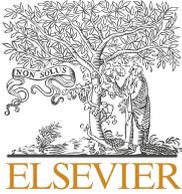


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Governance for SMEs: Influence of leader on organizational culture

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ABSTRACT

Many studies have focused on corporate governance in listed companies, but few studies have been conducted on specific governance mechanisms for Small and Medium Enterprises (SMEs). However, SMEs take up an important place in economics of many developing countries like Tunisia. This paper has for main objective to identify determinants of organizational culture of SMEs as an important governance mechanism. To achieve this objective, a survey has been conducted by means of questionnaire with 120 Tunisians SMEs. The results of structural equations show that the experience and the training mode of the leader of SMEs influence the organizational culture.

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1. Introduction

A small number of researches are focused on SME although it is heterogeneous and it is not the reduced model of a large organization [1]. Indeed, the SME is crossed by an entrepreneurial logic and the organization is marked by issues managers [2]. The management of SMEs is generally studied, but the discussion of relations leader/management is not sufficiently explored [3]. However, SMEs occupy an important place in the economy of many countries especially developing like Tunisia and we are almost agreed on the benefits of good governance for the economy in general and the company in particular and conscious about the relationship between mechanisms of corporate governance and performance [4].

Governance system for listed companies assumes that leaders are restricted in their decisions and actions of external and internal disciplinary mechanisms. These mechanisms should help secure the shareholders and all stakeholders in the company (leader, State or local authorities, creditors, employees) in their agency relationships and transactions with the company [5]. External mechanisms are market mechanisms (market leaders, goods and services, work) and regulation. Internal mechanisms are related to the rules and conditions of exercise of such power management at the board (composition and independence of the members). However, the mechanisms of governance of SMEs are primarily internal, since SMEs are generally not listed on the stock market and financial market regulator has no role. Even in SMEs limited company, the role of the board is nominal and is dominated by the family power. Thus, it is the leader who chooses the mechanisms of framing his

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decisions and not the external elements that require these mechanisms. This leader has multiples profiles which depend largely on his culture.

In Tunisia, the subject of corporate governance has taken the attention of many researchers, journalists and even politicians. According to statistical reports of the Agency for the Promotion of Industry, SMEs dominate the economy and form the primary source of employment. Moreover organizational culture of Tunisian SMEs is often considered dependent on the culture of its leader while it constitutes a very important governance mechanism creator of value [3]. Thus the question is about the relationship between the profiles of the leader and the creation of an adaptive and participatory culture in the context of SMEs.

Many researches consider that the organizational culture of SME is confounded with the culture of its leader [6]. This result cannot be generating for all SMEs because it depend of the degree of development of small business [1]. This research seeks to identify the relation between the profiles of leader which are influenced by his culture and the organizational culture of Tunisians SMEs. [7], in its proposals for a theory of corporate governance, provides a typology of mechanisms that corporate culture is a specific and spontaneous mechanism. Culture can be defined as the set of values shared within a group of individuals. It consists of collective mentally built, shared within a group or a nation. This governance mechanism is considered compulsory within SMEs characterized by multiple profiles [8]. Therefore, the main objectives of this research are:

- To describe the specifics of corporate governance system in SMEs.
- To analyze the influence of the leader on organizational culture.
- To demonstrate that the organizational culture of SMEs isn't constantly confound with the culture of its leader as suggesting by a large literature.

2. The Theoretical Framework

In SMEs, corporate governance is not only the resolution of agency conflicts but also the interests of stakeholders like customers, suppliers, investors, creditors. Therefore, other theories may apply to the governance of SMEs [9]. We thought that we must go beyond the traditional approach to governance, namely that control leader to act in the interest of shareholders (type I agency conflict) to explore other avenues such as the partnership approach and the cognitive power, an emerging literature. SMEs are characterized, first, by personal or family ownership of company assets and, second, by the personal liability of directors so SMEs have agency conflicts different of those companies dispersed ownership structure; the level of information asymmetry between shareholders and managers is quite high. Indeed, in SMEs the ownership structures are varied and dissociation property-control is less common [10]. Thus, the

level of information asymmetry is low or even non-existent since the leaders are in most cases shareholders.

Conflicts and agency costs are virtually zero since owners are often at the same time leaders, there would be an overlap on the logic of maximizing profiles and development risk. Thus, the need of control will be less intense in the family business as a result of greater discipline on the part of management; control procedures are not useful and will be used later to encumber the company profitability [11]. However, the agency conflict between controlling shareholders and minority shareholders (type II agency conflict) will be more intensive in family SMEs where the ownership structure is highly concentrated [3]. Corporate Governance in SMEs is rich enough, it can be explained by an alternative theory of psychosocial nature, that of "Stewardship Theory".

Researchers specializing in "Organizational Behavior" developed the theory of stewardship focused primarily on the issue of motivation of the leader. This theory rests on the idea that in a family business, agency theory is inapplicable to the extent that the three functions of the officer, shareholder and supervisor are held by the same person or the family. In fact, contrary to the theory of agency that is well suited in cases where leaders are individualistic behaviors and maximizing their own utility function, stewardship theory proposes to consider situations where the leader gives the priority to the general interest. Subsequently, the control systems of leader, in optical agency, will certainly be ineffective or even against-productivity.

Stewardship model is based on the assumption that the leader is not necessarily opportunistic but he seeks to achieve a high level of profitability for the company and to improve the income of shareholders. The leader may derive satisfaction from the success of his organization by promoting the general interest.

Thus, according to this logic, the shareholders and directors have interests perfectly aligned. Managers are collectivists and pro-organizational. They are not considered individualistic and opportunistic as suggested by the adopted of agency theory. The agent is not chosen for the search of an individual gain but for the collective interest.

3. The conceptual framework

The literature on entrepreneurial typology allows distinguishing certain profiles of owner-managers which are able to analyze the practices of SME managers face the mechanisms of corporate governance. These profiles are essentially the capabilities of the leader, his management style of the firm and his motivations [12].

The leader plays the role of organizational entrepreneur facing the governance structure. Indeed, he is able to easily influence governance mechanisms by mental schema and he does not necessarily undergo, as suggested by a significant part of empirical studies focusing on the agency relationship between leader and shareholder.

The human capital of the leader has a significant influence on the structure of corporate governance for at least two reasons. The first reason is the

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