs and make them all competitive both nationally and internationally.

Concerning the development of operational practices and identical modes of behaviour (institutional isomorphism), DiMaggio and Powell (1983) argue that organizations can define and redefine rules and procedures, adapt them or even cheat to achieve strategic objectives. This process of adaptation to change or circumvention, even resistance to change, is supported by neo-institutional theory.

## **5.5 Criticisms of the theoretical foundations supporting adaptive behaviour**

This overview of the literature on organizational theories has allowed us to see that many theoretical points of view support the concept of adaptive behaviour in organizations. For example, the theory of transaction costs suggests that organizations take adaptation measures to achieve savings in the costs associated with the internal organization (Williamson, 1975).

Furthermore, another theoretical perspective on adaptive behaviour in PME can be found in learning theory (Markoczy, 1994; MacDonald, 1995; Miller, 1996). In this theory, the emphasis is on the learning organization and the manager's learning, in this case, the entrepreneur. In this context, education refers to acquiring new knowledge by actors who are able and willing to apply that knowledge to make decisions or influence others in the organization. Just like unlearning old habits is seen as a parallel activity to learning new routines.

Moreover, the social network theory of Mitchel (1969), Alba Kadushin (1976) and Burt (1992) is also an adaptation theory that emphasizes the organizational structures in the inter-organization and in the intra-organization that cause consequences and multiple relationships within companies. This theory has the critical concepts of relationship exchange adaptation, centrality, cohesion, position and social distance.

However, authors in organizational theories divide adaptive behaviour theories into two broad categories of theories: rational adaptation theories and organic adaptation theories.

First, rational adaptation approaches are schematized in contingency theories (Burn and Stalker 1961; Thompson, 1967; Lawrence and Losch 1969) with

Child's strategic choice approach (1972, 1997) and dependency theory. resources (Pfeffer and Salancik, 1978; Oliver 1991; Sherer and Lee 2002). In these theories, the level of discretion of managers and entrepreneurs aims to accomplish the adaptation process and is also considered rational in their strategic decisions.

In these approaches, the organization is conceived as an integrated system acting with its environment and an instrument in the hands of rational managers and entrepreneurs. Rojo (2005, p. 159 and 160) defined the concept of rationality as follows: "in the simplest terms, rationality implies that, when placed in a situation of choice in front of several branches of alternatives, the rational actor chooses the one he believes leads to the best overall result. A decision is objectively reasonable if it corresponds to the correct behaviour to maximize given values in a given situation.

It is subjectively rational if it maximizes the result relative to the taker's actual knowledge, which may be right or wrong. It is consciously rational as the adjustment of means to ends is a conscious process, sought or not. It is reasonable as the adjustment of means to ends has been deliberately sought and applied. Moreover, a decision is organizationally rational if it has been directed towards the goals of the organization and personally rational if it is directed towards the purposes of the individual.

In rational adaptation theories, the role of the environment is generally predominant (Thompson, 1967). This environment is measured in terms of its frequencies and rate of adaptation, stability, level of uncertainty, predictability, degree of complexity and heterogeneity, interaction, and the threat presented in the degree of competition (Burns and Stalker, 1961; Lawrence and Lorsch, 1969).

Furthermore, the organization is described in terms of macro-structural variables figured in formalization, standardization and centralization and macro-organizational characteristics represented, for example, in systems activities (Lawrence and Lorsch, 1969). On the other hand, we note that although we consider the entrepreneur or the business manager as a black box in our thesis, the analysis requires reviewing these two actors.

Thus, organizations can deliberately adapt to their changing environment and are constrained by environmental forces that determine which forms of organization can survive. This opposition is part of the proponents of voluntarism and the proponents.

For his part, Child (1972) asserts that managers are not prisoners of their environment but that they can influence it. He rejects the idea that managers are forced to adopt a specific structure. Instead, he assumes a voluntarist position which places him at the opposite end of the continuum of proponents of contingency theories who adopt a deterministic point of view. He believes that goals and power relations play as important a role as adaptive organizational issues in determining the choices made. For Schindehutte and Morris (2001), the strategic choice perspective assumes that the key to entrepreneurial success lies in the decisions of individual entrepreneurs who identify opportunities, develop strategies, gather resources and demonstrate initiative.

In addition, proponents of contingency theories argue that organizational performance depends on the realization of a rivalry between the different elements of the situation (Lawrence and Lorsch, 1969; Pugh et al., 1971). Despite the differences in views, these theorists assert that managers are rational decision-makers responsible for modifying the specifics of the organization to adapt it to its environment.

As for the organization's performance following the realization of the adaptation actions, the theories of contingency postulate that the managers of the organization are strategic thinkers who can rationally plan and improve the direct performance of the changes (Hirsch and Lounsbury, 1997), it also follows from these theories that the role of management is to react to the environment to adapt the design of organizations gradually and continuously to be deliberate, responsive and progressive, according to Lawrence and Lorsch (1969). Resource dependence theory posits that organizational adaptation forms coalitions to control corporate resources to survive or perform (Pfeffer, 1981).

Second, the approaches to biological adaptation are the institutional theory of Selznick (1957), the organization theory of Weick (1979) and the behavioural theory of the firm Cyert and March (1963). These three theories are alternatives to the primacy of rational theories of adaptation. Yet, despite their relative marginality in supporting organizational change, including adaptation, these biological theories have regained ground over the years with the emergence of neo-institutionalism and the population ecology approach.

According to Cyert and March (1963), organizations are not malleable instruments in the hands of rational managers. Instead, organizations are political arenas made up of diverse interest groups, and adaptation is an emergent process that depends on what goals are being discussed and what part of the system is involved in the decision-making. However, Selznick (1957) recognizes that adaptation is generally emergent and not the result of conscious design, but adaptation is natural and mainly unplanned to new situations.

In fact, in the beginning, the typical limit of these perspectives is that they remain focused on internal dynamics while neglecting the environment (Pfeffer and Salancik, 1978; Hirsch and Lounsbury, 1997). Even the neo-institutional approach, known for its detailed description of the environment, focuses only on

what happens within the confines of the organization itself (DiMaggio and Powell, 1991).

Meyer and Rowan (1977), although they agree with contingency theorists on the nature of the environment that leads to adaptation, argue that adaptation is the result of a process of influence that emphasizes organizational legitimacy and isomorphism rather than the development of a rational process leading to effective organizations as implied by contingency theories (Tolbert and Zucker, 1996). Selznick (1957), the precursor of the institutional approach, criticizes the majority of organizational theorists for being too concerned with routine decisions that result from static adaptation. Instead, he focuses on what he calls the dynamics of adaptation. Finally, he advocates actions that result in fundamental institutional changes within the organization itself.

Finally, regardless of the adaptation, emergent or deliberate, the perspectives of rational and organic adaptation continue to shed light on the state, design and process of adaptation. According to our theoretical choice to explain our thesis, we have a foothold in rational approaches: contingency theories with the perspective of strategic choice and resource dependence theory.

Moreover, we have already put another foot in organic adaptation theories by choosing the neo-institutional theory of organizations. Indeed, we are convinced that other theories explain the phenomenon of organizational adaptation, but by omission, ignorance or forgetfulness, we only cite those theoretical perspectives already discussed in this section. This academic review is a reasonable basis for approaching, explaining and understanding the next chapter entitled: adaptation and performance of SMEs in an open and intense environment.



## 5.6 Summary

The review of the three theories, namely the contingency theory, the resource dependence theory and the neo-institutional theory of organizations, allowed us to draw observations concerning their employability in a turbulent environment in developing countries.

On the one hand, although contingency theories have been criticized for their determinist, functionalist, positivist and nomothetic character, the organization is well considered from a perspective where causes produce both internal and external effects, to which leaders must adapt it and make strategic choices. In this view, entrepreneurs are assumed to be rational. On the other hand, they can procure or deploy the necessary resources to ensure their businesses' survival or performance.

The proof is, in particular, the surprising success of small and medium-sized enterprises in emerging countries, specifically export-oriented SMEs in China or even closer in Algeria, Tunisia or Morocco. Thus, despite environmental determinism, SMEs' survival or even performance in developing countries remains possible.

Moreover, despite the compliance of an appropriate organizational structure for the turbulent environment, we do not preach the primacy of one organizational structure over another. According to the pretext, this is confirmed by the principles of contingency theory. It is, therefore, a question of discovering laws of general application, even if their application varies according to the case and

the context of the country. In addition, although the company is conceived as an objective reality observable from the outside in contingency theory, it is exciting in this theoretical current to insist on the company's internal functioning. Therefore, the pairing between external and internal effects is a strong point for this theory, which allows us to better understand the operating principles, especially of an SME, whatever the context.

On the other hand, the neo-institutional approach offers an appropriate analytical framework for our context. While emphasizing the players' strategies, it shows the need to go beyond the threefold conformity, resistance and legitimacy. This fact makes it possible to revitalize this approach by going beyond the simple adaptation of the contingent approach. Likewise, it allows us to turn the turbulent environment for SMEs into a vast movement in which the action of internal and external institutional actors is essential.

The neo-institutional approach explains that SMEs in developing countries are not necessarily vulnerable. They can be essential players in this environment as they can mitigate the impact of the environment when creating a defensive strategy.

To synthesize both rational and organic adaptation theories in contingency theories, the researchers concluded that the most influential companies are those that adapt to the degree of uncertainty of each type of environment. The structural elements of the organization must be integrated into the organization for it to survive or even to perform and for adaptation to be selected according to the degree of uncertainty in the environment.

Contingency theorists assume that entrepreneurs and managers are rational and responsible for modifying the firm's characteristics to adapt it to the elements of coherence while keeping the coherence and integrability of the aspects of the structure during adaptive change. SMEs adapt to their environment through a

dual mechanism of differentiation and integration. Next, choose the best ways to integrate the organizational structure. The process of adaptation of the SME to its context is reactive, gradual, and deliberate, and the entrepreneur is supposed to be a rational strategist to plan and manage this process.

For the resource dependence theory and adaptation of the SME, this perspective is still a theory of rational adaptation of the firm where its process is also deliberate. The environment is not a given but must be "adapted." Unlike previous adaptation perspectives, resource dependence theory sees a two-way relationship between firms and the environment. According to these views, the environment can be adapted to businesses, just as organizations adapt to the environment.

As for the neo-institutional theory and the adaptation of the SME, it is now recognized in developing countries that the "new role" of the State is to develop an adequate institutional framework for which the entrepreneurs respond positively to create economic value, improve growth and ensure the performance of the SME. In developing countries, the political powers providing the formal institutional framework must also work to facilitate networking, pool resources, confirm the legitimacy of SMEs, and continue to standardize development programs within SMEs to ensure organizational isomorphism and many others. In our conception, these are the guarantors of favourable entrepreneurship development in developing countries, particularly in Algeria. For more information on the theories of adaptation of the SME to its environment, see Table 2.4, which gives a synthetic overview of the problem of adaptation of the SME to its environment.

**Table 5.4: Summary of the problem of the SME adaptation in its environment**

THEORIES	THE AUTHORS	HIGHLIGHT	KEY CONCEPTS
<b>Contingency theories</b>	Burns and Stalker (1961) Woodward (1965) Thompson (1967) Lawrence and Lorsch (1969) Hrebiniak and Joyce (1985) Donaldson (1996) Hirsh and Lounsbury (1997)	<ul style="list-style-type: none"> <li>■ Selectivity of adaptation according to the environment</li> <li>■ Coherence and integrability of the elements of the structure during the change of adaptation</li> <li>■ Rationality and discretion of entrepreneurs in the adaptation of SMEs</li> <li>■ Reactivity, graduality and deliberate process of adaptation of the SME to its context</li> <li>■ Mechanism of differentiation and integration in SME adaptation</li> </ul>	Environment, strategy, technology, organizational structure, size, performance and adaptation
<b>Resource Dependency Theory</b>	Child (1972) Pfeffer and Salancik (1978) Weick (1979) Oliver (1991) Barney (1991) Scherer and Lee (2002) Rojot (2005)	<ul style="list-style-type: none"> <li>■ SME adapts its structures, values, products, etc. to avoid dependence on critical or scarce external resources</li> <li>■ Explanation of the stability and rational adaptation of the SME to its context</li> <li>■ Two-way adaptive relationship between business and environment</li> <li>■ Vertical integration of the SME or diversification of its needs in alternative resources</li> </ul>	Environment, strategy, technology, organizational structure, size, performance and adaptation ...
<b>Neo-institutional theory</b>	Selznick (1957) Meyer and Rowan (1977) DiMaggio and	<ul style="list-style-type: none"> <li>■ Contribution of formal and informal institutions to SME performance and growth</li> </ul>	Legitimacy, isomorphism, symbols, values, norms,

	<p>Powell (1983)</p> <p>North (1992)</p> <p>Jones et al. (1994)</p>	<ul style="list-style-type: none"> <li>■ Role of the State in the development of an institutional framework promoting entrepreneurial development and the adaptation of SMEs</li> <li>■ Organic adaptation and emergent process</li> <li>■ The SME adapts through a standard form that environmental institutions legitimize</li> <li>■ The implication of legitimacy and isomorphism in the adaptation of SMEs</li> </ul>	<p>performance and adaptation</p>
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## 5.7 Synthesis

The examination of theoretical currents and the recognition of their ability to explain the problem of the performance of SMEs in developing countries has allowed us to shed new light on the subject of our study. Because they jointly deal with the power of the environment, these chosen theoretical currents made our task more manageable and brought a certain coherence to our analysis.

Following our previous discussion, we believe that to ensure the performance of SMEs, in light of this analysis based on empirical research findings in the context of SMEs, the most urgent task for policymakers in developing economies is to build institutions that aim to strengthen strategic market factors.

Thus, in these countries, the absence of well-defined property rights based on a legal framework prevents companies from surviving and growing. These legal bases are contract law, the law on joint ventures, and foreign investments rules. The latter form a deficiency even in Algeria, and if they exist, they are not stable enough to promote the flow of foreign capital. Although not always adequate, the emerging legal infrastructure has considerably stabilized the transaction environment, fostered foreign capital and technology inflow, and encouraged a great deal of entrepreneurial activity, specifically in China. Nevertheless, it remains to pay more attention to the changing environmental conditions to ensure the viability of the SME.

Finally, it seems to us, in the light of the above, that the planned economies in transition offer fascinating reasons for highlighting the diversity between organizations operating in different institutional environments, according to the specificity of each country. Thus, a better understanding of organizational

dynamics helps entrepreneurs improve the performance of their businesses and helps managers better cope with challenging and fierce competition.

In addition, according to our review of research work in this area, it would seem that there is little or no work focusing on the ability of SMEs to act in the global or institutional environment. Indeed, according to Nioche and Tarondeau (1998); Bensedrine (1998); Miles et al. (2000); Bourcieu (2004) and Mohamad et al. (2011), the work on this subject mainly concerns large companies rather than small and medium-sized companies, which makes our task a little complicated and justifies our approach.

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## General conclusion

Globalization has opened up unprecedented opportunities for SMEs and has created a new, open and intense international environment imposed on SMEs in developing countries. These SMEs are forced to adapt to these environmental contingencies. Furthermore, through upgrading programs, SMEs strive to change their behaviour in these harsh environments to create or strengthen competitive advantages, ensuring satisfactory level of performance (OECD, 2004).

The decision to engage in an adaptation program is motivated by the desire to oppose a decline in the performance results of the SME, which are likely to call into question the relevance of the strategic options currently implemented.

However, we should have no illusions, adaptation is not the prerogative of companies in difficulty, but profitable and successful companies also voluntarily adhere to an upgrading program to consolidate their positions in the market. However, an insufficient capacity to adapt to an evolving and selective environment can lead to the death of companies (Hannan and Freeman, 1984).

In any case, adaptation is generally complex, lengthy and uncertain process. Success is not always at the end of the road, and the road does not necessarily lead where we had expected. In this sense, it appears that the ability of companies to adapt is limited by many factors, which mainly relate to the social nature of the firm in terms of resistance to change and the play of the cognitive mechanisms of the entrepreneur involved. In addition, according to Moati (2002), in addition to these factors, there are obstacles to more objective changes of an economic, commercial or financial nature.



On the other hand, the essential vital variables explaining the adaptation are the entrepreneurs' cognitive conception and the external environment favourable to the adaptation. These reinforce the importance of the role of adaptability in entrepreneurial success. Over time, the tendency to adapt is positively associated with performance with growth rates, sales, or profits relative to its main competitor (Dogson, 1993).

One of the essential elements of this conclusion is that adaptation would have performance implications in small and medium-sized enterprises. As a result, we have developed a theoretical model that brings together the performance variables, the upgrading or adaptation program variables and the variables of the immediate contextual environment of the company.

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