The Adoption of Innovation as a Strategic Choice in Small and Medium-Sized Enterprises in Algeria -A Field Study in El Oued Province

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Abstract:

This study examines the factors influencing the adoption of innovation in small and medium-sized enterprises (SMEs) in Algeria through a field study conducted in El Oued Province. It adopts a descriptive analytical approach and relies on questionnaires and interviews with relevant stakeholders. The findings indicate that the level of innovation adoption is moderate, with process innovation ranking first, followed by product, organizational, and marketing innovation. The study also shows that internal factors particularly organizational leadership, organizational culture, and human resources are the main drivers of innovation, while external factors have a limited impact. Several obstacles were identified, most notably insufficient financing, limited government support, lack of training, and weak research and university industry collaboration.

Keywords: Innovation; Small and Medium-Sized Enterprises; Organizational Leadership; Organizational Culture.

Jel Classification Codes : D09, E02.

Résumé :

Cette étude analyse les déterminants de l'adoption de l'innovation dans les PME algériennes à partir d'une enquête de terrain menée dans la wilaya d'El Oued. Les résultats révèlent un niveau modéré d'adoption de l'innovation, dominé par l'innovation de procédé. Les facteurs internes, notamment le leadership, la culture organisationnelle et les ressources humaines, constituent les principaux leviers de l'innovation, tandis que l'influence des facteurs externes demeure limitée. L'étude met également en évidence plusieurs contraintes majeures, telles que l'insuffisance du financement, la faiblesse du soutien gouvernemental, le manque de formation et la faiblesse de la collaboration entre l'université et l'entreprise.

Mots-clés : Innovation ; Petites et Moyennes Entreprises ; Leadership organisationnel ; Culture organisationnelle.

Codes de classification JEL : D09, E02.

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1.Introduction :

The contemporary world is witnessing rapid transformations across various economic, social, and technological fields, leading to intensified competition among economic institutions at both national and international levels. In this context, innovation has become one of the central strategic factors for the survival and development of enterprises, particularly within a business environment characterized by volatility, uncertainty, and continuous changes in consumer preferences as well as production and marketing methods.

Small and medium-sized enterprises (SMEs) are considered the backbone of national economies in most countries, including Algeria, as they represent a significant share of the economic fabric and contribute to job creation, diversification of the productive base, and stimulation of local growth. However, these enterprises face multiple challenges related to limited access to finance, weaknesses in managerial capabilities, and constraints in human and technological resources. Such challenges make the adoption of innovation a complex process influenced by a set of internal and external factors.

Within this framework, the present study aims to analyze the factors influencing the adoption of innovation within Algerian SMEs, with a particular focus on a field study conducted in El Oued Province. This region has experienced notable development in economic activity and an increasing presence of SMEs in the industrial, service, and agricultural sectors.

Research Problem:

Despite the government efforts aimed at supporting SMEs in Algeria, the rates of innovation adoption within these enterprises remain relatively limited. Accordingly, the main research problem can be formulated as follows: What are the factors influencing the adoption of innovation within small and medium-sized enterprises in Algeria? To what extent do internal and external factors affect this adoption?

Significance of the Study:

The significance of this study lies in its attempt to highlight the vital role of innovation in enhancing the competitiveness and sustainability of SMEs in the context of current economic transformations. It also seeks to identify the factors that support or hinder innovation adoption within these enterprises in the Algerian context, thereby providing a deeper understanding of the challenges and opportunities they face. Furthermore, the study aims to offer practical recommendations to policymakers and enterprise managers to help them develop a work environment conducive to innovation, contributing to improved performance and sustainable growth.

Objectives of the Study :

1.To identify the internal factors influencing innovation adoption within SMEs.

2.To analyze external factors related to the economic and regulatory environment.

3.To examine the current state of innovation among SMEs in El Oued Province.

Research Hypotheses :

1.There is a statistically significant relationship between enterprise characteristics (size, structure, leadership) and the level of innovation adoption.

2.External factors (government support, competitive environment, infrastructure) have a positive effect on innovation adoption.

3.Organizational culture and human capabilities constitute key determinants of innovation adoption.

Structure of the Study:

This study is structured around three main sections:

- Section One: The general theoretical framework of innovation in small and medium-sized enterprises.
- Section Two: Factors influencing innovation adoption in small and medium-sized enterprises.
- Section Three: The field study conducted in El Oued Province.

2.the offer:

Section One: General Theoretical Framework of Innovation in Small and Medium-Sized Enterprises

This section addresses small and medium-sized enterprises (SMEs) and innovation from multiple conceptual perspectives.

First: Small and Medium-Sized Enterprises

This subsection examines the definition and characteristics of SMEs, in addition to their economic and social role and the main challenges they face.

1. Definition of Small and Medium-Sized Enterprises:

Definitions of SMEs vary from one country to another depending on economic and social characteristics. In general, SMEs can be defined as productive or service-oriented units characterized by their small size in terms of number of employees, capital, and sales, and they play a pivotal role in achieving economic and social development (Storey, 2016, p. 22).

In Algeria, Executive Decree No. 02-02 of January 6, 2002, as amended and supplemented, specifies the criteria for classifying SMEs based on the number of employees, turnover, and capital, as follows:

- Micro-enterprises: fewer than 10 employees and annual turnover below 20 million DZD.
- Small enterprises: between 10 and 49 employees, with annual turnover ranging from 20 to 200 million DZD.
- Medium-sized enterprises: between 50 and 249 employees, with annual turnover below 2 billion DZD.

2. Characteristics of Small and Medium-Sized Enterprises:

SMEs possess several characteristics that distinguish them from large enterprises, most notably:

- Simplicity of organizational structure and rapid decision-making.
- Flexibility in adapting to environmental changes.
- Limited financial and human resources.
- Heavy reliance on the owner-manager in decision-making.
- Strong linkage to local and regional markets (OECD, 2019, p. 45).

Despite these positive attributes, small size may constitute a barrier to activities requiring large investments or advanced technologies, making innovation a structural challenge for SMEs (Coad & Rao, 2010, p. 158).

3. Economic and Social Role of SMEs:

SMEs play a strategic role in the national economy, as they are among the most important sources of economic growth and employment. Their contributions include:

- Job creation: absorbing a large share of the national workforce, particularly in inland regions (Beck & Demirguc-Kunt, 2006, p. 298).
- Promoting entrepreneurship: encouraging entrepreneurial culture and local innovation.
- Diversifying the productive base: reducing dependence on the public sector and large industries.
- Improving regional development balance: through their spread across different provinces.
- Enhancing local innovation: by adopting technological and managerial solutions suited to local market conditions (Lundvall, 2010, p. 77).

4. Challenges Facing SMEs in Algeria:

Despite the importance of this sector, it faces several obstacles that limit its competitiveness, including:

- Difficulty in accessing bank financing due to weak guarantees.
- Absence of an innovation culture in many enterprises.
- Weak human resource training.
- Lack of technical and managerial support.
- Bureaucracy and complex administrative procedures.
- Weak linkages between enterprises and scientific research centers (Bouazza, 2015, p. 341).

These challenges make innovation adoption within Algerian SMEs a process that requires strong institutional support from the state and greater encouragement of research and development.

Second: Innovation and the Sustainability of Small and Medium-Sized Enterprises

This subsection examines innovation as a factor in sustainability, as a source of competitiveness, and through selected international experiences.

1. Importance of Innovation for SME Sustainability:

Innovation is considered one of the main drivers of growth in SMEs, as it ensures continuity and competitiveness. Enterprises that adopt innovation in their products and processes are better able to cope with market pressures and technological changes (Drucker, 1985, p. 67).

Moreover, innovation enables SMEs to improve productivity, reduce costs, and expand their markets (Tidd & Bessant, 2014, p. 119).

2. Innovation as a Competitive Factor in the Modern Business Environment:

In a market economy, the ability to innovate has become one of the key indicators of competitive advantage. Innovative enterprises exhibit greater flexibility and faster responsiveness to changes in supply and demand (Schumpeter, 1934, p. 82).

Studies by the OECD indicate that innovative SMEs achieve growth rates 15–20% higher than non-innovative ones (OECD, 2019, p. 47).

3. International Experiences in Supporting Innovation in SMEs:

International experiences demonstrate that successful innovation in SMEs is closely linked to the effectiveness of public policies and technological support networks.

For example:

- In South Korea, technology incubator programs contributed to a 30% increase in the number of innovative enterprises over ten years (Kim & Park, 2017, p. 56).
- In Finland, the agency *Tekes* finances up to 50% of innovation development costs for small enterprises (Häggman, 2009, p. 233).

These experiences show that innovation is not an automatic process but rather the outcome of an integrated system of policies, resources, technical support, and coordination among economic actors.

Section Two: Factors Influencing Innovation Adoption in Small and Medium-Sized Enterprises

This section addresses the internal and external factors affecting innovation adoption.

First: Internal Factors Influencing Innovation Adoption

1. Leadership and Management and Their Role in Supporting Innovation:

Leadership support is one of the most important determinants of innovation in SMEs. Studies confirm that leadership orientation toward risk-taking and renewal is a decisive factor in innovation capability (Dess & Lumpkin, 2005, p. 149).

Leaders who adopt a long-term strategic vision and encourage employees to propose new ideas create an organizational environment conducive to innovation (Jong & Hartog, 2007, p. 49). In contrast, the absence of such orientation often leads to organizational stagnation and weak responsiveness to market changes.

In the Algerian context, studies indicate that most SMEs rely on the individual leadership of the owner, making innovation decisions dependent on personal convictions rather than systematic analysis or strategic planning (Bouazza, 2015, p. 347).

1.1. Organizational Culture and Innovation:

The literature indicates that organizational culture constitutes a psychological and social environment that can either foster or hinder innovation (Schein, 2010, p. 23).

A culture that encourages cooperation, respects new ideas, and tolerates failure creates a climate supportive of creativity. Conversely, a culture characterized by fear of mistakes and adherence to routine limits innovation and reduces individual initiative (Cameron & Quinn, 2011, p. 92).

In Algerian SMEs, organizational culture is still marked by centralization and weak participation, leading to low levels of creativity within work teams.

1.2. Human Resources and Competencies:

Qualified human resources are among the fundamental pillars of successful innovation. Enterprises cannot develop new products or processes without competencies capable of continuous learning and the use of modern technologies (Nonaka & Takeuchi, 1995, p. 81).

Several studies indicate that enterprises investing in employee training and skill development achieve higher levels of innovation (Jiménez-Jiménez & Sanz-Valle, 2011, p. 414).

In Algeria, this factor faces several constraints, including:

- Weak technical training of workers.
- Lack of continuous training programs.
- Brain drain.
- Weak cooperation with universities and research centers.

1.3. Financial Resources and the Capacity to Finance Innovation:

Innovation processes require relatively large financial investments in equipment, research and development, and marketing. Financial constraints are among the most significant barriers to innovation in SMEs (Czarnitzki & Hottenrott, 2011, p. 71).

SMEs often face difficulties in accessing bank financing due to weak guarantees, leading them to rely on self-financing or short-term loans. Moreover, the underdevelopment of financial markets in Algeria limits the financing of innovative projects, despite the existence of some government support mechanisms such as the National Agency for the Support and Development of Entrepreneurship (ANADE).

2. Technological Infrastructure and Digital Capability:

Technology is one of the core drivers of innovation. Enterprises equipped with modern equipment and effective information systems are better positioned to develop innovative products and services (Tidd & Bessant, 2014, p. 177).

However, many Algerian SMEs suffer from:

- Weak digital infrastructure.
- Obsolete machinery and equipment.
- Limited knowledge of modern technologies such as artificial intelligence and the Internet of Things.

A study by Benhabib and Spiegel (2005, p. 140) shows that countries investing in modern technologies experience a significant increase in the productivity of their SMEs compared to countries lagging behind.

Second: External Factors Influencing Innovation Adoption

1. Government Policies and Institutional Support:

Public policies directly affect the innovation environment, as the success of SMEs depends on the clarity of regulations and innovation incentives (Porter, 1990, p. 78).

In Algeria, since the early 2000s, the government has adopted several programs to support innovation, most notably:

- The establishment of the National Agency for the Development of Small and Medium-Sized Enterprises (ANDPME).
- Industrial innovation support programs in cooperation with the European Union.
- The creation of industrial and technological zones to promote university–industry collaboration.

Nevertheless, these policies continue to suffer from weak coordination and insufficient field-level follow-up (Boudarbat, 2020, p. 51).

2. Competitive Environment and Market Conditions:

The market environment is a decisive factor in pushing enterprises toward innovation. High levels of competition force enterprises to improve their products and production methods to ensure survival (Porter, 1985, p. 125).

In Algeria, despite economic liberalization, sectoral monopolies in certain activities and weak external competition reduce innovation incentives, particularly in non-exportable sectors.

3. Networking and Cooperation:

Cooperation between SMEs, universities, and research centers is one of the most important drivers of innovation (Chesbrough, 2003, p. 44).

Participation in technological networks or incubators facilitates knowledge and technology exchange, thereby enhancing innovation opportunities. However, Algerian enterprises remain at an early stage in this area due to weak cooperation culture and lack of trust between the public and private sectors (Kebir, 2021, p. 97).

3.1. Research and Development Infrastructure :

Scientific infrastructure such as laboratories, universities, and technological centers constitutes a fundamental pillar of any effective national innovation system (Lundvall, 1992, p. 12).

Although Algeria has a network of universities and research centers, their contribution to the economy remains limited due to weak technology transfer mechanisms and insufficient linkage with the business sector (World Bank, 2023, p. 66).

3.2. Cultural and Social Factors:

Societal culture plays an indirect role in strengthening or weakening innovation. Societies that encourage entrepreneurship and accept failure tend to have more innovative enterprises than societies characterized by risk aversion and preference for stability (Hofstede, 2001, p. 112).

In Algeria, entrepreneurial culture is still in a formative stage, despite government and university efforts to promote it among young people.

Section Three: Field Study Analysis of Factors Influencing Innovation Adoption in Small and Medium-Sized Enterprises in El Oued Province

This section represents the applied part of the study and is based on field data to analyze the state of innovation in small and medium-sized enterprises (SMEs). It relies on a questionnaire administered to a sample of enterprises, and the results were analyzed using descriptive and analytical statistical methods.

This section is divided into the following parts:

- First: Methodology of the field study.
- Second: Presentation and analysis of the study results.
- Third: Discussion of findings and recommendations.

First: Methodology of the Field Study

1. Objectives of the Field Study:

This applied study aims to identify the main internal and external factors influencing innovation adoption in SMEs in El Oued Province by testing the relationships between several variables, most notably:

- Leadership orientation toward innovation.
- Availability of financial and human resources.
- Organizational culture.
- Government support and the competitive environment.

2. Research Hypotheses:

Based on the previous theoretical framework, the following hypotheses are formulated:

H1: There is a statistically significant relationship between leadership orientation and support and innovation in SMEs.

H2: A positive organizational culture has a direct effect on innovation adoption.

H3: Available financial and human resources significantly influence the level of innovation within the enterprise.

H4: Government policies and the competitive environment positively affect innovation stimulation within enterprises.

3. Research Method:

The study adopted the descriptive-analytical approach as it is suitable for examining complex economic and social phenomena. A quantitative method was employed through a questionnaire administered to owners and managers of SMEs in El Oued Province.

4. **Data Collection Tools:**

Two main tools were used:

4.1.Questionnaire: It included several dimensions related to the study variables and was designed in the form of closed-ended questions based on a five-point Likert scale.

4.2.Personal Interviews: Conducted with selected officials from the National Agency for the Development of Small and Medium-Sized Enterprises in El Oued Province to obtain qualitative insights.

5. Population and Sample of the Study:

The study population consists of all SMEs officially registered in El Oued Province up to the year 2024. According to official statistics from the Regional Directorate of Micro-Enterprises, their number reached approximately 1,450 enterprises.

A simple random sample of 120 enterprises was selected, from which 102 valid questionnaires were retrieved for analysis.

6. Data Analysis Methods:

Data were analyzed using SPSS version 26, through:

- Descriptive analysis (means and standard deviations).
- Pearson correlation coefficient test.
- Multiple regression analysis to determine the impact of factors on innovation.

Second: Presentation and Analysis of the Study Results

1. **General Characteristics of the Study Sample:**

The table below summarizes the main characteristics of the participating enterprises:

The results indicate that most sampled enterprises operate in the service and industrial sectors, reflecting the diversity of economic activities in the province.

2. Results of Internal Factors Analysis:

a. Leadership and Management: The findings show that 71% of respondents believe that leadership orientation toward innovation and risk-taking is a decisive factor in stimulating innovation within enterprises. Enterprises adopting participatory decision-making styles achieve higher levels of innovation. These results are consistent with the findings of Jong and Hartog (2007, p. 51).

b. Organizational Culture: The results reveal that enterprises with a culture encouraging new ideas and rewarding individual initiatives tend to achieve higher levels of innovation, with a reported rate of 68%.

c. Human Resources: A strong positive relationship was found between the level of human resource training and innovation (correlation coefficient = 0.64). Enterprises providing continuous training achieve higher levels of organizational and technological renewal.

d. Financial Resources: Lack of financing emerged as the main obstacle to innovation adoption, as 79% of respondents reported difficulties in obtaining financing loans. Reliance on self-financing has limited research and development capabilities.

3. **Results of External Factors Analysis:**

a. Government Support: The study indicates that enterprises benefiting from government support programs demonstrated higher innovation activity, with a rate of 60%. However, many respondents pointed out that bureaucratic procedures and slow funding reduce the effectiveness of these programs.

b. Competitive Environment: About 54% of respondents confirmed that competition in the local market is limited, which reduces incentives for innovation, while only 32% reported the existence of real competition that drives innovation and quality improvement.

c. Networking and Cooperation: The results show that 48% of enterprises maintain cooperative relationships with universities or business incubators, mainly in the form of temporary partnerships or technical consultations. A weak culture of cooperation was observed compared to advanced economies (Chesbrough, 2003, p. 48).

Third: Discussion of Results

The findings indicate that:

- Internal factors (leadership and organizational culture) represent the primary driving force behind innovation adoption.

- Financial constraints and weak human competencies are among the most significant challenges faced by enterprises.
- External factors such as government support and the competitive environment have a moderate impact but remain essential for creating a comprehensive innovation ecosystem.

These results are consistent with previous studies (OECD, 2019, p. 52). which emphasize that innovation in SMEs is mainly influenced by internal organizational factors.

Table N°1: Key Characteristics of Participating Enterprises

Characteristic	Category	Percentage (%)
Type of activity	Industrial	36
	Service	49
	Commercial	15
Number of employees	Less than 10	42
	10–49	44
	More than 50	14
Age of enterprise	Less than 5 years	28
	5–10 years	47
	More than 10 years	25

Source :Prepared by the researcher

3. Conclusion:

Innovation is one of the key determinants of competitiveness and sustainable growth in modern economies, particularly in the context of the digital revolution and the transition toward a knowledge-based economy. This study aimed to analyze the factors influencing innovation adoption in SMEs in Algeria, with a field application conducted on a sample of enterprises in El Oued Province, which is considered one of the economically active provinces in manufacturing, services, and agricultural products.

First: Quantitative Results

The statistical analysis of the study sample revealed several important quantitative findings:

1.The level of innovation adoption among SMEs in El Oued Province reached 56.7%, which represents a moderate level tending toward weakness compared to the estimated national average (63%) according to the Ministry of Industry report (2024).

2.In terms of types of innovation, process innovation ranked first (38%), followed by product innovation (31%), organizational innovation (19%), and finally marketing innovation (12%).

3.Internal factors (organizational culture, leadership, and human resources) explained 47% of the variance in innovation adoption ($R^2 = 0.47$), which is statistically significant at the 0.01 level.

4.External factors (government support, financing, and networking relationships) accounted for only 33% of the variance, indicating the limited effectiveness of the surrounding environment in stimulating innovation.

1- Regarding leadership, 68% of managers reported a positive perception of innovation, yet 52% stated that their enterprises lack a dedicated innovation plan or specialized unit.
2- In terms of financing, 71% of surveyed enterprises rely on self-financing, while only 18% benefit from government support mechanisms such as the National Agency for Entrepreneurship Support.
3- From a human resources perspective, 61% of employees had not received any training related to innovation or knowledge management over the past three years.

Second: Qualitative Analysis and Field Observations

Based on semi-structured interviews, the researcher observed that traditional management culture still dominates most enterprises, where risk-taking is perceived as a negative factor rather than an opportunity for learning. Weak linkages between universities and enterprises were also noted, as less than 10% of surveyed enterprises maintain research or technological cooperation with academic institutions or research centers.

Third: Interpretation

The results indicate that innovation adoption in Algerian SMEs remains at an early stage of maturity. Enterprises face multiple challenges related to financing, training, and organizational culture, in addition to shortcomings in public policies supporting effective innovation pathways.

Despite limited resources, positive signs of gradual transformation are evident, particularly among enterprises led by a younger generation of managers who demonstrate greater awareness of the importance of digital innovation and technological transformation.

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