



# FEATURES OF CHANGE MANAGEMENT IN SMEs IN THE ERA OF INFORMATIZATION OF SOCIETY

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## **Abstract**

*The trends of recent years of business development testify to the cardinal changes that have swallowed up companies. Small and medium enterprises face serious challenges related to informatization and digitalization. Considering the specifics of this business area, one can say that organizational changes in such companies will be significantly different. This article deals with the problems associated with changing environmental conditions, namely, digitalization, and possible options for overcoming the existing difficulties. The SME sector is facing serious challenges in the crisis. In addition to the external factors faced by all national companies, the overall digitalization has a significant impact, which affects an increasing number of companies in the Republic of Moldova and worldwide. This study aims to answer a multifaceted question: What are the features of the enterprises' adaptation in this sector to modern provocations? Many contemporary authors consider the conceptual characteristics of this issue. The topic of the digitalization of society is very relevant, but the authors pay little attention to small and medium enterprises. Given their importance in the Moldovan economy, we analyzed the specifics of the transition of this sector of the Moldovan economy.*

**Keywords:** *management, innovation, SME, uncertainty, motivation-incentives, organizational change, strategic change, leadership, teams, organizational structure.*

## **1 INTRODUCTION**

We live in an era of rapid development of information technology, which invariably encourages changes in all areas of life. Several decades ago, to convey information visually, it was necessary to send it using the post office, then by fax, but now these channels of information

transmission have been practically forgotten. Accordingly, management processes have accelerated several times.

Many researchers pay attention to the problem of the weak adaptation of companies to such changes.

The sector of small and medium-sized enterprises (SME sector) faces many problems that SMEs often cannot solve alone.

This study aims to clarify features of the enterprises functioning in this sector and develop

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some recommendations for overcoming the difficulties that stand in the way of the necessary changes.

This study aims to clarify features of the enterprises functioning in this sector and develop some recommendations for overcoming the difficulties that stand in the way of the necessary changes.

The author presented several tasks to achieve this goal:

- first, to systematize the characteristics of theoretical research in the fields of change management, industrialization 4.0, and informatization of society.
- second, to reveal the features of SME activities in the Republic of Moldova.
- third, to identify the features of the functioning of these enterprises and identify the main problems of their functioning based on practical research.
- fourth, to identify further ways for SME development, given the challenges of the modern external environment.

## 2 NEW REALITIES OF THE MODERN WORLD: THE VIEW OF SCIENTISTS

The characteristics of the modern external environment that affects enterprises are described in numerous modern studies. Klaus Schwab calls the provocations of modernity the Fourth Industrial Revolution, or Industry 4.0, Thomas Siebel calls the era of "Digital Transformation", Erik Brynjolfson and Andrew McAfee (2017) talk about the "Age of Machines", Tjeue Blommaert and Stephan van den Broek - the Age of Singularity. But regardless of how we call it, we can highlight the main features that all authors found.

First, these are rapid changes that build up with the force of exponential growth, that is, the speed does not increase linearly but with an increasing effect. In addition, the authors listed above believe that this era can be divided into two stages: the first - linear growth, that is, gradual, and the second - exponential, which will gradually lead to a singularity, as defined by Tjeue Blommaert and Stephan van den Broek. That is, to a state where machines will reprogram themselves alone. (Blommaert & Broek, 2017, p. 14)

The authors believe that the first stage lasted until 2015 because, in 2016, the second stage of the Fourth Industrial Revolution began to develop, which, in their opinion, will turn into a singularity in 2030. In addition, the famous futurist Ray Kurzweil predicts that this time will come around 2035. As can be seen from figure 1, the development of the second stage is exponential compared with the relative linearity of the previous stage.

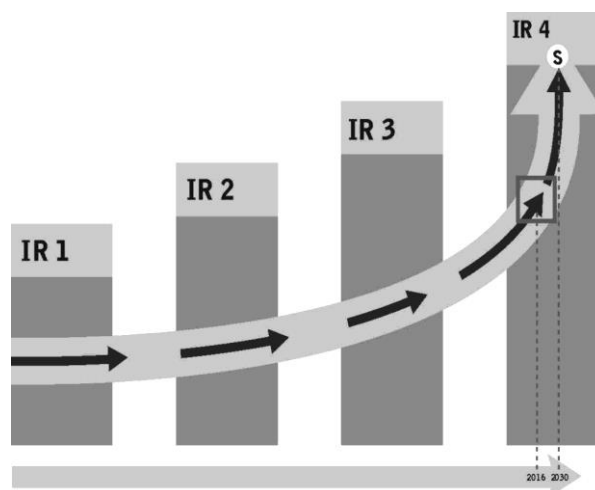


Fig.1 Road to the singularity  
(Blommaert & Broek, 2017)

Second, the technologies that are revolutionizing society and business interrelate in many ways: in the way they are digitally empowering, scaling, complementing each other, and challenging legacy systems. (Shwab, 2022, p. 192)

Thirdly, to take advantage of the information age, it is necessary to consider the latest technologies to achieve advantages, embedding human values in them for the common good, for example, environmental protection, and human rights. (Shwab K. , 2018)

Fourthly, all the above authors tend to believe that companies should form ecosystems in which there are close ties between suppliers, consumers, and intermediaries, in addition, they should establish close contacts with universities to mutually beneficial cooperation and develop innovative solutions.

For some CEOs, digital transformation poses a serious threat due to opposition or lack of understanding of the need for their introduction. At the same time, Thomas Siebel believes that "the size of a company does not affect its stability and longevity. Small agile start-ups are crowding out giants that have ceased to develop" (Siebel, 2019,

p. 38) With this phrase, the author testifies to the advantage of SMEs to update quickly and thereby adapting to the external environment.

So, the modern environment is complex, uncertain, changing quickly, carries many risks, and at the same time, advantageous. In the next section of the article, we will consider which management model will be adequate in this new and unfamiliar environment.

### 3 ORGANIZATIONAL PERFORMANCE AND CHANGE MANAGEMENT: A REVIEW OF APPROACHES

It is appropriate to start this section with the famous phrase of the world-famous management guru Peter Drucker: "The greatest danger in all times of instability is not instability itself, but actions by the logic of yesterday". With this quote, Frédéric Laloux begins his famous study *Reinventing Organizations* (Laloux, 2014).

In it, the author presents the original idea of the evolution of organizational functioning through metaphors that reflect a certain color. Today's external environment necessitates a transition from an orange or green metaphor to a turquoise path of development, which corresponds to the highest values: self-governing organizational structures, coordination, and knowledge sharing between teams, trust instead of control, decision-making process based on consultation rather than individual opinion, creating a safe and trusting communication environment. Change in such organizations proceeds more smoothly than usual. Turquoise organizations, acting in the likeness of living organisms, have an internal ability to sense changes in the environment and adapt to them from the inside. According to this concept, changes are given initially and occur naturally, everywhere, and constantly.

A logical question is: what are the conditions for such organizations' creation? Laloux argues that there are two necessary conditions - a worldview CEO corresponding to the turquoise level of consciousness and perception, at best, other leaders of the organization adhere to the same type of thinking.

The second condition is the sharing of views of turquoise functioning by business owners. Summing up the above, we note that the

construction, successful functioning, and adaptation of the organization to changes depending on the approach chosen by the top management confirm the paramount importance of leadership in the process of organizational change.

Let us also clarify that the author adds the following statements to the conditions for the existence of such organizations:

1. The principle of turquoise is relevant for all companies, regardless of the field of activity.
2. Size does not matter (so, given that the object of our study are SMEs, this approach is relevant for them also).
3. The geographic and cultural environment also does not matter (therefore, we believe this approach is also relevant for companies operating in the Republic of Moldova).

The author of the concept of self-learning organizations, Peter Senge (1990), talks about the need to build new systems in which employees continuously improve their ability to achieve the desired results. Non-standard thinking is encouraged in such an organization. Employees are trained constantly, as they see it as necessary. At the same time, the company has a collective goal and joint actions to achieve it. In our opinion, such an organization is completely in line with the concept of "turquoise" of the previous author.

Norman Wolfe (2011), also considered a model of the "living organization". He also argues for the need to move away from the "organization-machine" (in which everything calculates in advance), and the principles of bureaucracy operate (one-man command, strict hierarchy, control, and subordination, etc.). The limitations of such a system are inherent in the principles of the system's functioning. That corresponded to the time of its appearance, i.e., the beginning of the 20<sup>th</sup> century. Living energy, according to Wolfe, directs the energy flows of each employee into a holistic flow, and transforms collective energy and efforts into products and services that are the result of the company's business process.

The author considers it appropriate to use Kurt Lewin's "Force Field" model to understand the forces of resistance and the forces of assistance to understand the factors influencing change. Let us add that, in the author's opinion, Lewin's model "Unfreeze - Change - Refreeze" (Lewin, 1947) is

experiencing significant changes if it is not obsolete. The phases of "unfreezing" and "freezing" are no longer relevant because the system is constantly changing, like a living organism, adapting to all changes in the external environment.

Wolfe focuses our attention on a specific set of skills that all employees should possess functional, personal, and interpersonal skills. He adds three more requirements to leaders: management skills, teamwork, and interaction (Wolfe, 2011, p. 216)

Analyzing the conceptual foundations of change management from the examples of several authors, we can say with certainty that researchers are inclined to believe that organizations in the modern world cannot operate in the old way and that the management paradigm must change unequivocally. Top management and other leaders must change the principles of activity. Otherwise, companies will not survive.

Regarding the object of this study, small and medium-sized enterprises, at first glance, things should be different for such companies. SMEs are smaller, which means that interaction is simpler. The organizational structure is not so cumbersome. The transfer of information does not go through many levels at which it can be distorted. There is no strict hierarchy. But at the same time, many modern companies, from the SME sector, are built on the principle of "rational bureaucracy" based on the assumptions that the more control - the better, trust - but check, the manager knows better what the company needs, etc.

#### **4 SMEs IN THE NEW ERA**

In the Republic of Moldova, as in other states, the share of SMEs is high. Considering the data of the National Bureau of Statistics, at the beginning of 2021, there were 57.2 thousand, which represents 98.6% of the total share of all enterprises in the republic. 316.8 thousand people worked in SMEs, i.e., 60.1% of the total employees. SMEs accounted for 39.3% of the total sales revenue across the entire Moldovan economy in 2020. At the same time, the average sales revenue per SME in 2020 amounted to 2.62 million lei. Thus, this sector plays a significant role in all the

economic processes of the Republic: in 2020, sales revenues decreased by 4.6% compared to 2019, given the lack of statistical data for 2021 (in the Republic of Moldova, the deadline for submitting financial statements for the previous year until May 30).

The state of enterprises naturally deteriorated due to the pandemic associated with the COVID-19 virus, and this year additional difficulties fell on the republic - a complication of the political situation and worsening economic conditions due to a sharp rise in the cost of resources and a surge of refugees from a neighboring country. In addition to the complex current situation, SMEs operate in an external environment related to the factors described in the second section of this study, namely, the informatization of society, which is developing at an accelerated pace. Turning to the opinions of the mentioned experts (Siebel, Schwab, etc.), companies should benefit from the situation associated with digitalization. This benefit should save time, and resources, speed up business processes and improve the quality of goods and services. Thus, they have no choice but to accept the current conditions of the game.

The third section of the article described new trends in change management models that SMEs need to apply. In the next section we will consider some issues related to the perspective of SMEs in the Republic of Moldova regarding the challenges of the digital age.

#### **5 STUDY OF THE PROBLEMS OF SMEs IN THE RM IN THE CONTEXT OF MODERN CHALLENGES**

Let us present the data of a study conducted by the author in January-February 2022 on 45 enterprises in various fields of activity. 97.5% of them operated in 2021. 30% of the total companies worked 5-10 years, and 25% of companies have been working for 20-30 years on the market. The financial indicators of 50% of companies showed stable growth. In 40% of companies, growth and decline have been changing. 75% of subordinates and 25% of managers participated in the survey.

According to respondents, the following factors influenced the key indicators of companies (Fig. 1)

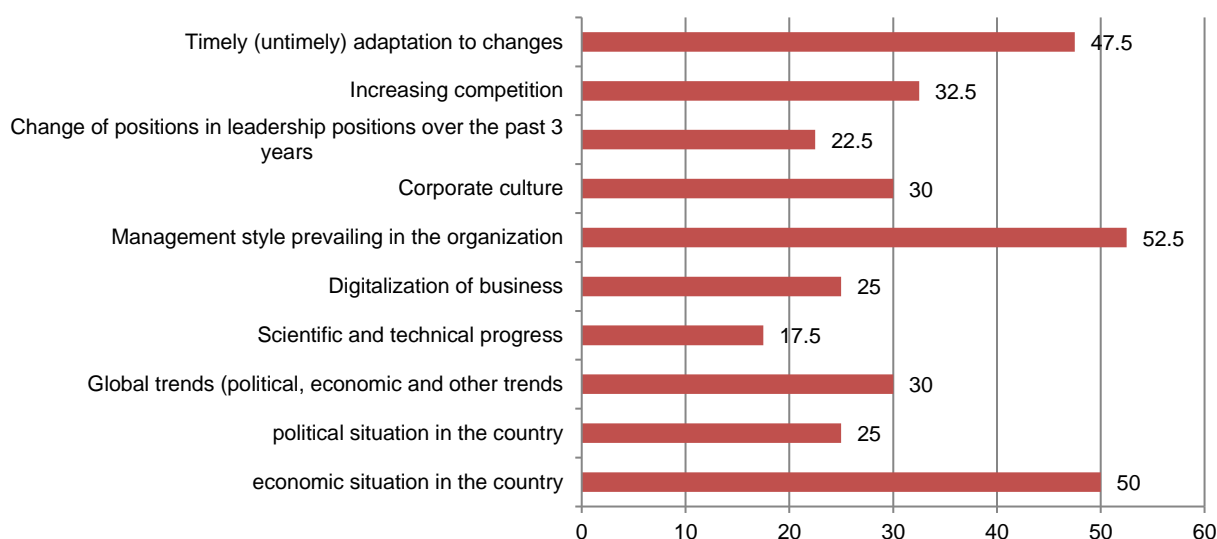


Fig. 2. Factors that have the most significant impact on the financial results of companies in the Republic of Moldova according to the respondents (research results)

As can be seen from the diagram, respondents consider the main factors that affect the financial performance of an enterprise to be the prevailing management style in the organization, the economic situation in the country, and the company's timely or untimely response to changes. It is noteworthy that the leadership style in the company turned out to be the most significant. Hence, we can say with certainty that the management system in the company plays a decisive role.

It should also note that the study took place before the outbreak of hostilities, so, in our opinion, this figure is not as high as one might expect today.

In addition, the indicator associated with scientific and technological progress weights 17.5%, and the digitalization factor also has a less significant impact on the development of SMEs, according to respondents. This may be due, firstly, to the respondents' insufficient awareness of the need for transformational changes, and secondly, to the prevailing stereotype that digitalization is carried out mainly by large enterprises. In addition, the reason for the weak assessment of this factor may be the fear of employees regarding the inability of enterprises to carry out the informatization process for various reasons.

In continuation of the survey, respondents answered the question if the company has carried out organizational changes in the last 3-5 years, to which 70% of respondents answered in the

affirmative. On the one hand, this is good because most enterprises are still subject to organizational changes. On the other hand, the percentage of enterprises that have not carried out changes is quite large. Referring to the above concepts, this is unacceptable in the current situation.

The following aspects of the study dealt with issues related to initiating change. Given the conceptual foundations of change management presented at the beginning of the work, regarding the approach that the organization works like a living organism, changes should be initiated from the bottom up, constantly occur in teams, and organically fit into the work of the organization. The survey results focus to the actual and desired state of the change initiation process in operating organizations.

Analyzing the data in Chart 3, we come to the following: the desired and actual states diverge, - most respondents tend to take a mixed approach in the process of initiating organizational changes, but at the same time, in reality, most changes (62.5%) are initiated by the CEO of the company, respondents do not see the need in initiating changes at lower levels (grassroots management and subordinates), as evidenced by rather low rates: in both cases, 2.5%. Based on this chart, one can judge the prevalence of an authoritarian approach to decision-making and initiating change in the companies under study. The fact that respondents do not support grassroots initiation of change suggests that company personnel are not

ready to move to the activities of self-managed teams or turquoise organizations.

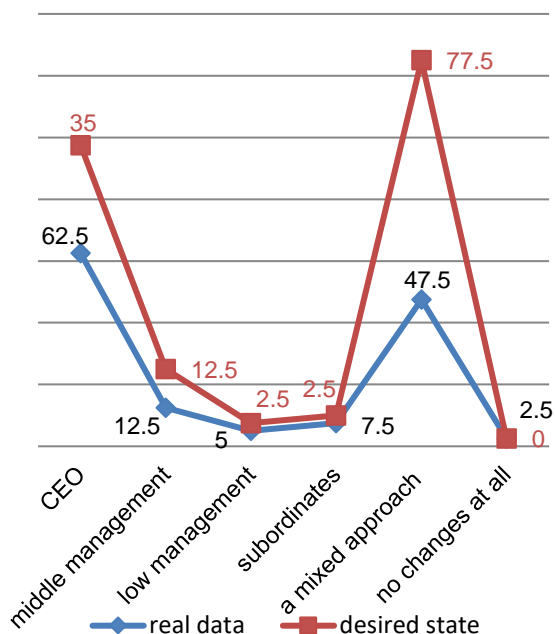


Fig.3. Actual and desired initiators of change (% of the surveyed personnel of enterprises according to the results of the study)

It is favorable that no one doubts the need for change, as evidenced by the zero value, although in some companies (2.5%) there are no changes.

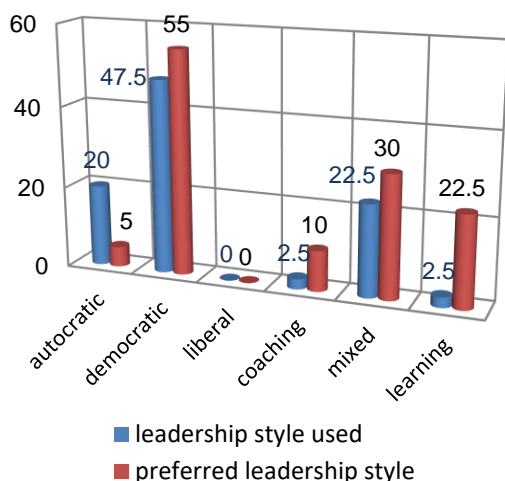


Fig.4 The current and desired leadership style of employees of the studied SMEs  
 Source: results of the study

The next question is also important in researching the problems of SME change and relates to the prevailing leadership style. The importance of research in this area is undoubted because, in the sections that cover the concepts of change management, we clearly emphasized a certain style of leadership.

From survey answers the preferred leadership style is democratic (55%). At the same time, it is used by 47.5%, which indicates a high rate. That is a favorable factor on the path of transformation. The second most preferred is the mixed option with 30%. It is implemented in 22.5% cases. This indicator leads to the conclusion that the staff prefer situational leadership. Next in importance is the training type, which values have an insignificant gap.

In the context of theoretical studies of turquoise organizations and self-learning teams, we conclude that the style of coaching is ideal for managing in the current conditions, but, unfortunately, the respondents paid little attention to it. At the desired value, it was chosen by 10% of employees, 2.5% use it.

## 6 CONCLUSIONS

The study of the theoretical and practical features of the activities of modern enterprises allows us to draw several conclusions.

- First, the modern environment causes all enterprises to abandon the models operating in other eras or industrial revolutions. SMEs are no exception and, therefore, they should use all the advantages associated with their small scale to their advantage. It is about relatively fast decision-making, greater flexibility in relation to large companies, and greater substitutability of employees. But, at the same time, the data of the conducted analysis testify to the insufficient readiness of such companies to carry out the transition to a higher stage of development.
- Informatization of society involves a large amount of information that changes rapidly. To streamline organizational processes, it is necessary to consider business processes carefully. At the same time, under the influence of new technologies, production processes will be implemented automatically, so employees have more time for creative work.
- Creative work is significantly more effectively realized in self-organized teams, based on which modern organizations should work.
- Understanding all the uncertainty is often very hard so the company should be led by mentoring leadership type, a coaching.
- Difficulties related to the specifics of SME activities, with high costs and low working

capital, can be partially solved by saving funds by switching to digital systems. That reduces costs and time and, in turn, improves communication processes within the organization and with external parties - suppliers, customers, etc.

The presented work we can summarize by the conclusion that one should not even think whether the changes are needed because they are. Therefore, it is crucial to develop a change management model incorporated into the system

itself and will meet its needs. Previous change models assumed that the company, having made changes, would work in a new way, fixing them with rules and standards, the current situation shows that it is necessary to develop an "adaptation" model, which means an appropriate leadership style, organizational structure, corporate culture, team, and to all this add information technology. SMEs have their way, which involves cooperation with similar companies, constant learning, and, of course, changing the above factors.

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