ORGANIZATIONAL GROWTH OF SMES IN SERBIA: GOVERNANCE AS A BUILT-IN LIMITING GROWTH FACTOR

Organizationali rast malih i srednjih preduzeća u Srbiji: upravljanje kao ugrađena barijera rasta

APSTRAKT Cilj rada je da istraži karakteristike upravljačkih struktura u tri srpska preduzeća srednje veličine, a posebno pitanje da li korporativno upravljanje utiče na mogućnosti organizacionog rasta ovih kompanija. Rezultati sugerišu da su u svim posmatranim kompanijama vlasnici imali neposrednu kontrolu nad svim aktivnostima i da nisu bili voljni da delegiraju autoritet na profesionalne menadžere. Nespremnost vlasnika da delegiraju autoritet u suštini predstavlja glavnu barijeru daljeg organizacionog rasta njihovih kompanija, i ovakvo njihovo ponašanje je, prema našem mišljenju, duboko ukorenjeno u vrednostima srpske nacionalne kulture.

KLJUČNE REČI organizacioni rast, korporativno upravljanje, nacionalna kultura, organizaciona kultura, centralizacija

ABSTRACT The aim of the study is to investigate the characteristics of governance structures in three Serbian medium-sized enterprises and, particularly, whether the corporate governance influences organizational growth prospects of these firms. The results suggest that in all the companies owners held a tight personal control over all activities, not being willing to delegate any authority to professional managers. This unwillingness of owners to delegate authority actually presents the main barrier for further organizational growth for their firms, and such behavior is, we believe, deeply rooted in the values of the Serbian national culture.

KEYWORDS organizational growth, corporate governance, national culture, organizational culture, centralization
Introduction

For majority of SMEs, separation of ownership and management presents a great challenge in their attempt to provide long-term organizational growth through building efficient governance structures (Jones, Butler, 1992; Davidsson, 1989). Since many SMEs in Serbia are facing growth problems, in this paper we made an attempt to investigate the characteristics of corporate governance in three Serbian companies and, particularly, whether the corporate governance influences organizational growth prospects of these firms.

Since the relevant literature on SMEs reveals that the majority of studies are actually concerned with the entrepreneurship and rather small companies, leaving much space for research of medium-sized enterprises, we focus our investigation on medium-sized companies. The purpose of the study is to investigate whether the separation of ownership and management took place in these firms, and in which way, as well as whether the governance structures in any way influenced organizational growth prospects of the selected companies. Research method was selected to suit the research aim: we used a qualitative research method – a multiple case study method in three Serbian medium-sized enterprises in the period from 2004 to 2006. In data analysis both qualitative and quantitative techniques were used. The paper however has some serious limitations, and it therefore presents just a first step in investigating the characteristics of corporate governance in SMEs in Serbia.

The paper is divided into four sections. First, we give a theoretical background for organizational growth, and then we describe research methodology and present research findings. Finally, we discuss research results and address some of the implications, primarily for the management of Serbian medium-sized enterprises, the potential limitations of our study and identify possible directions for further research.

Theoretical background: Organizational growth

The concept of organizational life cycle suggests that corporate governance undergoes evolution as firms are passing through different stages of their growth and maturity. The life-cycle perspective is one of the oldest and most widely used theoretical perspectives for explaining organizational dynamics. The life-cycle has been used as a theoretical framework not only for studying organizations’ dynamics, but also for studying of changes in the fields of child development, group decision making, moral development, and even in physics and biology (Van de Ven, Poole, 1995).

Several different models of organizational life-cycle can be found in the literature (Downs 1967, Lyden, 1971; Lippit & Schmidt, 1967; Scott, 1975; Katz & Kahn, 1978; Greiner, 1972, 1998; Adizes, 1979; Quin & Cameron, 1983; Miller &
Freisen, 1980; Meyer & Rowan, 1977; Hannan & Freeman, 1989). All of them are different, but they have a number of similarities. The differences between organizational life-cycle models arise for two reasons. First, various authors have analyzed life-cycles of different types of organizations, and, therefore, their research has procured different models. Thus, there are life-cycle models of companies, but also life-cycle models of non-profit organizations. Second, authors had set different criteria in differentiating the phases of the life-cycle. Various characteristics and components of organization, its structure, strategy, management systems, etc, have been used as criteria. Hence Downs (1967) distinguished phases in the organizational development on the basis of changing motivation for growth, Lippit & Smith (1967) on the basis of critical management issues, Torbert (Quinn, Cameron, 1983) used the mentality of organization’s members, Lydenn (1975) used functional problems, while Scott (1971), as well as Katz & Khan (1978), used changes in organizational structure and strategy as a criterion for identifying the phases in organizational life-cycle.

Despite significant differences, all models of organizational life-cycle share common assumptions and a unique paradigm of organizational changes and development, and recognize similar phases in organizational development (Van de Ven & Poole, 1995). All models and concepts of organizational life-cycle are based on the analogy with living organisms; hence the basic logic of changes is extracted from the observations of the dynamics of the living world. The first and most important assumption is that the motor of change in organizations is internal, that is, it is contained within the organization itself. The organizations often change since they mature and grow, just like humans do. This does not mean that there are no other causes for organizational changes, but it does mean that, even if no other cause for change exists, the organization will change during its passage through phases in the life-cycle. The changes are “natural” and inevitable. Increase in size and maturing of the organization are the motor of changes. The second assumption of all models of life-cycle is that the flow of organizational changes through the life-cycle is predetermined. Just as the changes in human development are naturally predetermined, the organizational changes are also predetermined by an inner code of organizational development. Organizational changes during the life-cycle are isomorphic, and consequently all organizations experience similar phases of development; in that process they face similar problems, and, by solving these problems, they experience similar changes. Just as all humans live through childhood, adolescence, youth, maturity and old age, organizations also undergo recognizable phases in their life-cycles. Just as all humans encounter similar problems in puberty, so all organizations encounter similar problems in their development and resort to similar solutions. Phases in life-cycle are sequential. They proceed one after another, and they cannot be skipped or occur simultaneously. Finally, all organizational life-cycle concepts are based on the assumption that changes in life-cycle are cumulative. Each subsequent phase is based on the changes that took place in the previous phase.
In addition to basic assumptions and intellectual background, the phases in growth process and organizational development are common to all organizational life-cycle models. Even though different organizational life-cycle models contain different number of stages in organizational development and give them different names, they obviously exhibit a number of similarities. Downs (1967) distinguished three phases: struggle for autonomy, rapid growth, and deceleration. Lippit & Schmith (1967) also recognized three life-cycle phases: birth, youth, and maturity. Scott (1971) identified three phases which he did not name, but the three phases differed depending on the degree of elaboration of structure and strategy. Using the same criterion – the level of complexity of the structure – Katz & Kahn (1978) distinguished, again, three basic phases in the organizational life-cycle: primitive system stage, stable organization stage, and elaboration of structure stage. Greiner’s (1972, 1998) organizational life-cycle model is one of the most elaborate, since it contains five phases: growth through creativity, growth through direction, growth through delegation, growth through coordination, and growth through collaboration. Adizes’ (1979) organizational life-cycle model also contains several phases: courtship stage, infant organization stage, go-go organization stage, adolescent organization stage, and maturity organization stage. As Quinn & Cameron noticed way back in 1983, all organizational life-cycle models can be integrated in such a way that the development of organization consists of four basic phases: entrepreneurial stage, collectivity stage, formalization and control stage, and structure elaboration and adaptation stage. Also, what some organizational life-cycle models have in common is the appearance of crises between the development stages in the life-cycle. Crises appear as a result of accumulating of problems during a certain growth phase, or, as Greiner puts it, when the potentials for growth in a phase are worn out. Resolving crises within the life-cycle usually calls for significant changes within the organization, but these changes are the basic prerequisite for the organization to continue its development.

Among several organizational life-cycle models suggested throughout the organization literature, we have selected Greiner’s organizational life-cycle model (Greiner, 1972, 1998). There are two main reasons why we have selected this particular model. First, Greiner’s organizational life-cycle model is one of the most elaborated, most detailed and the most widely used in literature. Second, in this model, the phases of the life-cycle are differentiated on the basis of several criteria, among which one of the most important is corporate governance and management control.

The Greiner model proposes that an organization passes through five sequential growth stages during the course of organizational evolution, and that each stage ends in a crisis as the consequence of major problems the organization is facing (Greiner, 1972, 1998). In each of the phases of the life-cycle, an organization has a different source for growth which is gradually exhausted over time, and finally its disappearance leads to crisis. To enter the next stage of organizational growth, an organization must successfully change itself and solve the organizational problems
associated with the previous crisis. A new source for growth is thus created, providing the next, relatively peaceful, period of organizational growth, until the next crisis arises.

According to Greiner’s model, during its life span, an organization passes through the following five growth stages (Greiner, 1972, 1998):

**Stage 1: Growth through Creativity.** This growth stage covers the period from an organization’s birth. Entrepreneurs develop abilities and skills to introduce new products for new market niches. The main source for organizational growth is innovation and creativity of entrepreneurs. In this stage, the main control mechanisms are the norms and values of organization’s culture rather than the hierarchy and organizational structure (Jones, 2004). As the organization grows, the founders are confronted with series of management tasks that they are often unable to cope with, and for which they lack the skills, recognizing that management is a process very different from entrepreneurship. Consequently, entrepreneurs are facing a crisis of leadership.

**Stage 2: Growth through Direction.** To successfully advance to the next growth stage, an organization must resolve the crisis of leadership. This crisis ends with the recruitment of a professional top management team that will lead the organization through the next growth stage – growth through direction (Greiner, 1972). The professional top management team takes up the responsibility for directing the organization’s strategy, whereas lower level managers assume key functional responsibilities (Jones, 2004). During this stage, organization develops a functional or divisional structure to regain control of its activities, so decision-making becomes more centralized. As the organization grows, centralization of authority and formalization of decision making often leads to a new crisis – the crisis of autonomy of lower level managers possessing an entrepreneurial spirit. If the organization fails to resolve this crisis, internal entrepreneurs are likely to leave the organization, which reduces its ability to innovate, creates new competitors in the industry and, most importantly, limits the organization’s ability to grow and prosper (Jones, Butler, 1992).

**Stage 3: Growth through Delegation.** Resolution of the crisis of autonomy requires an organization to delegate authority to lower level managers in all functions and divisions, and “link their increased control to a reward structure that recognizes their contributions” (Jones, 2004: 352). Thereafter, an organization can move to the next growth stage – growth through delegation – requiring an organization to establish a multidivisional or product team structure which will allow for reducing the time needed to launch new products in the market, improve strategic decision making and speed up the response to customer needs. As the organization grows, department or divisional managers will attempt to exercise more and more control and independence, causing the top managers to lose control of the company as a whole, so the crisis of control emerges.
Stage 4: Growth through Coordination. Resolution of the crisis of control requires top management of the organization to find the right balance between centralized control from the top and decentralized control at the functional or divisional level, by applying appropriate coordination that facilitates more efficient monitoring of divisional activities through performance evaluation of each division to ensure efficient use of resources. To motivate managers, organizations create an internal labor market that recognizes and rewards the best managers with promotions. The need for efficient coordination often brings about the number of rules and procedures, making the organization too bureaucratic and consequently causes emergence of the crisis of red tape.

Stage 5: Growth through Collaboration. To resolve the crisis of red tape, an organization must push the growth through collaboration, meaning “greater spontaneity in management action through teams… Social control and self-discipline take over from formal control” (Greiner, 1972: 43). To achieve this, Greiner suggests moving to the matrix and product team structures.

Clearly, growth creates problems of adjustment for the organization. One of the key problems is implementation and maintenance of effective management control in growing companies. Management control, understood as “the process of using organization resources to achieve organizational objectives through the functions of planning, organizing and staffing, leading, and controlling” (DuBrin, 2000, p. 3), has been identified by almost all authors in organizational life cycle literature as one of the most important components of organizations which has to be changed during the development of organizations. Certainly, management control system could be differentiated by the level of centralization of power by those who exercise control i.e. owners of SMEs (Herath, 2007). As the size and maturity of organization increase, the authority delegation becomes more appropriate. Directive management techniques enable the organization to grow, but they may become ineffective as the organization becomes more complex and diverse. If the founders try to maintain direct control regardless of organizational size and complexity, the organization will face the crisis. The consequence is often a slowdown of further organization growth and prosperity.

Building effective control mechanism is especially important in the first two phases of organizational growth. In that period of the organization’s life, separation of ownership and control is necessary in order for organization to be able to continue to grow. Researches of SMEs development show that the leaders of organization must learn in the early phases of organization’s life cycle how to achieve the separation of corporate governance and control (Garengo & Bernardi, 2007). Overlapping of ownership, family and control, which often occurs in SMEs, is particularly dangerous. The owners become more and more overwhelmed with operative problems, which enable them to consider the strategic issues of organizational development, thus jeopardizing the growth and survival of their companies. In this way, the owners become a barrier to development of their own organizations.
According to Greiner, in the first two phases of organizational life cycle, the owners gradually realize that the changes in management control system are necessary, and learn how to accomplish them. When the management control issue becomes so intense that it causes crisis, the owners usually make the necessary changes, thus enabling further growth to their companies. Situations do occur, however, that the owners do not perform the separation of ownership and control, and that they do not make the necessary changes in the management control system. Some owners do this consciously, choosing a „no – growth“ strategy, in order to keep their own, personal and direct control (Garengo & Bernardi, 2007). The main question emerges: why do they do this? The existing literature already offers several answers which mainly come down to managerial capabilities limitations of such owners of SMEs that prevent them from creating the necessary control systems, or to their loss of motivation and learning capabilities (Santora & Sarros, 2008; Garengo & Bernardi, 2007).

Some studies that aimed to identify and estimate the relative impact of certain factors that enhance or reduce the willingness of small business managers to pursue growth, based on Swedish sample of primarily small enterprises (2–20 employees), point to two important factors that can jeopardize the growth of small enterprises: fear of reduced employee well-being (Wiklund et al, 2003; Davidsson, 1989), and loss of supervisory control (Davidsson, 1989).

We believe that some additional factors may be important for understanding of governance problems in medium-sized enterprises in Serbia – those factors are authoritarian national and organizational cultures. Thus, in this paper, we intend to particularly investigate characteristics of governance in medium-sized firms undergoing the first two phases of Greiner’s organizational life-cycle. We will try to investigate whether the lack of separation of ownership and management can be explained by authoritarian values of both the owners and the employees.

Method

The aim of our research is to investigate the characteristics of governance in medium-sized enterprises in Serbia, namely, whether the separation of ownership and control has taken place and whether the owners have delegated some of the authority to the professional managers allowing their organizations to grow and prosper.

The research methodology has been selected to support the research aim. We selected a multiple case study method – three medium-sized firms – since we believe that the qualitative research method is suitable for our research focusing on corporate governance in medium-sized enterprises, which is relatively unknown and new phenomenon.

In the process of selection of the companies, we followed two criteria: (1) access to companies, and (2) companies’ size. We selected three Serbian trading
companies: EUROPEN LLC, WISSOL LLC and VALORPLAST LLC. All companies are wholesalers, with minor retailing operations, in different industries: food, office supply and insulation construction materials.

Our research was conducted in period from 2004 to 2006. The data were collected through interviews with owners and 20 employees from different organizational units in each company, and internal company documents (Statute, Organizational Chart, Business Reports, Internal Acts, etc). Interviews were semi-structured, containing questions related to maturity and size of the company, type of strategy, characteristics of human resources policies of management, characteristics of organizational structure, type of leadership, type of current organizational problems owners were facing, etc. Some other interesting themes were included in the form of open-ended questions. Investigation of the type of organizational culture in three selected companies was done earlier and used as a secondary data. The research on organizational culture is done by using Harrison’s questionnaire (Harrison, 1972) and later work by Handy, who described four types of organizational cultures following Harrison’s work: Power culture, Role culture, Task culture and People culture (Handy, 1978, 1993).

Results and discussion

The research findings, summarized in Table 1, clearly suggest that all included companies have numerous similar characteristics.

First, regarding corporate governance, evidence of the separation of ownership and control and delegation of authority to professional managers has not been found. Additionally, all companies have shown inability to recruit and attract qualified candidates for managerial positions, to delegate authority to professional managers and exercise control systems based on direct supervision of the owner. Moreover, our study reveals that middle managers’ positions are usually held by the family members who also do not have authority to make decisions.

Secondly, regarding the size and maturity of organizations, we have found the evidence that all companies suffer from organizational growth stagnation. Although their size and maturity push them toward the next stage of their organizational life cycle, they stay in the same growth stage. We have also found evidence that these firms cannot resolve the crisis related to delegation of authority from the owner to professional managers – the crisis of leadership.

Thirdly, regarding the characteristics of the employees, we have found that all companies experienced a high turnover rate, ranging from 50% in VALORPLAST LLC and WISSOL LLC to 60% in EUROPEN LLC, with a higher than expected employee stability index. This suggests that a high turnover rate is related to either a specific job position, or to organizational unit. The structure of employees who left the companies shows that the highest turnover was related to managerial positions.
Table 1. A comparative review of three selected Serbian companies

<table>
<thead>
<tr>
<th></th>
<th>EUROOPEN LLC Belgrade</th>
<th>VALORPLAST LLC Belgrade</th>
<th>WISSOL LLC Cacak</th>
</tr>
</thead>
<tbody>
<tr>
<td>Industry sector</td>
<td>Office supply, business presents, petrol - wholesaling and minor retailing</td>
<td>Isolation construction materials – wholesaling and minor retailing</td>
<td>Food wholesaling</td>
</tr>
<tr>
<td>Strategic scope</td>
<td>National</td>
<td>National</td>
<td>National</td>
</tr>
<tr>
<td>Type of strategy</td>
<td>Unrelated diversification</td>
<td>Related diversification</td>
<td>Market penetration</td>
</tr>
</tbody>
</table>

**CORPORATE GOVERNANCE**

<table>
<thead>
<tr>
<th></th>
<th>EUROPEN LLC</th>
<th>VALORPLAST LLC</th>
<th>WISSOL LLC</th>
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</thead>
<tbody>
<tr>
<td>No. of owners</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>CEO</td>
<td>Owner</td>
<td>Owner</td>
<td>Owner</td>
</tr>
<tr>
<td>Managing Board</td>
<td>Does not exist</td>
<td>Does not exist</td>
<td>Does not exist</td>
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<tr>
<td>Top management</td>
<td>Does not exist</td>
<td>Does not exist</td>
<td>Does not exist</td>
</tr>
<tr>
<td>Middle-line management</td>
<td>Exists, usually family members, but without authority for decision-making</td>
<td>Exists, usually family members, without authority for decision-making</td>
<td>Exists, usually family members, without authority for decision-making</td>
</tr>
<tr>
<td>Leadership style</td>
<td>Authoritarian</td>
<td>Authoritarian</td>
<td>Authoritarian</td>
</tr>
<tr>
<td>Type of control</td>
<td>Direct supervision</td>
<td>Direct supervision</td>
<td>Direct supervision</td>
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**SIZE AND MATURITY**

<table>
<thead>
<tr>
<th></th>
<th>EUROPEN LLC</th>
<th>VALORPLAST LLC</th>
<th>WISSOL LLC</th>
</tr>
</thead>
<tbody>
<tr>
<td>No. of employees</td>
<td>75</td>
<td>55</td>
<td>102</td>
</tr>
<tr>
<td>Actual phase of organizational growth and type of crisis</td>
<td>Growth Through Creativity, Crisis of Leadership</td>
<td>Growth Through Creativity, Crisis of Leadership</td>
<td>Growth Through Creativity, Crisis of Leadership</td>
</tr>
<tr>
<td>Organizational model</td>
<td>Quasi-Divisional</td>
<td>Divisional</td>
<td>Functional</td>
</tr>
<tr>
<td>Expected phase of organizational growth based on size and maturity of the firm</td>
<td>Growth Through Direction</td>
<td>Growth Through Direction</td>
<td>Growth Through Direction</td>
</tr>
</tbody>
</table>

**CHARACTERISTICS OF EMPLOYEES**

<table>
<thead>
<tr>
<th></th>
<th>EUROPEN LLC</th>
<th>VALORPLAST LLC</th>
<th>WISSOL LLC</th>
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</thead>
<tbody>
<tr>
<td>Turnover rate*</td>
<td>60%</td>
<td>50%</td>
<td>50%</td>
</tr>
<tr>
<td>Employees stability index**</td>
<td>50%</td>
<td>70%</td>
<td>60%</td>
</tr>
</tbody>
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**CHARACTERISTICS OF LEADERSHIP**

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<thead>
<tr>
<th></th>
<th>EUROPEN LLC</th>
<th>VALORPLAST LLC</th>
<th>WISSOL LLC</th>
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<tbody>
<tr>
<td>Leadership style</td>
<td>Authoritarian</td>
<td>Authoritarian</td>
<td>Authoritarian</td>
</tr>
<tr>
<td>Cultural values</td>
<td>Collectivism, high power distance</td>
<td>Collectivism, high power distance</td>
<td>Collectivism, high power distance</td>
</tr>
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**ORGANISATIONAL CULTURE**

<table>
<thead>
<tr>
<th></th>
<th>EUROPEN LLC</th>
<th>VALORPLAST LLC</th>
<th>WISSOL LLC</th>
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</thead>
<tbody>
<tr>
<td>Type of organizational culture</td>
<td>Power culture</td>
<td>Power culture</td>
<td>Power culture</td>
</tr>
<tr>
<td>Metaphor of organization</td>
<td>Family</td>
<td>Family</td>
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</tbody>
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* Turnover rate (%) shows the relative share of employees who leave organization during one year. It is calculated in the following way: (No. of
employees leaving organization during one year / Average No. of employees in organization) x 100 (Bowey, 1974).

**Employees stability Index (%)** shows the relative share of employees who stay in the organization for more than one year. It is calculated in the following way: No. of employees working in organization for more than 1 year / No. of employees in the last year (Bowey, 1974).

**Fourth**, regarding the characteristics of leadership, we have found a strong authoritarian leadership style of the owner in all companies, led by the values and attitudes of the owners. These values and attitudes of the owners are under a strong impact of the Serbian national culture, characterized by the following dimensions, according to Hofstede (2002, 2001b): collectivism (Low IDV), high power distance (High PD), and high uncertainty avoidance (High UA).

Finally, regarding the organizational culture, the results of Harrison’s questionnaire and Handy’s work suggest that in all selected companies the “Power” type of organizational culture is a dominant one, and further strengthened with a “Family” metaphor of organization (Hofstede, 1997) shared by the majority of employees.

The presented research findings clearly indicate that in all three selected Serbian medium-sized companies, regardless of their maturity, the owners make strong endeavors to maintain a tight personal supervisory control over all organizational activities through managing day-to-day activities and not delegating authority to professional managers.

All selected companies are facing an organizational growth crisis – the crisis of leadership – that prevents them to advance to the next growth stage – Growth through Direction – and is thus limiting their ability to grow and prosper, as well as damaging their market position. Although the owners are in a way conscious of their inability to manage and control all business activities, they continue that practice. Even when they employ professional managers, they are not willing to delegate authority to them. As a consequence, managers often leave the companies after only two or three months, like other employees, who are often frustrated and dissatisfied with the management. What is worse, the companies are confronted with their inability to recruit qualified candidates for managerial positions for months. With such behavior, the owners themselves constrain their own firms in resolving the crisis of leadership and advance to the next growth stage – Growth through Direction. Additionally, in all included companies the employees’ turnover rates are very high, indicating, together with the values of employee stability indexes, that high turnover is an important characteristic of the companies, and that is especially linked to the managerial positions.

These findings imply that the owners and leaders of medium-sized enterprises in Serbia consciously sacrifice growth of their companies in order to preserve tight, personal control. This corresponds to what Davidsson (1989) particularly suggested
regarding the managers of small companies (up to 20 employees) in Sweden. We, however, suggest that in the case of Serbian medium-sized companies, the fear of losing supervisory control appears to be the most important single growth deterrent. This suggests the following hypothesis:

**Hypothesis (1):** A union of ownership and control in Serbian medium-sized enterprises represents the most important built-in limiting organizational growth factor.

How can this be explained? Why are owners of medium-sized enterprises in Serbia so eager to maintain a tight personal control over all activities?

One explanation can certainly be found in the cultural values and attitudes of the owners (leaders), as well as of the employees working in selected companies. The research indicates that, in all selected Serbian enterprises, the dominant type of organizational culture is the Power culture, which is characterized by high dependency on a central source of power – central figure within the organization (Handy, 1978, 1993). It relies on empathy and personal communications for its effectiveness. Control is exercised from the centre. There are few rules and procedures, and little bureaucracy. The Power culture strongly relies on the value of authoritarianism. Strength of this value has also been confirmed by the owners’ leadership style, shown to be strongly authoritarian in all selected companies.

Authoritarianism is related to an unconscious belief that leader should make all decisions alone and take all the risk. Furthermore, the leader should also be able to solve every problem that the company is facing. Employees feel a high dependence on the leader: he ought to protect them, while employees have to be loyal and to obey all of the leader’s requirements and orders. However, organizational growth requires significantly different cultural values, such as entrepreneurship, innovation and risk taking, which do not support a tight personal control of the owners.

The dominance of the Power culture and leader’s unwillingness to delegate authority in Serbian SME firms are deeply rooted in the Serbian national culture, characterized by a high power distance, strong collectivism, uncertainty avoidance and feminine values (Hofstede, 2002, 2001a, 2001b). Particularly important is the dimension of power distance which could be defined as a level where less powerful members of institutions within the country expect and accept unequal distribution of power as a natural and desirable state of affairs. A high level of power distance in Serbian national culture implies a metaphor of a patriarch family headed by the authoritarian father. This was also confirmed, for all selected companies, by our earlier research of be the basic perception of employees about their firms (see Table 1). The family metaphor assumes high centralization of authority and low formalization of the decision-making process, meaning that the leader’s power is neither omitted nor limited by any formal rule or procedure. This suggests the following hypothesis:
Hypothesis (2): Values of the Serbian national culture represent the main limitation to the separation of ownership and management within Serbian medium-sized enterprises.

Conclusion

In this paper, our attempt is to investigate the characteristics of corporate governance in three Serbian SMEs, especially whether the corporate governance influences organizational growth prospects. We have found that, in all selected companies, the owners hold a tight personal control over all activities and that they are unwilling to delegate any authority to professional managers, which represents the main barrier for further organizational growth for their firms, and that such behavior is deeply rooted in the values of the Serbian national culture.

We believe that the research findings may contribute to the existing knowledge in at least two important ways: by adding some new factors into the framework for studying corporate governance in medium-sized companies and by raising the question whether cultural values should be considered as a general determinant of the degree of decentralization in all types of companies, beside SMEs.

We believe that our findings may be a useful guidance for SMEs in Serbia for increasing their growth opportunities and retaining top managers through delegation of authority to professional managers. It seems that Serbian managers (owners) of SMEs still do not see that there is a strong correlation between the level of personal centralization and growth problems. Broader implications of this paper may be found in other developing countries with similar or same values of national culture regarding power distance, collectivism/individualism and uncertainty avoidance, and where managers (owners) of SMEs are, perhaps, facing the same organizational growth problems.

There are several limitations to this study that should be recognized. First, the narrowness of our approach in focusing on only three medium-sized companies prevented us from making more general and definite conclusions, so more empirical work will be needed to test our conclusions and make more definite recommendations. Secondly, all selected companies are wholesalers. Although they operate in different industries, this factor could influence the results of this study. Thirdly, the aim of this research required a more complex, cross-cultural study, which was missing in our research. Finally, some studies argue that the focus on stable psychological characteristics of entrepreneurs is unsatisfactory (Aldrich, Zimmer, 1986) and that more promising research should be comparing entrepreneurs to other groups such as, for example, large firms managers (Davidsson, Wiklund, 2001).
However, this paper represents only a first step in understanding some of the unique characteristics of governance structures in medium-sized firms in Serbia. Still, many questions remain unanswered that should be dealt with in the future. Future research should expand on the present investigation with a much higher number of medium-sized firms in Serbia in order to allow for testing of our hypothesis. It would also be very useful to conduct a cross-cultural research to find out if medium-sized firms act in similar way in different countries with similar national culture values.

References


