

# The Mediating Effect of Organizational Culture on Leadership and Performance in SME

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## **Abstract**

Small and medium-sized enterprises (SMEs) are an important component of the world economy because they contribute on average between 50% and 60% of GDP and 60% of national employment, as recognized by the Organization for Economic Cooperation and Development (OECD) in its member countries. Similar or even bigger percentages occurs in other countries around the world. In this sense, it is of research interest to examine the factors that contribute to its growth. Regardless of the company size, one of these factors is leadership, which has been widely studied. The results of scientific research on this topic have demonstrated the crucial role of a leader for business growth. On the other hand, the organizational culture is another factor that impacts the performance of the company and has been studied to understand its effect; however, most studies on organizational culture have focused on large companies probably because there is a misconception of assuming that small companies cannot develop an organizational culture due to the small number of employees. This study examined the mediation effect of organizational culture between leadership and performance in 276 SME using structural equation modeling and found that there is complete mediation. This result suggests that the SME's leader (i.e., usually the founder) should focus on creating a strong organizational culture because it has a positive impact on the performance of the company.

**Keywords:** business growth; mediation effect; OCAI; SEM; transformational leadership