Effect of the basic Corporate Identity factors (organizational culture and strategy) on the competitiveness of SMEs

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Abstract: The Corporate Identity (CI) has influence on operation and success of enterprises, but the literature and case-studies, however, are mostly about large companies. The SMEs have typical characteristic as a special heritage in the ex-socialist countries: the deficiency of entrepreneurial culture and management knowledge. More corporate identity based researches are performed by the author especially for SMEs in Hungary, and secondary data of several competitiveness surveys are analysed. The focus is on the connection of CI synergy, leadership and the company percept success. According to the results the balance of the factors are essential and the organization based competence is undervalued. As new result the main factor is revealed: the GAP and its extend between the leader and the organization has the most significant effect on the competitiveness of SMEs.

The presentation summarizes the results of the researches and gives new approach to the success factors of SMEs.

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Keywords: SME, family business, organizational culture, strategy, competitiveness

1 Corporate identity and company success

1.1 Introduction

This paper analyses the success of the Hungarian SME (small and medium-sized enterprises) sector from the aspect of competitiveness, Corporate identity (CI), organizational background and the role of the leader/owner. The author summarizes the organizational specialities of the SMEs based on the literature and case-study. According to these results the conclusion is the corporate identity management characteristically fades into the background of SME operation,
development purposes and strategy. The role of the firm owner-leader is essential in these topics. Meanwhile the unflexibility of the organization, loyalty of the employees, labour market disadvantages, the knowledge level and competency of the human resources, its effect on the efficiency are often the limit of the expansion. These factors have significant influence on the success and competitiveness of the company. The research results frame an answer to the role of synergic CI in SMEs’ success.

1.1.1 Corporate identity and competitiveness

There are several Corporate identity CI models, and usually the source of these theories is the different fields of business science. These models mostly focus on PR or marketing side (reputation, communication, company message, design; [42] [12], organizational side (corporate culture, values, philosophy; [15] [35] [43] [50], or strategy side (vision, goals, management skills). The author uses the CI model of Birkigt, Stadler and Funck ([51] 141.p, Figure 1.) This model summarizes the most important factors of CI, but it is flexible enough to apply for SME sector.

![Figure 1 The Corporate Identity model of Birkigt, Stadler and Funck (in Szeles, 2001., 141.p)](image)

The Corporate personality in the core of the model means the vision, strategy, philosophy and culture of the company. The design, communication and behaviour of the firm should be harmonized with this core, because this balanced connection results synergic CI. Otherwise in the course of time the synergy has
become essential attribute of CI. The synergic corporate identity can ensure competitive edge for companies. According to many authors [7] [8] [9] [39] [42] [51] the synergic CI helps:

- appeal to employees
- recruitment, selection from applicants
- holding and motivation of employees
- cohesion, ‘we’ sense
- trust and loyalty to the company
- stable and efficient relationship among the employees
- identification of employees

Several researches have proved the synergic CI correlates with higher price level, customer’s loyalty and employee’s commitment [49] [51] [1] [27] [25]. A synergic corporate identity programme should be based on the centre of corporate identity. According to Szeles it is not necessary to use every part of the model to achieve synergy: the key is the balance and truthfulness. The balanced feature of inside and outside factors and their authentic, congruous information eventuates in the synergic corporate identity.

The Corporate Identity getting an increasingly important factor for companies nowadays. The reason is that Organizational and Corporate Identity has influence on operation and success of enterprises. According to the survey of the MORI research company the corporate identity has become one of the most important role in company success. The survey asked the chairmen of Europe’s biggest corporations in 1992 [31]. Based on the results the CI affects recruitment, acquisition, sales, collaborative agreements, share price, etc – actually the part of the company competitiveness. Despite of this emphasized role of CI a lot of CEOs hasn’t got any idea how to manage or control it, and their opinion is that it is the one of the biggest management challenge. Olins’ opinion is only an A/4 paper is enough to frame the synergic CI [31]. Therefore there are the literature and the CI management professionals with the point that CI is not difficult and only a well-defined corporate core value and synergy is necessary to achieve the advantages of CI management. In the other hand there are the market participant with the experience that CI has a lot of traps in both of creation and management.

1.1.2 SME sector specialities in Hungary

The SMEs usually contribute to the GDP or the total employment to a great extent, but the CI literature and case-studies, however, are mostly about large companies, and they have other special characteristicic too: the lack of entrepreneurial culture and management knowledge is a special heritage in ex-socialist countries [17] [37]. After the change of regime in Hungary the privatisation meant a challenge for employees. After closing the unsuccessful factories there were a lot of recently unemployed people who set up small family businesses and became forced self-employed without any market experience. In
general these entrepreneurs never learnt special economy, they often have 'only' professional knowledge.

„The market worked as the sellers’ market even for the „socialist entrepreneurs”, therefore real competitiveness could not be developed, the behavioural models and skills which are necessary in a real market economy where the entrepreneurs have to fight against their rivals could not be evolved. … It is the same as putting out the lion from the zoo into the jungle.” [17] 580. pp. The authors’ opinion is the lack of co-operation in the economy stems from the rootless entrepreneurial culture. During the period of the socialism the distortion of market mechanism had been evolved (and built in the people’s values) which had a negative effect on later market behaviour (for eg. envy, low ability to co-operation).

2 Competitiveness at SMEs

2.1 General SME specialities from the aspect of competitiveness

Being leader / owner of a small or medium-sized company is not about only business and profit. Based on Mugler [34] and Hamori-Szabo [17] [18] SMEs usually works in a narrow segment of the market, have smaller market share and often create niche products or services. The owner is the leader – it is typical in Hungary, where the confidence and trust in the business life is a very important factor. The owner has informal and strong relationship with the employees, which comes from the size of the firm (according to the EU definition an SME can have maximum 250 employees). The B2B relationships are more important for SMEs, not only because of the success, but for loyalty, risk avoidance or reduction, trust and the main source of organisation competence development [52] [53] [23].

The business leaders do not have the knowledge of economics, information technology, organization, and listen to their instincts in their work [48]. The owner’s personal vision often drives the strategy and the future plans of the company. The owner’s personality has influence on other part of the operation too: the corporate culture usually based on the owner’s attitude and value system. The profit is not the only one purpose of an SME, usually there is other basic goals of the company. For a small or medium company the success can mean efficiency, retain their leadership in the market, keep the good employees or business partners, innovation, etc. „According to several analyses, small companies and family businesses target not only the profit and expansion but other subjective hardly operational aims as well, as the sustainable existence of the company, self-supporting, the „enjoyment” of operation at the firm, or the
independent lifestyle” [37] 3.pp. The family businesses and SMEs have a common set: the family business is a company whose development and operation is affected by the family – the members, the targets or the rules of the family [28].

According to the definition of the European Union a firm is family business, if [28] 380.pp.:  
- the decision/authority/power is at the members or heirs of the family who established the company, or who bought the original capital of the company  
- the family wields the company directly or indirectly  
- minimum one member of the family or the relationship formally takes part in leading the company.

The limits are the other important specialities of being SME: they usually work with underplanned organization (both of size and competence), reach lower level of knowledge in the labour market, means limited perspective for job seekers. The structure of the organization doesn’t contains many levels, therefore an SME can offer poorer carrier opportunities for the employees. To compensate this disadvantage an SME leader needs HR knowledge, but unfortunately it is not achievable for every owner. Certainly every limit can means advantage too: an SME is a familiar workplace, when eligibility is more important than the CV or the former degrees of employees. An SME can be real flexibile both in the organization and the market, and the fast information flow results in efficiency of the firm or responsibility of the individual employees. The limit of the growth is often the owner: an average Hungarian SME leader wants to control every part of the operation (because of trust and lack of knowledge in delegation), but this practice has its own barrier. Usually it is based on the owner’s personal purpose and (HR) competence. According to Hamori and Szabo the biggest limit of the talent management is the leader at an SME [18]. The owners have the most important influence on both of inside and outside part of the B2B relationships and decision making process [23]. The companies with „strong” corporate culture are usually more successful [21], and creation company culture is the privilege of the owner at an SME [12] [28] [33] [44]. The owner’s behaviour can support the creativity and innovation at the firm, which is one important source of success [2] [3] [41], and the personal motivation of the leader is essential in the vision, future and strategy of the company [4] [13] [19] [37].

2.2 Definition of competitiveness

What is competitiveness? If we can see the originally used resource-based definitions of competitiveness, the following words are available: added value, success of business relationship, market share, development, efficiency, competence, growth, profit, output, innovation, resource optimalization, revenues, utilization, business plan, company size, competitive edge, distinctive factors,
brand value and equity, reputation index, number of customers, performance, rate of return, price-earnings ratio, earning per share...[22]. But these data are based on the past, are about only measurable information of the firm and are not able to inform us about the future of the company. These definitions of competitiveness don't contain the context and environmental opportunities and threats, the organizational knowledge, flexibility of the firm, capability, ability for innovation (especially organization or marketing innovation, which are the most available for SMEs). The process routine, adaptation of new processes or handling the changes show more about the future of the company. Therefore the soft factors of the success and the perception of it is used in this survey and essay as the definition of competitiveness. This approach is supported by the original competitiveness researchers too: from the data-based aspect the literature moved to the soft factors [22] [37]. The same process is current at innovation theories: the soft factors (especially the organizational side of innovation and competition edge at SMEs) became more important part of the success [24]. The representative and biggest SME competitiveness survey of Hungarian SME sector is the GEM (Global Entrepreneurship Monitor), which is a global competitiveness survey in 76 countries [38] and contains many questions focused on perception of the success, not only business data.

3 Research method and results

Even the Corporate Identity has influence on operation and success of enterprises, but the literature and case-studies, however, are mostly about large companies. Several organizational and corporate identity surveys were performed and secondary data of competitiveness surveys are analysed by the author especially for SMEs in Hungary, also touched upon the specialities of the environment and conditions resulting from small and medium size.

3.1 Pilot survey

The first own pilot survey analysed only two sectors (IT sector and building industry). The reason of cluster sampling is that a homogeneous sample is necessary to reveal the real corporate identity factors. With a heterogeneous sample the results would have shown several influence and not the clear CI background. The two sectors was important to recognise and separate the sector affect. 50 + 50 SMEs were chosen accidentally from a professional market address list (database of professional exhibitions) and analysed from both of the IT sector and building industry. Te research method was interviews with the leaders to measure the synergy of the CI factors. According to the evaluation the leaders of SMEs and family businesses formed their organizational and corporate identity
spontaneously, and the history of the firms outlines typical Corporate identity milestones in life cycle. The owner’s attitude has an important effect on corporate culture, strategy and philosophy, the same as the synergy of CI. The balance of the factors are essential and the organization based competence is undervalued. As new result the main factor is revealed: the GAP and its extend between the leader and the organization has the most significant effect on the competitiveness of SMEs.

3.2 Quantitative research period – secondary database evaluation

This part of the research was the analysis of a secondary database from an international research, the Global Competitiveness Project (GCP) [22]. The database contains more query sessions, sum. 995 Hungarian SMEs (representative sample). The basic approach of this survey is that competitiveness is linked to the development of a competitive advantage. It is often conceptualized as the capacity of the organization to efficiently integrates its resources and capabilities seeking to create value-adding competencies. In this research the conceptual model contains 56 individual variables and the competitiveness index is formed by 10 pillars that incorporates system dynamics. The original focus of the survey is to reveal how the proposed index functions in the leader’s decision-making purposes. According to the results the weakest pillar is the Human resources, and the most successful firms have balanced pillar performance. So not a few prominent pillar rate means successful firm, but the synergy. The most competitive firms have stronger Human factor pillar and focus on the knowledge development.

The database is submitted for the author and is evaluated in light of own viewpoints, especially focused on the perception of success, decision making, information flow, HR, innovation and future perspective opinions. Because of the different question structure only correlation analysis was available, but the results showed strong correlation among the leader’s intention and the success perception. The limit of the success is the well-defined strategy, take notice of the employees in decision making process, ability to plan the changes (resources, deadlines, targets, project management, information flow). A suggestive result that the companies without any strategy often overevaluate their own knowledge and competence in finance, business ideas, organization and HR competence. These leaders think that they have the most of the necessary abilities for successful firm operation, but the circumstances cause problems for the company. When a company (and leader) has strategy or only a strong vision about the firm’s future, they tend to value their own abilities in more rational way and based on their own performance. Strategy helps to focus on the real advantages and strenght of the firm, and gives the chance to make grounded decision making process with cooperation and more efficient information sharing. The leaderstyle can be
autocratic at the successful companies too, just the envolement, trust and HR focus are the essential factors.

The ad hoc management gives the feeling of flexibility for the owners, but without a strong engagement and responsibility about the future of the firm. This management without strategy often correlates with autocratic leaderstyle, one-man decision making process and limited information sharing in the organization, which has strong influence on the loyalty, motivation and creativity (it is the source of innovation and success) of the employees.

3.3 Qualitative research period - organization audit

The second part of the research was a qualitative part with case-studies, interviews, complex corporate audits. According to the stratified sampling only SMEs from Hungary were choosen for the research, and the limits were: the owner lead the firm, the organization mean min. 10 employees. The basis of the method was the whole organization. The average competitiveness researches ask several difficult questions about the resources and profit results of the firm, and this method determinates that the leader or manager has to be the target person of the survey, because only they have got the required knowledge to answer the specifical questions. Analysis a firm with only asking the leaders is not able to reveal the background of the GAP between the leaders and the organization. This GAP seemed to be an important factos of corporate culture, synergic CI and the success of the company, therefor only a complex organization audit can explain the reason of the company success.

The sample was all SME with real organization (above 10 employees), finally 17 firms were participants of the audit. Important criteria was the owner has to lead the company. The research method ensured the organization based results: the employees were selected from different groups in order to avoid the group-culture and to get real organization culture. This wide range of employee selection helped to reveal the real GAPs between the leader and the organization or the strength and threats of processes, change management, perception of success. The mixed method [40] seemed to the right choice with interviews and questionnaires. The quantitative session of this research part is not detailed because of the limits of this essay. The structure of the research was:

3.3.1 Milestones, basic values

According to the results the leaders tend to evaluate their firm by the output, performance and their most important value were the quality and the customers.
The family businesses have stronger connection to the reputation, loyalty, and the leaders often use their own family name as company name/brand. The employees think of the organization or the place where they have to work. The economic aspect of loyalty was stronger at them.

3.3.2 Strategy, vision

At strategy there was the biggest GAP between the leaders and the employees. The leaders think they create clear strategy and communicate it unequivocally for the whole team, but employees often feel information asymmetry. The employees’ opinion usually is the information sharing is often based on the position, the relationship with the boss and not the real demands. It was especially valid at family businesses, where the family members always know more than the professionals. But trust is able to compensate the lack of information: “I don’t know the targets of the firm, but I’m sure it is in the head of the owner, so I always do my task” – as an employee explained it.

3.3.3 Identity, image and culture

The firms with strong company culture and identity have more engaged employees and it has the business advantage too (overtime, flexibility, creativity). The leaders who established their firm with a strong and clear vision and value-set are able to achieve their goals and have more successful company – have more efficient processes and changes, more engaged organization and customers, more optimist expectations about their future. The well-managed identity has an other consequent: one of the companies has synergic CI and a leader with clear vision and strategy, it was an absolutly successful company based on the leader’s opinion and the financial data. But the employees talked about bad organization culture, moral crisis. The image (outside judgement of the firm) is real positive, and it is enough to appeal the best employees from labour market and keep them. „To tell you the truth it is a horrible firm… but I’m proud of our products, and everybody envies me because I work here. Eventually it is not so bad” – as one of the employees summarized her motivation.

3.3.4 Team, leadership and cooperation

The leaders usually think that they are focus on the team members, not value only the performance, but the employees feel it a bit more rational and economic. The employees felt they haven’t got any influence on the leaderstyle and there is no chance for real bilateral cooperation with the boss. The leaders of successful firms egg the employees to give feedback about the processes or their own leaderstyle. Unsuccessful companies usually have one-man management without any feedback, and have bigger GAP between the leader and the organization. The
employees seem to need not the perfect leader: they prefer the authentic and self-consistent behaviour, chance for mistakes, honest atmosphere.

### 3.3.5 Processes

The flexibility can mean more successful company, but the over-documentation can kill this ability of the firm. The key is the finding the balance between the well-documented and organized processes and the chance to change them. The bigger GAP between the leader and the organization caused unflexibility. The reason is the lack of information sharing, motivation of the employees and the trust. Leaders of successful companies usually created organization-based decision making process: they tend to make the decisions alone, but they lean on the opinion of the employees. The successful companies often check the processes and develop them and use the professional knowledge of the organization to do it. The unsuccessful firms usually don’t have enough information about their own processes and often develop them not even failure.

### 3.3.6 Management of changes

The survey measured three part of changes: the target, the cost and the resources sides. The leaders miss the achieved goals especially, and the cost was the second important problem. The leaders usually have more optimistic opinion about changes. Unsuccessful company leaders often complain of the lack of employee motivation. The employees feel it more stressfull because of the overtime, and they miss the inaccurate planing process, collaboration in the preparation session, and the lack of trust from the leaders. The clear information flow, trust and the behaviour of the leaders can help very much to accept the problems of changes.

### 3.3.7 Development, innovation

Mostly there is not development or carrier plan for the employees at SMEs. The leaders of successful companies tend to develop themselves too, which is not characteristic at unsuccessful firm leaders. The owners focus on the basic development and skills, and are afraid the employees will leave the company and use the knowledge at other firms. The employees feel they are not important enough and this lack of trust causes a stagnated level of organization knowledge. The soft competence is fixed too, but customers often expect soft skills rather than exact results. „I realised that our business partner wants to kick us from an important project. The reason was that our IT knowledge judged perfect, but they feel our colleagues were not able to handle the tasks. I was surprised, we have great developers… but after this critic we organized project management and negotiation training for the IT team if it seems to be more important for the customers” – leader of IT firm.
Conclusions

It is important to frame the MNC (multinational company) based Corporate Identity literature to the SME sector because of its own specialities. As we can see from cited CI literature the corporate identity can interpret only the inside values of the company, which is the concentration of organisational identity and its source, the corporate culture. The interaction of culture with employees, other companies and the society makes a synergy and it has influence on success and competitiveness.

The competitiveness literature has already recognise the SME specialities and the soft factors’ essential role in success. Hungarian SME competitiveness research and its database is available and it contains a lot of factor of perception of success and the personality of the leader. The advantage of GEM survey is the representative database, the well-defined research method and the remarkable particular quastionnaire. This last one can mean its limit too, because only one person from a firm is the target person and this participant has to know very difficult data about the company. An SME doesn’t equal only with the leader or the manager of the firm, therefor it is not enough to ask only them about the company.

According to the own research results there is GAP in the companies. Its source is the special heritage of the Hungarian entrepreneur culture, cooperation skills and lack of the experience in competition. Family business literature and researches analysed the background of generation change at the Hungarian family business sector among other things [29] [30], and their opinion is the new generation usually is well-educated, they have the economic knowledge to manage a firm, but they don’t get the necessary range from the first generation, and they tend to follow the perceptived management practice (which is observed earlier), not the learnt methods. According to the results the sucessful companies have smaller GAP between the leader and the organization, the trust is essential and not the best and innovative firm is the more successful one. The perception is important: there are financially successful and efficient firms, where the leader and the employees have perception of stressful environment and bad mood, corporate culture [44]. When the processes don’t work well, there is not trustful information flow and sharing, the decision making process is an one-man show of the owner and the changes are unsuccessful – it is an unsuccessful company in the level of perception for the organization members. And there are small firms with clear strategy, consquent future vision, operation plan and limited sources, where the leader and the employees work together gladly and they feel the firm successful despite of the slow expansion and modest financial results.

Perception and strategy can increase or decrise the financial data of the firm, and corporate culture can be very supportive in this purpose. The conclusion of the researches is the Corporate Identity factors are apparently important in company success as the same the soft part of competitiveness models. Certainly the
researches have limits, for eg. the small sample and the lack of universalization, which is obvious affect of the mixed research method. There are other special factors (with strong influence on CI) at the companies as well, for example the gazelle companies (characterized by rapid growth) facing difficulty in corporate identity management, and it is an ambitious goal to ensure its synergy, but it is not a part of this survey.

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