

EXPLORING CONSTRUCTS OF LEADERSHIP IN SMES: THE CASE OF SERBIA

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ABSTRACT

The scope of this paper is regarding leadership as an important supporting instrument for: the implementation of strategy, continuing development and enabling capabilities, depicting the most important constructs of strategic leadership in small and medium sized enterprises (SMEs) in Serbia. The data was collected using a survey designed to assess the leadership influencing factors nested in the acceptance of knowledge management concepts in SMEs in Serbia. The questionnaire was sent in to the mid-level managers and senior executives of 986 randomly selected SMEs. The respondents were predominately male, highly educated

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30 to 40 years old CEOs with up to 5 years of experience in the current job. The obtained data was assessed by a principal component analysis and three factors were extracted: Culture, Structure, and Entrepreneurial attitudes, explaining 63.56% of variance. The results provide a basis for understanding the leadership predisposition of an SME as it enters a transitional socio-economic environment.

Key words: *leadership, leadership constructs, knowledge management, SMEs, Serbia*

JEL classification: *M12, M54, O32*

INTRODUCTION

Literature's attention to small and medium sized enterprises (SMEs) and their key factors of success in transitional economies is occasional (Youssef et al. 2017, Haak-Saheem et al. 2016). The subject is even more interesting in South-East Europe, bearing in mind that the transition from an industrial to a knowledge economy is coupled with the transition from a planned to a free market economy (Bojović 2012). The transition from an industrial economy to a knowledge economy imposes new rules of conduct and management. Organizations that refuse to accept the altered market conditions and fail to embrace the imposed challenges as opportunities will disappear from the market scene. Adaptability is the key assumption for survival in the knowledge economy.

For an industrial society, the most important value creation factor was human labor, enhanced with new technologies that were guided by capital spirit (Weber 2001). Changes in modern society are attributed to innovative entrepreneurship (Langlos 2005), portrayed as the main driver of technological knowledge creation that is responsible for long-term economic growth (Sautet and Kirzner 2006). In this context, the entrepreneur is seen as an economic mechanism that transforms technological knowledge into an economic value. Entrepreneurs are a decision-making force that generates both continual innovation and economic value from those innovations (Carlaw, Thorns and Nuth 2006). Entrepreneurs take risks, make a vital bond in the process of technological change and economic growth, using technology and commercialized value.

From this perspective, the main focus of this research are small and medium sized enterprises (SMEs), as they are regarded as the most entrepreneurial. The firm size, especially when making a distinction between SMEs and large companies is usually measured by the number of employees (Haltiwanger, Jarmin and Miranda, 2013). This study defines a small and medium-sized enterprise as a firm with less than 250 staff, and a turnover not exceeding RSD 5.9 b (that is €50m based on the average monthly RSD – EUR exchange rate in 2016, which was the data collection year) as suggested by the EU recommendation 2003/361 (The Commission of the European Communities 2013). The sectors of: trade services, manufacturing and technology are the sectors where SMEs are concentrated in the Serbian economy. Contributing to almost 70% of employment and 56% of value added (Ministry of Economy, Republic of Serbia 2016) SMEs are seen as the most dynamic and efficient segment of the economy. Although notably present on the market, SMEs in Serbia are challenged by an unpredictable business environment, high levels of para-fiscal charges, difficult and costly access to finance (European Bank for Reconstruction and Development 2017). The success of the business portrayed via competitiveness, in particular for SMEs, is of essential importance for the renewal of national economies (O’Cass and Sok 2014, Rua et al. 2018, González-Pernía et al. 2015), especially for the developing economies, such as Serbia. Small firms have the lowest survival rate, thus it is critical to develop effective business strategies, that could be of interest to the leadership of a company (Thornhill and Amit 2003).

LITERATURE OVERVIEW

Knowledge, considered as a strategic resource, requires management to develop the competitive advantage of a company (Storey and Barnett 2000, Newell et al. 2002). The competitive advantage is thought to be the ability of an organization to be better than that of the competition. Focusing on knowledge as a strategic resource, a theoretical avenue named Resource-based view was developed to clarify the possibilities of reaching a competitive advantage, exploiting the economic gains based on firm-level efficiency advantages. Knowledge is the primary value creator and key production factor according to the Knowledge-based theory of the firm (Grant 1996).

Practitioners and academics alike agree that leadership plays a major role in the creation and management of knowledge in the organization (Theriou, Maditionos and Theriou 2009). Knowledge management can be implemented only if the

leaders and managers, at different organizational levels, value knowledge as a strategic resource, believe that success of their business depends on the way knowledge is managed, and trust that knowledge exists within the human capital they employ (Heisig 2014). For the organization to be successful in exploiting available knowledge assets, an explicit “fit” must be obtained between the mission and the goals of the organization on the one side, and a knowledge management strategy on the other. Knowledge leads strategy, and strategy leads knowledge management (Snyman and Kruger, 2004). Thus, knowledge management could be considered as a product of strategy, or closely connected to strategy (Bagnoli and Vedovato, 2014). Additionally, knowledge management is not just independent managerial practice; it is the central mechanism that influences the organizational culture, structure and strategic organizational efficiency (Zheng, Yang and McLean, 2010). Positive direct influence of successful leadership of the company and successful knowledge management has been proven in developed economies (Snyman and Kruger 2004, Halawi et al. 2006), as well as in developing economies (Meihami and Meihami, 2014).

As knowledge is the only resource that can create innovation and creativity, it is inevitably the only resource that generates a sustainable competitive advantage (Teece 2000). Integrating experiences and knowledge dispersed in an organization has become more important than ever before (Dayan, Hisig and Matos 2017).

A competitive advantage is thought to be the prime goal of the organizations leading to higher profits or market shares. A competitive advantage is facilitated by the practices that leadership implements (Singh 2008). Viewed from an alternative perspective, it could be argued that the lack of commitment of top leadership in sharing organizational knowledge leads to organizational failure (Hiebeler 1996).

Introducing knowledge management practices poses the most important change in the organization, thus leadership is considered to be essential (Davenport and Prusak, 1998). Leadership is responsible for enabling the climate in which knowledge sharing is a must, and people feel safe and encouraged to work in teams. Individual contributions are recognized, valued and shared. Fostering the organizational climate, the urge to constantly learn is encouraged leading to idea and knowledge creation (Storey and Barnett, 2000).

Leadership is performed via managers, thus some authors accent the importance of understanding all the benefits of knowledge management implementation by top

managers, in order to support an aggressive role in decision making (Greengard 1998). Motivation of employees and provision of equal opportunities, i.e. employing effective incentive programs, are not enough to compensate uncommitted or irresponsible managers (Stewart 1997).

Leadership is even more important in micro enterprises and start-ups, where the interaction between leadership and entrepreneurship is often called entrepreneurial leadership (Zaech and Baldegger, 2017). It could be defined as the role of a founder-CEO in order to enable a flexible response to uncertain market conditions. Entrepreneurial leadership is the leadership role performed in entrepreneurial ventures, rather than in the more general sense of an entrepreneurial style of leadership (Leitch and Volery, 2017). Focusing on entrepreneurial leadership, specific entrepreneurial behavior or abilities come to surface. Exploiting entrepreneurial opportunities (Renko and Tarabishy, 2015), or the discovery and exploitation of strategic value creation (Gupta, MacMillan and Surie 2004) are the focus of entrepreneurial leadership. The firm's capabilities could be defined as substantive (growth) capabilities, enabling the firm to compete on the market; and dynamic capabilities, enabling the firm to modify, extend and create new substantive capabilities (Koryak et al. 2015).

For the current study it is assumed that the desired Leadership style is determined by: Organizational culture, Organizational structure and Entrepreneurial attitudes.

The organizational culture can be the most significant obstacle of effective knowledge management (Sveiby and Simons, 2002). In the context of knowledge management, the organizational culture is considered a complex collection of values, beliefs, behaviours and symbols that influence knowledge management in the organizations (Gold, Malhotra and Segars, 2001). Sveiby and Simons (2002) focused on only one specific aspect of culture: the values, beliefs and assumptions that influence the behaviours and the willingness to share knowledge, naming this aspect Collaborative Climate.

The Organizational Structure comprises of the organizational hierarchy, rules and regulations, and reporting relationships, but these structural elements have often had an unintended consequence of inhibiting collaboration and sharing of knowledge across organization. Some organizational structures have received favourable marks in literature with respect to effective knowledge management (Nonaka and Takeuchi, 1995).

There are two important elements of entrepreneurial attitudes, namely the ability to recognize opportunities and the ability to take calculated risks (Nybak and Hansen 2008). It is argued that people with entrepreneurial attitudes are more likely to start-up new business activities, thus it is considered an important factor of leadership.

METHODOLOGY

Specific survey measures had to be developed especially for this study, as these issues have previously been investigated mostly in organizations from developed countries.

A qualitative research was conducted from September till November 2015, in order to better understand the problem of the research in the particular business environment, and to adapt theoretical insights from literature. A qualitative research was conducted through structured interviews with managers and cofounders of 8 successful SMEs operating in the province of Vojvodina, which covers 28% of territory of Serbia. Taking into account theoretical and practical knowledge obtained from exploratory research, a questionnaire was created as the basis for identifying key construct factors.

For the dimension of Culture, a modification was made by adding the part of Collaborative Climate Survey (Sveiby and Simons, 2002) which refers to Overall Climate. Sveiby and Simons (2002) emphasize that for knowledge sharing only one specific aspect of an organizational culture, called collaborative climate, is of special interest. It is described as the 'permeability' of the human infrastructure for knowledge sharing, and it can be seen as the shared mental space where knowledge sharing and creation take place.

The questionnaire was pre-tested by a group of executives attending an executive development program at a leading Serbian Business School. After customization the final version of the questionnaire was adopted. In total, 12 indicators defining Leadership in Serbian SMEs were identified (listed in Table 2), each having been suggested elsewhere in the literature as being important for effective knowledge management, or having been included by the authors of this paper after a qualitative research process.

The composition of the questionnaire was as follows. Firstly general information about the business was inquired (name, head office) as well as about the respondent (gender, education level, position in the organization). Secondly, questions describing indicators for leadership influencing factors were presented. In the survey all of the indicators were measured on a five-point Likert-type scale, ranging from the (1) strongly disagree to (5) strongly agree.

The data was collected using a survey designed to assess the leadership influencing factors nested in the acceptance of knowledge management concepts in SMEs in Serbia. The unit of analysis for testing the model is the individual, thus all measures were based on the respondents' perception.

A quantitative research was conducted from January 2016 till March 2016. The questionnaire was sent in electronic form to the addresses of mid-level managers and senior executives of 986 randomly selected SMEs from the database of the National Agency for Regional Development of Serbia. Responses were received from 132 respondents, of which 114 were valid, leading to the real response rate of 11.56%.

The respondents were predominately male, highly educated 30 to 40 years old CEOs with up to 5 years of experience at the current job. The detailed sample structure is presented in Table 1, while the geographical distribution of respondents is presented in the Appendix.

Table 1: Descriptive statistics

Measure	Item	Percent
Designate of Department	Owner	19.1%
	CEO	29.1%
	Department Head	22.7%
	Forman	16.4%
	Supervisor	12.7%
Gender	Male	68.4%
	Female	31.6%

continued Table 1.

Measure	Item	Percent
Age	less than 30	17.7%
	30 – 40	44.2%
	41 – 50	21.2%
	over 51	16.8%
Education (obtained Degree)	College	16.8%
	University	71.9%
	Master	8.8%
	Doctoral	2.6%
Work Experience in years	1 to 5	37.5%
	6 to 10	26.9%
	11 to 15	9.6%
	16 to 20	10.6%
	21 to 25	14.4%
	over 25	1.0%

RESULTS AND DISCUSSION

To assess the underlying structure for the 12 items of the knowledge management leadership questionnaire, a Principal Components Factor Analysis with Varimax rotation and Kaiser Normalization was conducted. The assumption of independent sampling was met. Linear relationships, as well as moderate level correlation, between pairs of variables were checked. The Kaiser-Meyer-Olkin Measure of Sampling Adequacy ($KMO = .775$) proved the data is adequate for factor analysis. No specific number of factors was requested. All the communalities of the items were greater than .3 and the total variance explained by the factor analysis was 63.56%, or for the factors respectively: 33.78%, 15.204% and 14.581%. The analysis confirmed existence of 3 factors, and is presented in Table 2.

Table 2: Results of Principal Component Factor Analysis

Items	Loadings
Factor 1: Culture (%variance = 33.78% ; Eigenvalue = 4.054)	
CC4 - Open communication is a characteristic of the Department as a whole	0.887
CC1 - Sharing of knowledge is encouraged by the Department in action and not only in words	0.872
CC3 - We are encouraged to say what we think even if it means disagreeing with people we report to	0.859
CC2 - We are continuously encouraged to bring new knowledge into the Department	0.820
CC5 - The people I report to keep me informed	0.766
Factor 2: Organizational Structure (%variance= 15.204% ; Eigenvalue= 1.824)	
OS2 - Rewards for knowledge sharing motivates employees to share their knowledge	0.863
OS1 - Employees are rewarded for sharing their knowledge and experience with co-workers	0.834
OS3 - Employees are rewarded more for team work and cooperation than for individual results	0.703
Factor 3: Entrepreneurial Attitude (%variance= 14.581% ; Eigenvalue= 1.75)	
EA4 – Name creation and brand development are highly important	0.800
EA3 – Company’s market endurance is highly important	0.716
EA1 – Creating something new is highly important	0.585
EA2 – Profit and earnings are highly important	0.557

Extraction Method: Principal Component Analysis.

Rotation Method: Promax with Kaiser Normalization. Rotation converged in 6 iterations

The analysis has proven the existence of three key factors influencing leadership based on knowledge management in Serbian SMEs, namely: Organizational culture, Organizational Structure and Entrepreneurial Attitudes. There were no cross-loadings found, proving the clear cut selection of the items for the three constructs.

First, and the most influential construct, was Organizational Culture. With items emphasizing the importance of open communication, knowledge sharing and motivation for cooperation, this finding is a clear indication that the founders, and co-founders in micro companies, who are at the same time managers on the one hand, and higher levels managers in small and medium sized companies on the other, should invest more in a transparent and knowledge sharing oriented management style.

The second factor, Organizational Structure, confirms the necessity of knowledge sharing and team work, suggesting that employees feel highly motivated when rewarded for teamwork and knowledge sharing.

The third factor, Entrepreneurial Attitudes, regarded as highly important for managing micro firms and start-ups, as the founders are managing all the employees and tasks, has not been shown as the highest importance. However, the structure of the factor and the loadings have shown that profit is not at the highest importance of founders and managers, but rather brand and market endurance i.e. longevity of the firm.

The conducted analysis and the results are highly important for the transitional economy of Serbia. However, some open issues remain. The sample that provided the base for the analysis consisted only of SMEs. The results would be different if all companies, regardless of size, were taken into consideration. Furthermore, future research could evaluate significant differences between micro companies and SMEs, as it might be the case that leadership styles and their commitment to sharing knowledge in micro firms is much more important than in other SMEs. Next, another avenue of research could also be an investigation into significant differences in leadership style and knowledge sharing in capital intensive and knowledge intensive sectors.

CONCLUSION

The most influential construct is Culture, with items that promote open communication and knowledge sharing, and they are supported with the second most influential construct Structure. They are supported with defined policy measures for rewarding employees, which encourage knowledge sharing and open communication.

The third construct, Entrepreneurial Attitude, promotes the long-term sustainability of SMEs, i.e. the importance of the brand and market endurance. Bearing in mind the stated long-term goals, the most significant characteristics of culture and formal structural support to the knowledge sharing process, it could be concluded that transformational leadership is able to respond effectively to the demands placed on SMEs in the face of crisis or uncertainty, such as in the process of transition.

Transformational leaders satisfy the fundamental requirements of their subordinates such as integrity, respect and trust (Xiao, Zhang and Ordóñez de Pablos 2017). The results of this research show that the role of transformational leadership in organizational management is of the greatest importance for SMEs in Serbia during the economic transition from an industrial to a knowledge economy.

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