

# Strategic Management & Leadership Analysis in a Pharmaceutical Company

SAIDAL SARL Group is a pharmaceutical manufacturer in Algeria which has a history of more than 30 years. But after 2010 the company has faced financial crisis slowly which brought it to the level of bankruptcy. This was a gradual change and at a glance, it can be identified that if closely monitored the disaster would have been controlled. Now that it has happened, it needed to implement a strategical plan to set SAIDAL in a new direction to get its body back on track with a greater goal to achieve more.

Recent studies have shown that the main reasons for the disaster are: the inappropriate resource allocation or investments, lack of monitoring of finances, structural errors of the newly appointed top management in 2010, also strategic decisions, errors in the value chain, etc. These were obtained by the external and internal environment analysis.

The aim of this work is above all to formulate a new business strategy R&D-open-innovation-oriented and focused on biotechnology to face challenges affecting the company's global performance. Through critical analysis, I'll try to highlight the relationships that might exist between this strategy, stakeholder expectations and the organizational effectiveness, and thus elaborate based on other similar and successful business models a reasonable implementation plan for the real-world environment that would make such a transition possible.

# Introduction

## What is SAIDAL Group?

SAIDAL Group is a pharmaceutical company in Algeria currently with a Capital of 2.5 Billion Dinars. 80 percent of SAIDAL Group's capital is owned by the state and the remaining 20 percent were sold to institutional investors and individuals in 1999. The restructuring process in 1997 contributed to its development into a manufacturing company with three divisions (Pharmaceutical, Antibiotics, and Biotech).

## Mission

- Ensure strategic stability and profitability in safeguarding its financial flexibility, maintaining constant development of its goods ' quality, attaining its growth targets and improving its human capital.
- Achieve the State's defined goals as the primary owner/shareholder.

## Why SAIDAL Group?

SAIDAL group is a company with a greater history in the pharmaceutical industry of Algeria as well in the international context. From its starting in the year 1985 up until around 2010 it performed well, but now the company is in a phase of declining where the strategic decline has commenced due to several reasons. Therefore, for the assignment this organization becomes an ideal candidate and in the next chapters' evaluation of the current strategic position of the company will be analyzed along with the pros and cons that will give out good understanding where the company will be heading. Next, strategic suggestions and a fully pledged plan will be presented.

## Current Strategic Position of the Company

SAIDAL Group was performing well in the initial stages prior to 2010 before the restructure was introduced. In the year 2017, the company revenue was only estimated at 84 USD Million and that was not enough to cover their investment made from the year 2010 150 USD million per annum. Therefore, by the year 2017 SAIDAL group is at a level of bankruptcy. At that moment the company had 2357 employees on board (SARL, 2017).

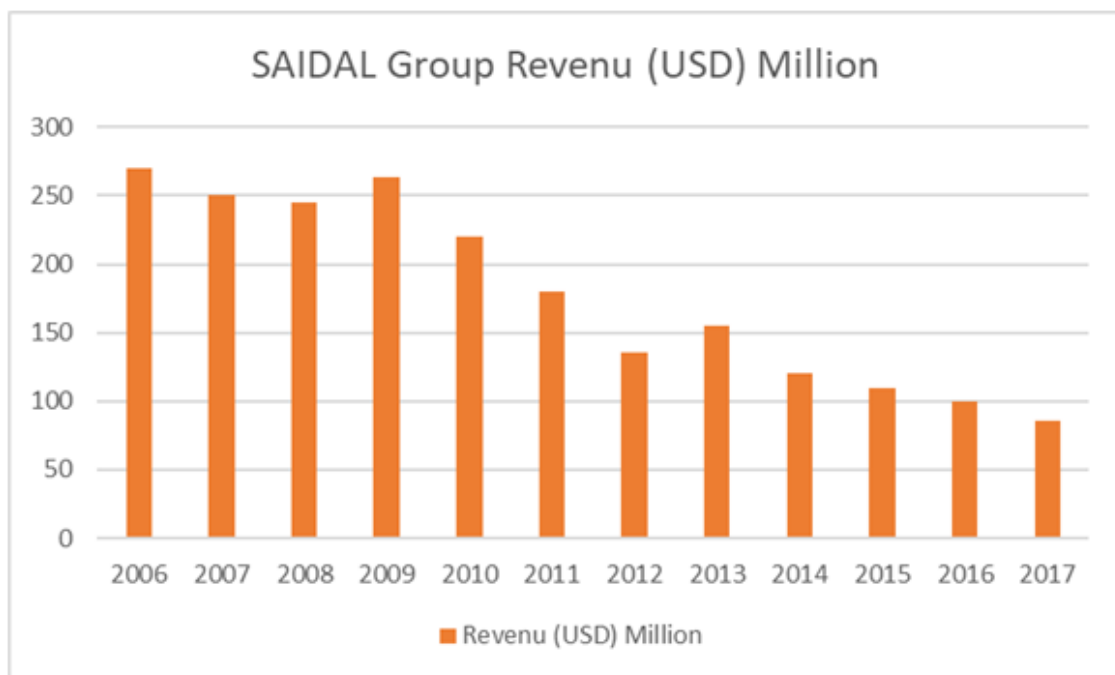


Figure 2- SAIDAL Group Revenue 2006 – 2017

The concept of a firm in difficulty has only recently been introduced. Although this term has taken over from the traditional term “bankruptcy”, the two terms are not superimposable and do not in any way reflect the same legal approach. A firm goes through several stages before reaching the irremediable stage of bankruptcy.

## TOP 20 PHARMA COMPANIES IN ALGERIA



A failure is first and foremost an economic event since it is the result of the company's economic and financial difficulties. However, it is also a legal event, given the importance of the law in initiating recovery measures. Thus, it seems appropriate to devote a part of the present work to the legal framework of the Algerian company in difficulty.

SAIDAL group was performing well in the earlier stage but the turning point of this kind of bankruptcy occurred at the point of changes that were introduced in the year 2010 by the change of the top management.

## SAIDL was it running smoothly?

The concept of a firm in difficulty presupposes that the firm has ceased to operate smoothly. A break in the continuity of its operations has occurred, will occur or is likely to occur. Similarly, SAIDAL was operating much smoothly prior to 2010 as the company was having three subsidiaries to operate separately in the pharma sector, antibiotic sector and biotic sector. During that time, their operation was much successful and the sales were growing rapidly with each year 1.23% increase in acquiring the international market especially in the South Asian region which was a much difficult entry for

the other competitors. At the beginning of the year, 2017 firm was therefore not yet in a state of cessation of payments, characterized by the impossibility of meeting current liabilities out of available assets.

Jean Brilman adopts a fairly broad concept of a company in difficulty: "it is not only a company that is in financial difficulty (the immediate consequence of other, much deeper problems), it is also a company that, encountering or anticipating difficulties, takes immediate action to avoid financial problems: little or no profitability, difficult economic conditions, declining business volume, deterioration in the social climate, conflicts, etc." (Brilman, 1978). Similar is what happened for SAIDAL at the initial stages there financial states were at a greater level as they had a lot of financial reserves stored from the earlier profit. Their liquidity ratios were at a greater level with a value of more than one (SARL, 2017).

Beyond that, the notion of a company in difficulty does not necessarily refer to the idea of financial difficulties but reflects a different approach to the operating incidents that companies may encounter. Indeed, it incorporates an essential idea: prevention. SAIDAL management understood the situation by the year 2015 and took action to fix the issue but the prevention was not done. Actually what lacked in risk management. Therefore we can conclude that SAIDAL SARL was running very well and had a greater throwback due to some reason, that is what needed to be analyzed using this report.

## **The failure process of SAIDAL Group**



Figure 3 – Failure process in a nutshell

As per (James Kolari, 2002) failure process of a large organization happens first in terms of economic, commercial and then followed by financial decline. SAIDAL group is an ideal example for such a consecutive failure or bankruptcy in their domain and the saddest part it while all of this process is happening none of the top management noticed any of these or no action was taken to fix this. Following are the details of the step by step financial failure of SAIDAL group according to their report (SAIDAL SARL, 2017).

## Economic regression

The company's performance is based on three factors which are: production cost, quantities sold and prices. Each of these factors is subject to the constraints of environmental variations. Depending on the nature of its activity and its situation in its environment, the company's performance is more or less sensitive to some events: increase in the prices of raw materials, wage increases, competition, technological innovation.

Table 1- The most important investments in the pharmaceutical sector in Algeria (Ghebbi, 2010)

Company	Country	Investment in USD	Rank
Sanofi-Aventis	France	320 Million	#1
Hikma Pharma	Jordan	165 Million	#2

Saidal	Algeria	149 Million	#3
GSK	United Kingdom	142 Million	#4
Novartis	Switzerland	129 Million	#5
Pfizer	United States	111 Million	#6
Novo Nordisk	Denmark	85 Million	#7
MSD	United States	85 Million	#8
Roche diagnostics	France	85 Million	#9

The new management program was appointed in the year 2010, established with the aim of expanding the business at SAIDAL. The directorial board took some kind of regressive investment decisions to work in line with the other competitors in the industry and come ahead of the competition.

- Increasing investment to establish a new factory with USD 100 million
- Increased Research and development investment up to 40 USD million from 20 USD million which was the earlier

While all of that investment was increased there was an increase in the mineral prices where the materials needed for pharmaceutical manufacture like Rutile, Zincite, Periclase, Hematite, etc were increased in price due to new tax revisions. Therefore the economic regression began for the SAIDAL.

Table 2 – SAIDAL R & D Expenditure Chnage – 2001 -2008

Indicator	2001	2008
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Workforce by category		
• Executives	1103	1883
• Supervisors	1371	2004
• Agents	938	583
% of employees in R&D	4,86%	6%
Average monthly gross pay per employee, DA	32,000 DA	57,000 DA
% of trained employees in one year	40.41%	39.71%
% Training expenses	0.59%	0.39%
Training budget/Wage bill %	2.36%	1.47%
Average training expenditure per trained employee, DA	22,480 DA	25,352 DA
Number of accidents at work weighted by severity rate	20.8	12
<i>Source: academia.edu</i>		

## Commercial decline

It may be abrupt, gradual or latent and concealed. It is characterized by a fall in sales or a drop in the gross margin rate, or both successively or simultaneously. Due to the above-mentioned reasons, the cost of production increased at SAIDAL making the average margin per pharmaceutical, biotic, and antibiotic to decline up to 17%, 19%, 15% respectively. Earlier these values were 38%, 43%, 32%. That became a huge drop for the company and gradually up until 2017 these values have dropped gradually. As the sales volume increased a little there was a remarkable revenue but that was not enough to



cover the cost of the sales and the investment.

## **Financial decline**

If the company does not react, is not flexible and cannot find new markets, while reducing its structural costs, then a financial decline might begin. It is most often the consequence of an uncontrolled commercial decline. The insufficient margin no longer allows the company to cover its structural costs (Senturk, et al., 2006). Similarly, SAIDAL lost the margin making the path to loss of markets and the works part is that there their investments has gone wrong making company much more susceptible for the bankruptcy. By the year of 2017, their liquidity has gone down, having a very low quick ratio in terms of finance and the top line bottom both growths has declined.

## **Strategic Management**

According to Alfred Chandler, a strategy is an act of determining the fundamental long-term goals and objectives, putting in place the actions and allocating the necessary resources to achieve those goals (Chandler, 1990). Prior to developing a strategy, we should find out where an organization lies now and what are the factors that will affect the current status and successful strategic management in managing these factors effectively and efficiently to gain competitive advantage and bottom-line growth.

## **Strategic Management Process**

The strategic management process consists of five main steps: 1) Initial analysis (understanding the strategic context) 2) Internal and external analysis (planning the strategic approach, analyzing environment, resources, identifying opportunities, threats, strengths, and weaknesses) 3) Formulation of the business strategy (developing a strategy) 4) Implementation 5) Evaluation of the results (Figure 1).



Figure 4. Business Strategy Framework

Strategic management is a continuous and systematic process during which the company's leaders make decisions that will have consequences in the future, develop plans and programs to implement the decisions and achieve the set objectives, and finally, evaluate performance. It is also a unique opportunity to unite management, employees and various stakeholders as well as customers in a common reflection to understand where is the company and where it wants to go (Nag, et al., 2007).

Throughout the strategic management process, the company must focus on the needs (expressed and experienced) and expectations (expressed and unexpressed) of customers (current and future) and stakeholders (suppliers, human resources, management, partners, shareholders) in order to offer them satisfactory products and services meeting their needs and expectations (Riege, 2005).

## Environmental Analysis of SAIDAL Group

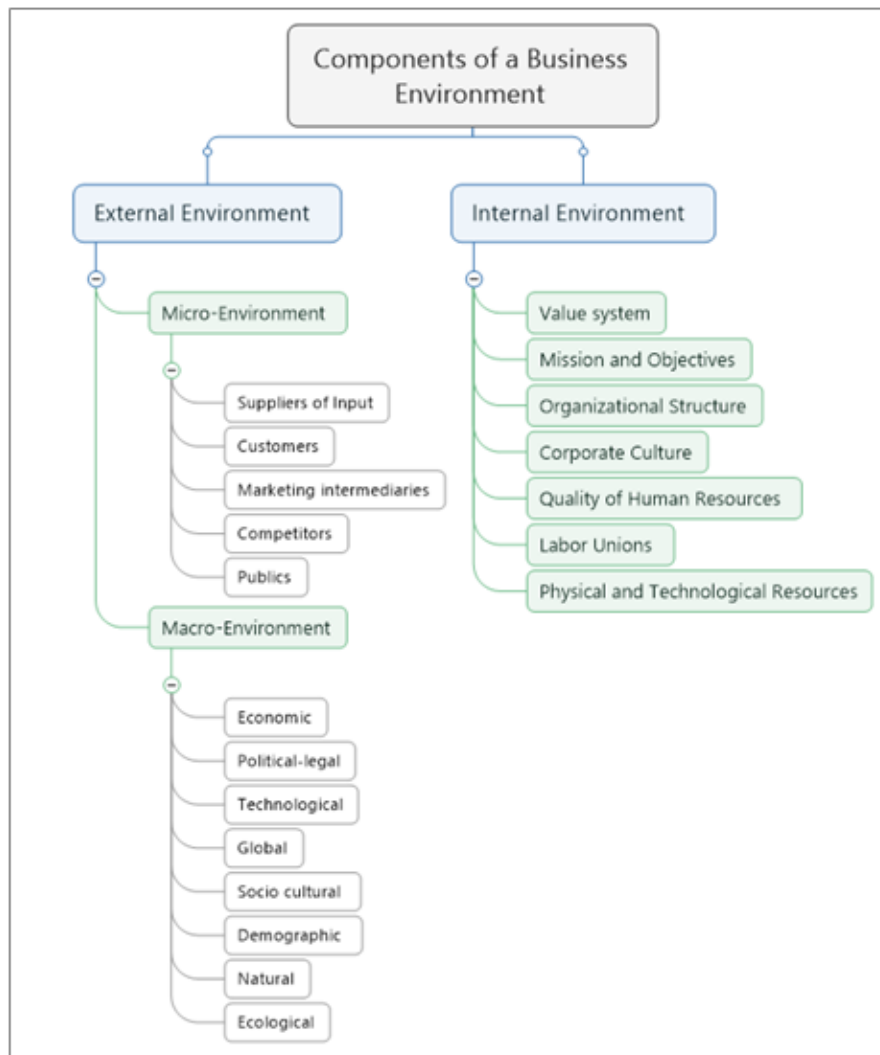


Figure 5. The Components of a Business Environment

The survival of the company is directly linked to its dependence on external actors. The importance of the company's external environment can be understood here in terms of the extent to which it has developed a certain degree of dependency on its environment.

## Macro Environment

A company's analysis of the environment has a twofold objective:

- to evaluate the various elements that may affect its activity;
- to identify environmental opportunities or threats;

- to identify external factors over which the company has no control and which also influences its orientation.

We must therefore briefly analyze the external environmental factors (micro) that have or could have an influence on the company's growth and profitability prospects as well as on its situation in the market. The analysis of the external environment will lead to identifying external market opportunities as well as external threats that could affect the company's operations in the short, medium or long term.

## **PESTLE Analysis of SAIDAL Group**

In business strategy, the PESTLE analysis (political, economic, sociological, technological, environmental and legal) is a model for identifying the influence (negative/positive) that macro-environmental factors can exert on a company (Holland, et al., 2004). However, the PESTEL or PESTLE analysis is not a reference, but a mnemonic tool that makes it possible to carry out an external analysis more simply and thus be able to produce a SWOT matrix.

SAIDAL and its competitors are generally companies that are not really known and established in a specific field that is difficult to grasp, partly because of the complexity of the products manufactured and sold and partly because of their equally difficult environment.

## **Policy**

A company like SAIDAL is present in multiple countries and is also active in a market that is facing both globalization and health issues.

Thus, in addition to having to deal with the political environments of trade and tax laws, SAIDAL must also comply with the social protection requirements of the countries it serves.

## **Economic**

The growth rate is gradually picking up again in most countries in the world, even if it remains insignificant (in Algeria, it is around 1.5% according to World Bank (WorldBank, 2019)). On the other hand, developing countries are an increasingly important target for any market, and even more so for pharmaceutical companies.

## **Socio-cultural**

In Algeria, as in other countries, the consumption of medicines is an increasingly important part of health care expenditure and weighs heavily on health insurance, household, and state funds. This growth is the result of several factors and particularly of the socio-cultural transition that has characterized the Algerian society in recent years (Farida & Brahim, 2012).

## **Technological**

Technology is the source of business power. In order to control the local pharmaceutical market, SAIDAL uses the latest technology, its control over the sources of supply of raw materials and intermediate products and over marketing networks, its management machine, its easy access to financial markets, etc. However, the industrial capacity of its subsidiaries operating outside the country is oriented towards products that consume imported pharmaceutical substances at prices that are often abusive.

## **Ecological**

This is one of the black spots: the company being in the ecological trend, the synthetic drug has a bad image, in addition to coming from production lines mixing non-renewable elements such as solvents, or organic waste.

## **Legal**

Fortunately, the pharmaceutical market is closely monitored in

many aspects. SAIDAL's business is significantly affected by patents, drugs, and their respective marketing authorizations, either under medical prescription or over-the-counter. It is one of the most challenging environments in which to operate, without a doubt.

Also, the newly introduced tax system for the pharmaceutical raw materials has become much of a burden for the industry.

## **Porters Five Forces Analysis of SAIDAL Group**

Porter's Five forces is a model that defines and analyzes five strategic powers affecting any market and helping to identify the vulnerabilities and strengths of a business. The study of the Five Forces is also used to describe the function of a market when deciding on business strategy. When it comes to strategic position determination of an organization like SAIDAL this step is very crucial to get an understanding of the current pharmaceutical industry status in Algeria.

### **Bargaining power of the buyers**

The bargaining power of the buyers is very high as the number of patients, doctors and hospitals is very high throughout Algeria and also in the international context. Other than that the switching cost from one brand to another is very low in this industry in the majority of the drug types. It can be concluded that the bargaining power in this industry is very high.

### **Bargaining power of the suppliers**

The bargaining power of the suppliers is very low in this context and that happens as there is much more possibility for the import of raw material rather than sourcing locally. But the same thing caused the decline of SAIDAL due to tax changes.

### **Threat of substitutes**

This is very low in this industry as most of the products are

generic items and the only limited number of alternative treatments available such as implants, surgery, homeopathic therapies, etc.

### **Risk of new entrants**

There is a long lead time involved in the research and development in this industry, thing SAIDAL SARL has successfully completed years ago, other than that need of distribution channels, marketing teams, patent portfolio databases along with higher investment make new entrants a nightmare to this industry.

### **Rivalry among established firms**

There are more than 20 players registered in this industry of Algeria which is considered as large scale / commercial pharmaceutical producers. Therefore the price competition is so much along with the new product introduction which makes the company with the highest technological Research & Development teams win. Also one of the major rules in this industry is the 'first to market' rule that makes a company succeed as well as decline fast.

So it is evident that SAIDAL group has taken above strategic decisions by identifying how the market works but the problem is that they didn't identify the other factors and the internal environment of the business.

## **Micro Environment**

### **SWOT Analysis of SAIDAL Group**

Table 3- SWOT Analysis of SAIDAL Group

Strengths	Weaknesses	Opportunities	Threats
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<p>Market leader in the latest generation of antibiotics</p> <p>Sales Increase Financial stability (lexpressiondz.com, 2017)</p>	<p>Decrease in R&amp;D</p> <p>Higher employee turnover (lower retentions)</p>	<p>Increase in health issues</p> <p>Rising population and living standards</p> <p>The exponential growth of products on the biopharmaceutical market (vaccines, biotechnologies, etc.)</p> <p>International possibilities in the Asian region</p>	<p>Generic drugs</p> <p>Complex and rigorous regulations related to drug registration</p> <p>Increase in counterfeiting</p> <p>The government revised the tax system</p>
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The strategic management key is to convert threats and weaknesses of the SAIDAL Group into opportunities in order to get out of the level of bankruptcy.

## Business Strategy

### Strategic Objectives

The following objectives were set in order to get out of the current financial situation by taking the strategic planning duration to be five years. Findings from the internal and external analysis have been used for the formulation,

- Increase the profit margin of every product type to be more than 30% by adapting an operational optimization process by the year 2022
- Reach the net profit of 400 USD million by the year 2022
- Increase the efficiency of the R & D division by innovation-based techniques with the aim of giving out minimum new product per year



- Increase the local market share to 40 % by the year 2022 (currently 16% market share)
- International market acquisition in terms of 20% total sales acquisition by the end of the year 2022

## **A Research and Development strategy (Functional Strategy) to Face the Current challenges**

SAIDAL group, as well as the others in the pharmaceutical industry traditionally intensively based on R&D, has gone through a series of institutional and technological “shocks”. However, the core leadership of the respective department has remained sufficiently small and stable over a long period of time.

Industrial dynamics in the pharmaceutical industry are intimately linked to three specific key factors:

*The nature of drug discovery processes*, otherwise the properties of the technological opportunity space and the research procedures by which firms explore this space.

*The fragmented nature of the relevant markets where research activities are relatively limited*. Specifically, innovation processes are characterized by a long period of time during which the cumulative dimension is quite small and by “quasi-random” research procedures (random screening). Thus, innovation in one market (or therapeutic class) does not induce a greater probability of success in another market.

*The type of competition and the role of patents*. The pharmaceutical field is representative of those sectors where patent applications or models reasonably affect the competitive process.

Therefore, the major task for achieving the strategical success of the SAIDAL group depends on the hands of the

research and development team and therefore this strategic plan mainly focuses on creating R&D stronger to gain the above mentioned SMART strategic objectives.

## Biotechnology, a strategic field to exploit

The future of the pharmaceutical industry is thus taking on a new face, that of the “multi-buster” model, manufacturing specialty products, more oriented towards personalized medicine focused on small populations. The first discoveries on the human genome have given new directions to pharmaceutical R&D. As a result, nearly half of the new treatments launched on the market since 2003 are derived from biotechnology (Bertrand, 2000).

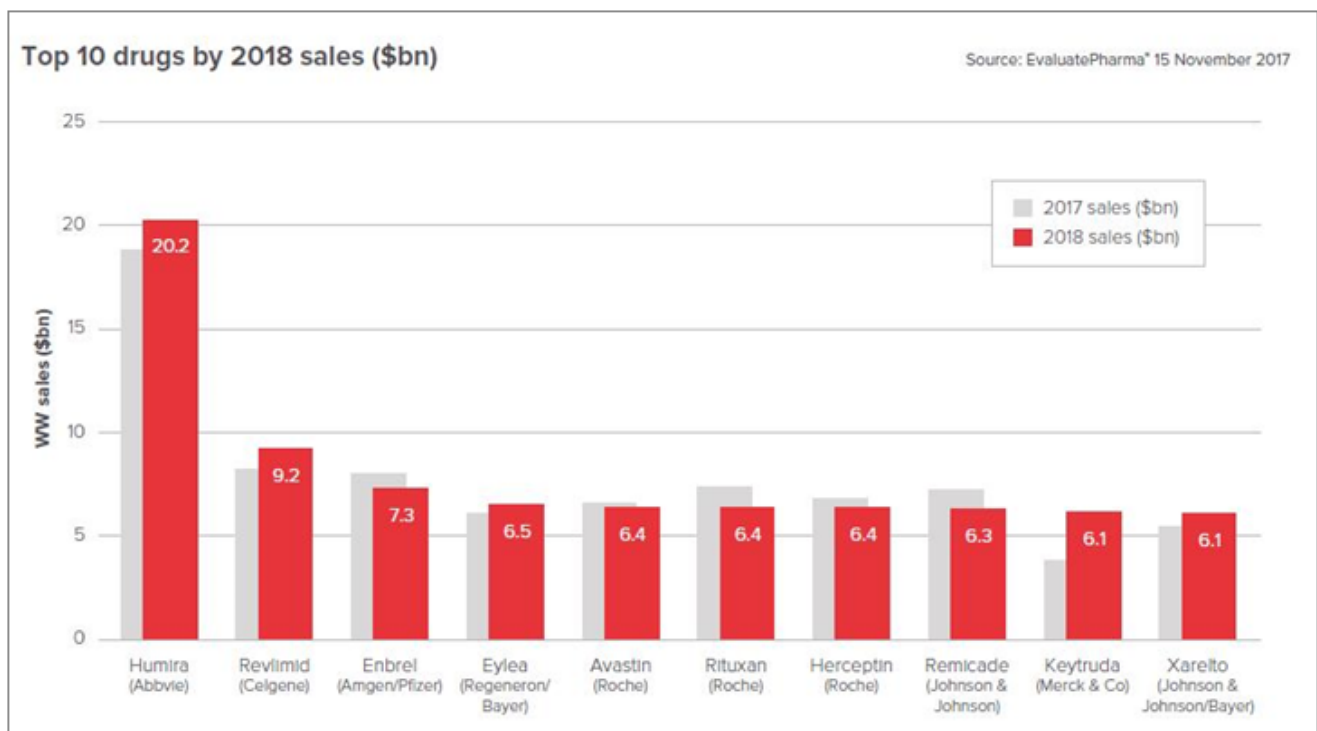


Figure 6- Top 10 drug sales by Evaluate Pharma

This chart from a report of Evaluate Pharma, one of the top 10 pharmaceutical producers in the United States shows that the top 10 drugs by sales are all biotech products, in red sales in 2018, and the shadow in grey represents the sales in 2017.

Therefore the SAIDAL group has a greater opportunity to enter into biotech products which will be the greater solution for

their financial crisis as when biotechnology is involved, the cost of production as well the demand rises up.

## **The strategic choice of open innovation in biotechnology**

Biotechnology has created an unprecedented innovation crisis in the pharmaceutical industry. The skills required are more advanced and diversified, and competition is upstream. Due to employee turnover, many of the skilled employees has left the R&D division making a challenge for them to engage in innovation bases biotechnological pharmaceutical formation.

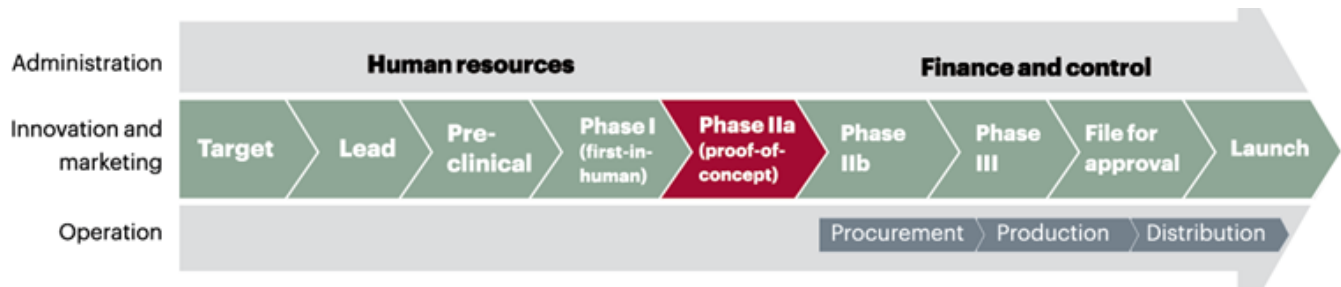
To stay in the race, the best option is to turn towards open innovation, through various practices: alliances with start-ups, research partnerships with peers and many more.

Competition is becoming more and more established upstream of the innovation process, making the need for an innovation cycle to be narrow or shorter so that it will keep SAIDAL in the loop. The competition takes place in the acquisition of scientific and technical knowledge, which is often present outside the company's borders. Thus, even the most competent R&D organization needs to connect to external sources of knowledge in order to innovate. This is the theoretical concept of open innovation.

There are 26 universities within Algeria itself and among that there are 14 universities that have biotechnology facilities which make eventually the best hub for open innovation.

## **Redesigning the Value Chain**

The traditional value chain of the SAIDAL Group is just straight forward and only involves very small parties and that makes loopholes which eventually lead to loss of revenue as well the inconsistencies in raw material acquisition.



Even though there are around 2300 employees in SAIDAL their distribution is therefore restricted mostly for procurement, production, and marketing which are the primary value chain components. But it needs to be incorporated also with other supporting activities. The modified value chain can be generated as follows:

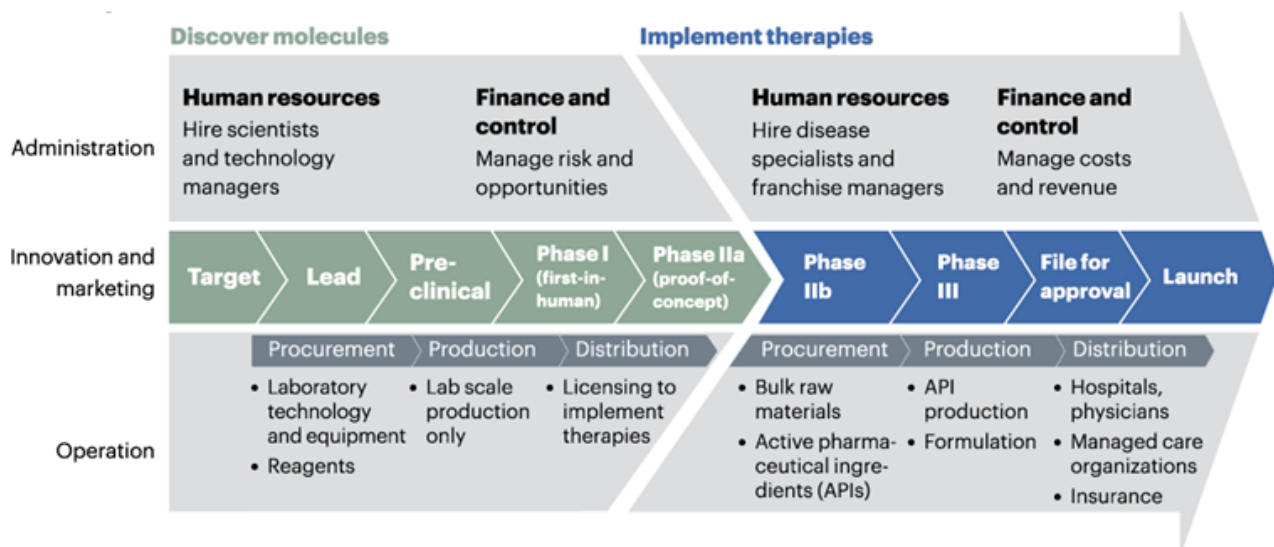


Figure 7 – Proposed Value Chain of SAIDAL Group

This will include a direct involvement of human resource division for the handling of the talent acquisition and monitoring of the R&D and other major divisions and also the involvement of the Finance and control division to handle all of the financials Realtime allowing the use of resources effectively and efficiently.

## The implementation plan

The creation of an implementation plan is structured along several axes that define the growth of the company. It is

defined by the act of determining the fundamental long-term goals and objectives, implementing actions and allocating the resources needed to achieve those goals.

## Gantt Chart of Implementation

Table 4 – SAIDAL Strategic Change Implementation Plan – Gantt

Task	2020	2021	2022	2023	2024
Structural change implementation					
R & D Division Redesign					
R & D Open Innovation					
Sales / Marketing Force					
Value Chain Analysis					
Value chain modification					

### 4.1 Resources allocation

**Human resources:** The pooling of the brainpower of researchers from the ‘Inflammation and Immunology’ Division, they will be assigned to work in cooperation with the chosen startup on the biosimilar drug with collaborative research with selected 5 universities in Algeria

**Physical and technological resources:** The pooling of devices and all materials to conduct research and development in a cooperative context along with the reach of international partnership with SAIDAL and the other giants in the western countries like USA and Germany.

**Financial resources:**

To establish the estimated cost of the project, a list the direct and indirect costs should be established:

Direct costs

- Salaries of internally mobilized human resources, according to the hours planned for them to work on the project;
- The cost of external human resources;
- The cost of purchasing and/or renting equipment, supplies, and materials (rooms, computers, software, building materials, tools...);
- Any travel expenses.

#### Indirect costs

- Overheads (or operating costs): these are all costs of the project other than labor and material costs, i.e. accommodation, heating, communication, external services, etc.;
- Management costs such as salaries for the company's transversal services (administration, marketing, finance, accounting, etc.).

## **Conflicts and Issues in Implementation**

This process becomes a radical change that needs to be implemented quickly in order to take back SAIDAL to the prosperous age that it had earlier giving up bankruptcy. Therefore, some kind of theory like Kurt Lewin's Change Management needs to be adapted.

### **Kurt Lewin's Change Management Model use in SAIDAL**

Kurt Lewin's change model has three steps that include unfreezing, change and refreeze.

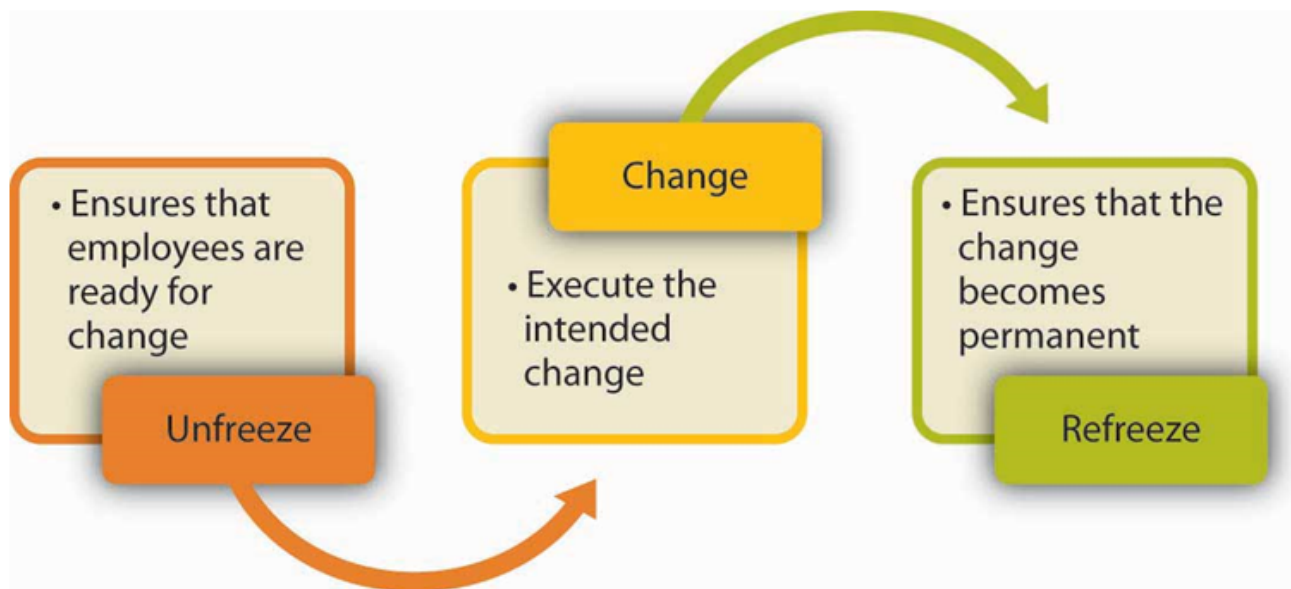


Figure 8- Kurt Lewin's Change Model

In the environment of SAIDAL this can be implemented in order to get the desired change, First, need to be done the unfreezing by first making the employees aware of what the situation that SAIDAL is currently in and why this change is needed. Then with the involvement of the top management itself, change can be introduced to the employees and they will embrace it willingly. Once the change is established it can be made to refreeze by providing some kind of incentives, bonuses, etc to them.

## Projected Profit & Loss Account

Table 5- Projected Profit & Loss Account for SAIDAL Group 2020 – 2023

	USD Million			
	2020	2021	2022	2023
Income	450	640	850	1000
Cost of Sales	150	220	350	350
Gross Profit	300	420	500	650
Administration expenses	60	70	73	80

Marketing & Promotion	50	50	60	70
Other	(20)	(20)	(30)	(40)
	130	140	163	190
Net Profit	170	280	337	460

## Conclusion

It can be concluded that SAIDAL group was a very well-established group that had fallen financially up to bankruptcy due to lack of monitoring of their process and also due to value chain changes and the investments that are done without considering other factors. These reasons were justified with the internal and external analysis conducted and can be concluded that the organization needs a strategic change. This change can be successfully implemented by doing a change to the structure of the company by paying more attention to the research and development department but with much monitoring of resource and fund allocation. The next strategic change is to implement structural change, involving human resource management to monitor and control talent acquisition and finance division to real-time control finance allocation. After implantation of these strategic changes successfully, it can be guaranteed that SAIDAL can reach the given strategic objectives in no time.

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