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Leadership issues in SMEs focused on services – An analysis for the Ecuadorian Market

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Table of Contents

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Abstract

The importance of leadership towards the development of a successful enterprise has been described by many researchers who have arrive to the conclusion that its effects are notorious not only in big firms but also in SMEs. However, little effort has made in order to analyse the context of leadership in SMEs and even less in the context of developing countries, in this specific case Ecuador.

This study has the objective to analyse leadership issues present in Ecuadorian SMEs, particularly in the ones providing services. For the purpose of this study, interviews to leaders of three SMEs have been made, tools such as SWOT analysis has been used to understand the situation of the firms, and a contrast between findings and different theories available in literature has been developed.

Finally, this study can constitute the starting point in order to analyse leadership in the Ecuadorian market and subsequently find ways to improve it successfully.

1 Introduction

In the globalized world that we all live in, where big multinational enterprises rule the most important transactions, it would be expected that small-medium firms have none or few impact on the economy of each country; the reality, however, is very different. In fact small-medium enterprises, commonly known as SMEs, play an integral role in the economy of a country (Berry, 2002; Burgess et al., 2012; Beck, et al., 2003; Ntiamoah, et al., 2014) and its importance is potentiated when considering developing countries.

It is because of their contribution towards job generation that they have such a huge impact (Berry, 2002). In the last years, the number of SMEs has grown greatly due to several mechanisms (Beck, et al., 2003), which has allowed them to be in the lead position when speaking of job creation. In fact, they are now in charge of over 50 percent of the job creation share (Ayyagari et al.,2011) with a 95 percent of presence worldwide, compared to a 5 percent for the big firms, hence their importace.

These statistics are from a global market however the numbers are replicated in developping countries such as Ecuador. According to CEPAL (1999), the economic commision for Latin-America and the Caribean, SMEs in Ecuador represent 95 percent of the productive units showing a share of 60 percent for job creation. These numbers constitude a big impulse for the gowth and development of economies in latin-american countries (Burgess, et al., 2012), It should be, therefore, a priority to find ways for these firms to become successful.

Leadership can be defined as one if not the most important aspect in the success of an organization, including SMEs (Yardley et al., 2012). Leaders of these firms, SMEs, are commonly entrepreneurs who try to reach the market with new ideas but unfortunately with no managerial knowledge or limited leadership skills which is essential for the success of the company (Morrison, 2003). These limitations cause a number of problems that could lead to the failure of the company. In fact according to Bolden (2004), a third of SMEs fails because of this cause.

If these SMEs are so important for the economy of every country and in particular for one that is developing, such as Ecuador. It is necessary to understand how to improve their performance and in that way assure their success. Until now, very little effort has been made in order to study leadership in SMEs and the few studies that have been presented have been based on big economies such as UK, where even plans to improve leadership have been developed. However according to some researchers the difference in culture is a big factor which affects the leadership style (House et al.,2004), therefore it is not possible to generalize what has been found by these studies and try to expect the same response from the Ecuadorian reality.

The aim of this research is to find leadership issues present in Ecuadorian SMEs, in that way a step will be taken in order to understand the situation and take measures in order to make improvements in this area and develop this sector. In order to reach the objective of this study, it is important to understand the leadership style follows by these firms, the reality that SMEs have to face and finally, how leadership is perceived and what issues are found by leaders of these companies.

As previously stated, there is big number of SMEs in Ecuador distributed in different economic sectors; in this study however, the interest will rest on firms providing services. Three companies have been selected for the study, their field is above all to provide services to the oil & gas and energetic sector. The high level managers of these organizations, who are the ones expected to have the role of the leaders, are the ones participating in the study and giving their own opinion based on their experience.

The study is divided into four sections. First, a review of the most important literature, including concepts of leadership, SMEs, theories, is developed. Due to the length of the topic, not all the theories existing will be considered. Afterwards, the methodology used in the study will be presented followed by the discussion of the findings. Interviews have been held in order to understand the topic. For the discussion, the focused will be in answering the questions proposed previously while comparing it with the existing literature, also tools as a SWOT analysis is used in order to understand the reality of the organizations. Finally, conclusions of the research are presented.

Improving leadership in SMEs can lead to succesful and more developped companies in the Ecuadorian market, this study therefore is the initial step in order to unsderstand its reality and can allow further work in orther to develop tools to improve it.

2   Literature Review

This study focuses on SME's and leadership issues that these companies have to confront. Therefore, it is only logical that the literature review makes emphasis on describing leadership in the context of SMEs and the leadership theories involved.

2.1   Leadership

Despite of the fact that leadership has been studied by several researches for decades (Skipton, et al., 2013), there is still not a unanimous definition for this term (Bass, 2009; Burns, 1978). Leadership means different things to everybody (Rost, 1993), it is therefore a complex subject full of different connotations and theories (Northouse, 2012; House, et al., 2004).

On one hand, leadership can have a simple definition as a social process where a single person – leader – based on certain characteristics or behaviours seeks to influence others to achieve objectives within an organization (Northouse, 2012; House, et al., 2004). On the other, leadership can be considered as a team process rather that a centralized where the responsibilities are shared among different parts of the organization (Gronn, 2002), the relationships created for leadership can become so complex that some authors have defined it as a process that is brought to life by the interaction among different agents within an organization and has nothing to do with a single leader having influence over others (Lichtenstein, et al., 2006).

Leadership depends on the purposes to be reached (Stogdill, 1948) therefore, it is important to consider some of these perspectives not only to know when it should be applied but in general to have a wide understanding of the topic (Rumsey, 20013). Regardless the different definitions or perspectives that one can give to leadership, it is important for a leader to have a clear perspective and transmit it to their followers in order to make a difference within the company (Rost, 1993)

2.2   Small Medium Enterprises (SMEs)

The definition of SME is not uniform, it varies depending to the country (Ayyagari, et al., 2007). In Ecuador a firm can be considered micro enterprise, small enterprise or medium depending on the number of employees and the total revenue, all of these will be considered as SME, therefore the firm should have up to 199 employees and the net value of sales can reach up to 5 million dollars (Ferraro & Stumpo, 2010).

SMEs require different ways of management and strategies as the ones used for bigger organizations therefore should be studied separately (Burgess, et al., 2012).

2.3 Importance of Leadership in SMEs

Leadership inside an organization has an emphasis on a managerial aspect (Yukl, 2001). If there is a lack of leadership or the existing one is not skilful, it can lead to failure of the organization (Yukl, 1999). This implication does not only apply for big companies but also for SME. Bolden (2007) mentions that the lack of managerial and leadership skills affects one third of SMEs, therefore it has become an important subject for the survival and development of a SME.

There are many parameters contributing to the success of a SME, leadership is one if not the most important factor (Yardley, et al., 2012). In fact, it has been remarked to be the defining point for success or failure in a company (Bass & Stogdill, 1990) where the relationship between the leader with their followers makes the difference for the outcome of the enterprise (Lee & Jensen, 2014).

Leadership and the use of different styles are dependent on the cultural context (House, et al., 2004), the dynamic of the organization (Franco & Matos, 2015), type of organization (Matzler, et al., 2008; Yardley, et al., 2012) as well as its size (Burgess, et al., 2012). Literature however, shows that very little effort has been made in order to study leadership in the context of SMEs.

2.4 Leadership Theories

Due to the complex nature of the topic, many theories have been developed; going from those stating that the leader is only a person with innate qualities - trait theory (Bass, 2009), to the ones where the qualities can be acquired and interaction with followers is a must – i.e. transformational theory (Yukl, 1999). The best practice is to maintain a balance among some of these styles of leadership, without focusing on a single one (Kakabadse & Kakabadse, 1999). There are many different styles of leadership (Bass, 2009; Bolden, 2007; Deen & Koopman, 2001; Stogdill, 1948; Gronn, 2002), a deep study of all of them is a long task and in some cases inapplicable for the context of SMEs, therefore the most relevant theories are the ones presented.

Previous research about the topic shows that two theories in particular are usually found in SMEs, these are transactional and transformational Leadership (Nanjundeswaras & Swamy, 2015; Mesu, et al., 2012; Matzler, et al., 2008; Özer & Tınaztepe, 2014). Passive-avoidant leadership is also revealed in some cases (Franco & Matos, 2015; Özer & Tınaztepe, 2014), this one makes reference to a lack of leadership by the leader or manager (Bass & Avolio, 1994).

These two theories are related to a behaviour that leaders have in order to influence their followers. Some studies have shown the difficulty in separating completely different styles of leadership since most of the time leaders in SMEs use a mix of styles (Franco & Matos, 2015; Özer & Tınaztepe, 2014), however some behaviours have been found to be expected in leaders by their followers regardless the type of leadership used (Kenney, et al., 1994). This is why a brief introduction to the behavioural theory is necessary.

a.   Behavioural Theory

The name itself makes an approach to this theory; it affirms that the leader must adopt a specific behaviour towards the followers in order to improve their effectiveness (Bass & Stogdill, 1990). The specific or right behaviour can be learned and use it to influence followers and keep them motivated (Bass & Stogdill, 1990).

b.   Transactional theory

According to this theory a transaction takes place, followers' effort is rewarded by the leader in order to influence them (Burns, 1978; Vito, et al., 2014). Followers receive something when acting as the leader expects, this something can be promotions, prestige, etc. The relationship between the leader and follower is based on the expectations of the leader, which are clarified previously (Den Hartog, et al., 1997) and the needs/desires of the follower (Bass, 2009). This rewards or transactions are used as a way to motivate followers when the job or the environment of the organization are not enough to do so (Den Hartog, et al., 1997).

The leader can have three different approaches towards the followers, the first one oriented to tasks, the second one to relationships and the third one can be a participative leadership (Deen & Koopman, 2001). Some of these approaches have been strongly supported empirically such as the path-goal theory (Den Hartog, et al., 1997) .

Bass & Avolio (1994) divide transactional leadership in three dimensions. Two dimensions of management by exception and a different one called contingent reward, (see Table 2-1). The term of management by exception refers to the kind of leadership that makes an action only when something goes out of the standard (Bass & Avolio, 1994)

Table 2-1: Transactional Leadership Dimensions – Adaptation from (Den Hartog, et al., 1997; Bass & Avolio, 1994)

Transactional Leadership Dimensions		
Contingent Reward	Active Management	Passive Management
• Followers are rewarded after achieving a expected result by the leader	• Looks for deviations in the standard procedure in order to take actions	• Waits for deviations in the standard procedures in order to take actions

c.   Transformational Theory

This theory makes reference to an interaction between leader and followers where both reach developed motivation and morality (Burns, 1978). This positive reaction is the result of the effect that leader has over their followers (Bass, 1998). At the end of this transformation, the follower is more efficient showing trust, confidence and loyalty to the leader (Yukl, 1999). The trust and respect towards the leader is reflected with the motivation of doing more than what is expected (Yukl, 1989).

The motivation of the leader is necessary in order to gain followers' commitment to achieve a common goal (Bass & Stogdill, 1990). Transformational theory emphasizes leadership as a team process, where the duties and responsibilities are shared between the leader and followers in order to reach the objectives (Yukl, 1999) creating in that way a "relationship of mutual stimulation and elevation" (Burns 1978 p.8)

Four dimmensions can be distinguished in transformational Leadership (Bass & Avolio, 1994), charisma, inspiration, individual consideration, intellectual stimulation (see Table 2-2) in order to motivate subordinates, giving them a shared vision and challenge them to reach extraordinary things (Den Hartog, et al., 1997).

Table 2-2: Transformational Leadership Dimensions – Adaptation from (Den Hartog, et al., 1997; Bass & Avolio, 1994)

Transformational Leadership Dimensions			
Charisma • Motivate followers • Identification with the leader	Inspiration • Transmit a vision • Focus efforts in a particular goal	Individual Consideration • Coaching and feedback to the foller in order to achieve full potencial.	Individual Stimulation • Challenging new ideas • Followers comprehension and solution of problems.

Transformational leadership is considered as a more developed theory that is based on the transactional one (Kenney, et al., 1994; Den Hartog, et al., 1997). The special case as stated by Den Hartog, et al. (1997), has a different process and different types of goals but the aim of reaching a specific goal remains the same. Transformational leadership dimensions are relative to each individual, oposite from the transactional leadership which can be considered as a groupal approach (Den Hartog, et al., 1997). However, leader's perspective should be considered as only subordinates participated in this study, and acoording to Fields & Herold (1997), subordinates are not able to distinguish between these two types of leadership.

d.   Passive Leadership

Passive-avoidant, or laissez-faire theory, contrary to previous theories where the leader presents a reaction towards the followers to motivate and influence them, passive leadership makes reference to a leader that has no reaction whatsoever, avoiding motivation and supervision to the followers (Den Hartog, et al., 1997).

Laissez-faire leadership has been differentiated from passive leadership (Den Hartog, et al., 1997) since the first one has commonly a negative connotation to the outcomes of leadership (Bass & Stogdill, 1990; Yammarino & Bass, 1990). However, passive leadership can have a positive connotation in some situations where this approach is the most helpful and not because the leader is not motivated or skilful enough (Den Hartog, et al., 1997). Yukl (2001) makes reference to situations where active leadership can be counterproductive, he mentions that the follower can burn out due to stress, or he can be the victim of ambiguity when more than one person is incharge (Potter and bigley, 1997).

e.   MLQ

Since similitudes between these theories exist, a method to distinguish the type of leadership used within an organization is presented by Bass, the Multifactor Leadership Questionnaire (MLQ).

The MLQ allows to recognize these three types of leadership, transactional, transformational and laissez-faire, in an organization (Den Hartog, et al., 1997). The MLQ has to be answered by the subordinates of the company who are expected to mark several aspects of the leadership style used (Avolio, et al., 1999).

Leadership and its relationship with the efficiency within the organization has been widely studied by several researchers (Bass & Stogdill, 1990; House, et al., 2004; Özer & Tınaztepe, 2014; Matzler, et al., 2008; Lok & Crawford, 2004), therefore its issues should be reduced and the style used should be improved. Problems with the leadership style used can be solved with training so that managers can develop skills in oder to have and effect on their followers (Bass, 1998). But trainning isn't the only way to improve leadership when issues are evident, development and self-improvement activities are considered as ways to improve the leadership within an organization (Yukl, 2001). According to Northouse (2012), organizations can use some tools as personality tests to recognize qualities and reduced weaknesses in high level managers.

3   Methodology

3.1   Approach to Research Question

Globalization, despite of all its advantages, has created a new and different environment for all enterprises including SMEs that have to face a great deal of pressure. The current dynamic and volatile environment has made them become more competitive in order to achieve the established objectives (Sajib & Agarwal, 2013). The ability of the leader to adapt a company through these changes can assure the development of the organization and therefore its success. In fact, according to Bolden (2007), the lack of leadership in SME affects a third of companies.

In some countries different approaches have been taken in order to improve leadership skills and provide managerial support to SMEs. The UK, for example, is giving more and more importance to programs supporting SMEs (Bolden, 2007), in that way small companies can improve not only their general knowledge but also their managerial and leadership training (Bolden, 2007). This point of view is supported by Kumar (2013), who states that engaging different external activities can improve the leadership of the firm.

In order to do something in pro of the success of SMEs, it is important to understand the issues that leaders of these companies face. In that way therefore, be able to take the best approach and consequently reduce their failure. Some deficiencies in the leadership within SMEs have already been made evident by some researches, however the conclusions have been merely empirical (Child & Rodriguez, 2012). According to Child & Rodriguez (2012), one of the issues is the lack of knowledge, which allows to make evident the deficiencies of the company.

A few research has been done concerning the leadership approaches taken in SMEs. However in most of the cases, this research has focused on the perception of followers towards leaders and the way they manage an enterprise (Franco & Matos, 2015). It is therefore not only interesting but also important to show the perspective of the leaders and the issues they face in these companies.

A similar approach as the one taken by the UK could be applied in other places, however it is important first to understand the reality of each place and the different issues that they face. Leadership depends on the nature of the organization (Yardley, et al. 2012) and on its culture (House et al., 2004). Hence, it is important to get a deeper understanding of the culture of these organizations in a particular market and in a particular environment, how they are structured and how they are run regularly in order to find their issues. The culture of the company can be influenced by the leader (Schein, 2010) or the culture of the country (House et al., 2004), this is why some researchers have their doubts about the development of companies and in particular SMEs in the Latin-American market (Berry, 2002). Nevertheless, other researchers such as Yardley, et al. (2012) argue that the culture of the company can be independent from the culture of the country it all depends on the leadership approach taken. This research will focus on the leadership issues on SMEs providing services in the Ecuadorian market giving an inside of the actual leadership culture in these firms.

3.2   Research Methods, Data Collection and Analysis

Primary research is used in this study since there are no records or previous information from Ecuadorian SMEs. In order to obtain the information, semi-structured interviews are going to be used. The focus of this study is settled on the Ecuadorian SMEs that provide services; therefore all the interviews conducted shall be directed to this market sector.

Some research has been developed in order to understand leadership in SMEs (Nanjundeswaras & Swamy, 2015; Mesu, et al., 2012; Matzler, et al., 2008; Özer & Tınaztepe, 2014); however in these studies, participants have been low-level employees. In this opportunity the focus will be held on the owners and high-level employees of different companies, this will give the chance to have a broader panorama of the leadership issues in SMES. Most of the studies done so far have used questioners directed to analyse the employees' point of view regarding leadership, however it can be argued that these questionnaires may be in some way guiding individuals for certain responses and additionally they may be limiting the panorama.

Although obtaining primary data can be a little bit complicated due to the availability of high-level employees who will take part in the study, it gives the opportunity to get the required information for the research, allowing results to be in line with the topic. Another difficulty relays on the fact that the study is not taking place in Ecuador, the interviews therefore, have to be conducted in a remote way. In order to hold these interviews, the use of skype is necessary. The resources in this case are not over demanding, Internet connection and Skype will be the tools used in order to collect the data.

A down side of using primary data for this study is the number of participants available; the number is reduced so generalization is more difficult and cannot be certain. A good approach could be comparing the data obtained in the interviews with secondary data however, as stated previously the topic has not been studied for Ecuadorian SMEs. Nevertheless, the common points from all the interviewees will be highlighted to have a better approach to the general issues faced by them.

In the study, managers or leaders from three companies will take part. The companies selected are established in Ecuador and have between 2 to 15 years in the market, their anonymity, however, has been conserved. These companies provide services to the Ecuadorian market, specifically they provide services in the oil & gas and energetic sector of the industry. A total of 6 people is participating in the interviews, all of whom have high levels in the companies. In order to assure the legitimacy of this study, ethical measures have been taken such as consent forms signed by the participants.

For the interviews a semi-structured approach is chosen. In this way, questions can be made according the needs of the study. The difficulty of using this approach lays in the fact that it can be possible to get out of topic, however it can also give a broader idea of the issue. Unlike a completely structured interview, here we can have the opportunity to change questions depending on the reality of each company without restraining their ideas or guiding them in anyway. The guide used for the interviews is shown in appendix A, the questions shown there have been developed using the theory and concepts considered in the literature review and taking into account ways to achieve the aim of the study.

Organizations are driven by the culture developed within, this culture depends on different factors including dominant leadership style, structure and processes. Leaders need to understand the culture of the organization while being able to manage it in order to improve the performance (Yardley, et al., 2012). The interview, therefore, will focus on exploring the organizational culture and structure, issues, training and development of the staff and the managers. The interviews will provide the information in order to determine the leadership issues that challenge those firms.

A generic SWOT analysis of the SMEs providing services is going to be used in order to establish the reality of these firms in the Ecuadorian market. The information for this SWOT will be obtained from the answers given by the participants during the interviews. It may seem that it is unnecessary tool to use however, by knowing where these companies are placed in the market and getting to know about the culture that they have settled, it is possible to see how actually leadership affects their strengths, weaknesses. Furthermore, it can help to understand the issues that the firm has to face and the leadership style that is most approached in these group of organizations.

Interviews will take about 45 minutes, covering the topics mentioned before, the questions are direct so that the answers can be short and concise, and this is made in order to simplify the analysis and to make it easier when trying to find matches among all the participants' answers. However, leaders will have the freedom to express themselves as they wish, in that way, they can present more details which eventually can be relevant for the study and can create a broader picture of the reality of the SMEs in Ecuador.

As semi structured interviews are considered, a quality approach will be used to analyse the information obtained. Unlike quantitative analysis, this approach is more difficult to measure and to interpret because answers during the interviews held are open and very different from one person to another. These open responses, however, can give a better understanding of the topic. Because of using a qualitative approach more time will be required in order to analyse the data obtained. However, it is expected to find common points with the intention of generalizing issues and reveal particular situations.

It is expected that, by taking this approach and getting a broader understanding of leadership and its reality in the Ecuadorian market, it will be possible to get a hint on how to improve the development of these organizations. In order to do so, an interpretivistic method (O'Gorman & MacIntosh, 2014) is taken, from the responses of the interviews it will be tried to understand what is happening in the organisation and try to find a meaning for what has been said.

In order to make it easier to analyse the information obtained, interviews are divided into major points, organizational culture, leadership, training, and job description, as shown in appendix A. By doing this division, all the information obtained can be understood more easily and common points will be more likely to appear. It will still take more time to analyse the data compared with a quantitative approach, but the information can be more manageable.

The information obtained during the interviews is going to be contrasted with the different leadership theories that have presented in the literature review. It is important to find the different styles of leadership that these firms are using and even more important to distinguish if there is a basic knowledge of leadership within the firms. Some researchers have made it evident that most of SMEs are born by entrepreneurs who not necessarily have a background in management and possibly do not have any leadership formation (Bolden, 2007), however some characteristics of the leader can be distinguished during this study and furthermore analyse if these lack of leadership knowledge is in fact an issue or as stated by Bass & Avolio (1994) this lack of leadership is helpful sometimes.

4   Findings and Discussion

For this study, people from three different Ecuadorian companies providing services specifically in the oil & gas and energetic market were involved. These companies have different backgrounds but as for most of SMEs, their leaders are either actionist or owners of the companies (Bolden, 2007). Initially it was expected for eight people to participate in the study, the invitations were sent to managers of these three companies. Finally, six of them took part in the interviews, table 4-1 gives a brief description of the participants.

Table 4-1: Profiles of the participants in the interviews

Interviewee Role	Gender	Age	Time in the role	Employees on their behalf	Employees on the firm
Leader of the Analytic Department	Male	27 years old	2 years	2	15
Technical Director	Female	28 years old	1 year	10	25
Operations Manager	Male	49 years old	8 years	25	90
General Manager	Male	32 years old	2 years	5	25
Sales Manager	Male	28 years old	2 years	2	15
Commercialization Manager	Male	29 years old	5 years	5	90

According to a previous study made by Franco & Matos (2015) in Portugal, there are three main leadership styles that fit the profile of SMEs leaders; transactional, transformational and passive leadership. It is expected therefore, that in this study the interviewees reflect those styles on their daily job and once discovered the leadership style used in Ecuadorian firms, try to define issues they have to face.

4.1   Ecuadorian SMEs providing Services - Factors affecting leadership

There is a growing number of SMEs establishing in several sectors of the Ecuadorian market (CEPAL, 1999), the one providing services is not the exception. In fact through this study it has been evident the birth of new start-ups in this area, from three companies selected, two of them have been recently established with no more than two years in the market. The third firm a little bit older with over 15 years of experience in the market is young still if compared with industries that have been running over decades. It is not surprising therefore that the youth of the firm is reflected as well in the youth of their leaders whose ages round the twenties. The ages of the interviewees go from 27 for the youngest to 49 years old for the ones with more years of experience in the market.

According to some researchers, there are many aspects that affect the leadership style used within a company (House, et al., 2004; Franco & Matos, 2015; Matzler, et al., 2008; Yardley, et al., 2012; Burgess, et al., 2012). The structure, culture, size and the reality of the organization can be defined as some of the points that can lean a person towards one leadership style or a different one. Taking these considerations in mind, questions related to these topics were included in the interviews held and are being discussed in this section.

a.   Structure of the Ecuadorian SMEs

The structure of the company can affect not only the interaction among members of the firm, but also, it affects the environment and the performance of an organization (Child, 1972). The environment of the organization as stated by some researches is a factor that interfere directly with the leadership style of the organization (Matzler, et al., 2008; Yardley, et al., 2012), it is therefore important to understand.

When asking participants about the structure of the firms, all of them explained that a hierarchical structure is used. In this case, there is a person in charge most of the made reference to a "*general manager*" to whom all of the others managers or leaders report. One participant made emphasis on this, *"when we talk about leadership you must always report to someone to determine if the objectives have been accomplished or not, this is very important*". However, they also explained that even if they have this structure, all the important decisions have to pass through all of the managers, at least in the cases where all of the managers are actionist of the company. *"There must be an agreement among all of the managers"* one of the interviewees said; other wasn't far from this idea, *"each one is in charge of their own department but when it is necessary, we all get together in a meeting and try to analyse what should be done, always trying to find the best alternative possible for the business"*.

In the first case, a clear leader can be recognized, the one who is in charge of everything, decision making and involving everyone in the organization to a particular role; however, a variation of this structure appears in some cases, above all when the ownership of the firm is divided among some people. In this case, it is not clear if there is a particular leader or if the responsibility is shared, according to researchers, there is a tendency to spread leadership towards many people and not maintain it with a single individual (Gronn, 2002; Schein, 2010), this is clear the case presented by one of the participants where each manager is in in charge to lead a team. This, however, raise a big issue since it is not clearly established what the limit is in order to make their own individual decisions and when it is necessary to make a consensus among all the members of high hierarchy. It was explained that the consensus is necessary for the important affairs, but importance of a topic is something relative to each individual.

b.   SMEs Culture

According to Schein (2010), culture of the company guides the leader towards the leadership style he or she must follow in order to have a positive response from the followers or at least in order to be accepted by them. Bass & Avolio (1994) add that this kind of conclusion makes reference for the transactional leadership where the leader will follow a path already defined but if a transformational leadership is used, then the leader will be the one in charge of shaping the existing culture. In either one of these cases however, it has been stated that the leader must have deep knowledge about the existing culture, whereas he decides to follow it or change it is a different matter.

Part of the organizational culture are the mission and vision of the firm and therefore participants have been asked about it. When doing so, common points among the companies appear; growing in the national market and providing services of high quality are recurrent for everyone. It is worth mentioning that not every leader had clear understanding of these points when asked, some of them had to go through their paper work or websites in order to answer the question, showing in that way a deficiency in the knowledge of one of the important points of the culture of the firms, a big issue can be raised due to this lack of awareness (Bass & Avolio, 1994). If however, this lack of knowledge have no negative connotations in the performance of the company, it would mean that its significance is not as big as presented in the literature.

According to participants, mission, vision and objectives of the organization are regularly transmitted to employees in order to create a solid culture. This, according to the leaders, allows everyone to be aware of the path that the company is following and the way to go through it successfully. The person or department in charge of transmitting this information varies from company to company; for some the leader of each department is the one in charge of introducing this culture to the employees, in other cases the human resources department is the one in charge of presenting these concepts and doing a follow up afterwards. Some even mentioned that test are used in order to check the awareness of these points.

It is a fact that these SMEs have objectives established and in one way or another they have tried to define a culture; in these cases, by setting an organizational structure and defining a mission and vision for the organization. Contrary to what has been said in literature, SMEs are trying to set up goals and establish a structure and culture (Bolden, 2007) that subordinates can acknowledge and follow. However, it is difficult to believe that these points can have a positive effect on subordinates when not even the leaders have them clear.

Culture, however, may not only make reference to the organizational one but also to the culture of the country where the firm is developing (Child, 1972). In fact, House, et al., (2004) established that a leader must approach a different style depending on the culture of the country; following this premise, it can be expected that the Ecuadorian SMEs, participants in this study, use different styles of leadership than the ones in the studies developed in Portugal and Turkey (Mesu, et al., 2012; Matzler, et al., 2008; Özer & Tınaztepe, 2014).

c.   Strengths, Weaknesses, Opportunities and Threats of Ecuadorian SMEs (SWOT Analysis)

As part of the questions used to understand the culture and the reality of this specific type of companies, an inside of their specific strengths, weaknesses, opportunities and threats was due to be defined. It was expected for the answers to vary for leader to leader however all the companies involved in the study are competing in the same sector of market and for that reason similar points were expected to appear. It was surprising therefore, to notice that leaders found different strengths, weakness and opportunities in the market for their firms, the only common and unanimous response was obtained for the threats that they have to face. In the following text, a brief description of the answers obtained by the participants is given.

- Strengths

Many different strengths have been mentioned by the participants, among them it can be mentioned the following. A high knowledge of the market, energy to start a new business, confident in the loyalty of their customers, the possibility to count with a group of people who have the expertise to develop a good job, alliances with bigger companies, the fact that the company has already been established for many years.

- Weakness

For some, the biggest weakness of the firm is the lack of capital they have in order to invest. Since most of the companies that provide services in Ecuador try to expand into new markets, such as product merchandizing, they see investment as a weakness that doesn't allow them to fully develop as a business.

Another point worth mentioning is the lack of experience they have, this for the firms that are starting up, the competition they have to face against enterprises that are already established and known in the market is a disadvantage that they have to face. In fact one of the interviewees mentioned that while they count with capable personnel and with enough experience in the area, most of the customers see only the experience of the company as a whole and not the experience of personal individuals.

When providing services, one point that is very attractive to clients is the certificates or standards that a company can offer them, however as most of the SMEs do not have much time in the market, they lack of these kind of certificates, making them, therefore, under-appreciated by the consumers.

- Opportunities

According to leaders of Ecuadorian SMEs, there is a big opportunity that can be beneficial for their firms, this is related to the growth of number of industries in the country. They expect that the government in willing to make big investments as its plan to develop industry in the country, they therefore foresee an opportunity to grow.

- Threats

All the participants agreed on the same threat for their firms, the factor that is most concerning for the interviewed leaders is the political measures imposed by the government. They find that there may be some other factors that can be prejudicial for the development and growth of the firms but this is the one that could be lethal for them.

When asking them how they can coup with this threat, the answer was clear and loud, reduction of the personnel is the first option, the second one is a change of business; this means to leave the service market in order to merchandise certain products.

After this analysis it is clear that leaders have an understanding of the situation of the organizations. It is also clear that the policies of the government play a huge role in the future of the organization as already stated by some researchers (Beck, et al., 2003). Leaders therefore have to be ready to adapt themselves and the companies into a changing environment in order to face the difficulties and achieve their aim without causing any prejudice to their employees (Berry, 2002); the issue here, relays on the fact that most of the leaders interviewed do not feel ready to face successfully these changes.

Until this point some issues of leadership in SMEs have been distinguished however the focused has not been completely in the leadership or how it is conceived by leaders. The following section describes leadership in Ecuadorian SMEs, its importance and its issues according to the leaders interviewed.

4.2   Leadership in Ecuadorian SMEs

a.   Importance

All of the interviewees made emphasis on the importance that leadership has for the development of the organization, however they also made it evident that the instruction they have until this moment is not enough for the performance of their duties. Most of SMEs' leaders have little or none managerial training (Bold, 2007) and leaders in Ecuadorian SMEs are not the exception. Phrases such as *"management courses will be taken further on"* or *"we are learning on the way"* are not uncommon, in fact most of the leaders have expressed a similar idea at least once. This lack of knowledge can be a problem when being in charge of an organization or even of a group of people. In fact, Yardley, et al., (2012) state that if not considered a problem, this lack of knowledge can be perceived as a disadvantage for a company above all for SMEs that have to compete against bigger organizations which not only have much more resources but also are more prepared in the managerial aspect.

These leaders have the idea that they will learn everything they need to know on a daily basis. One of the leaders expressed, *"I have not much training in this area (leadership), in fact I have never received a formal course but I learn what I need to know from my job, every day, all I can do is to do my best and keep on learning everyday"*. This however, far from what is shown in literature, is a problem of which leaders are aware and would like to do something about. Some of them have explained that given the situation, they do not have enough time for formal courses therefore later on, they expect to get involved in something similar; others have said that they know they have a lack of managerial training and therefore they are trying to educate themselves though online courses or books in order to reduce their deficiencies.

This self-study seems to be positive for the leaders, as they have expressed, they have a background merely technical, but when answering questions, they use concepts that are away from that area, for example internal and external consumers has been mentioned several times by some of the participants. But most important than their own training they said that it is important for their subordinates to have a clear understanding of what they are doing in order to give a service of quality gaining in that way the complete satisfaction of the client.

The concern here is that even though there is the awareness of the importance of leadership and their training, leaders are more concerned about dealing with daily problems. In addition, there is the sense of importance but the concept of how it can affect the organization is not clear for them, in previous studies, they have shown that there a relation between the leadership of a company and its performance and effectiveness (Nanjundeswaras & Swamy, 2015; Mesu, et al., 2012; Matzler, et al., 2008; Özer & Tınaztepe, 2014), however leaders of these SMEs tend to think that these are not related.

The importance of leadership is huge in every organization and small medium enterprises are not the exception, leaders in these firms have confirmed to be aware of it and therefore some tools to create awareness of existing issues have been implemented within the organizations. The interviews have shown that Ecuadorian SMEs try to implement a human resource team detached from the managers to do so. According to the leaders, these teams or departments, already established in some cases, are the ones in charge of finding issues to problems related with the personnel, this includes leadership issues, and trying to solve them in some way, until now training seems the selected choice.

b.   Leadership Styles

Leaders were asked about the approach they take when leading people, none of them had a very clear idea of how they lead people. One of them mentioned that it changes from year to year *"everything changes and you have to adapt yourself"*. This answer gave a notion that the leader is willing to face challenges and change, surprisingly came from one of the youngest persons interviewed.

From the interviews with leaders, it is evident that the most used leadership styles are transformational and transactional. According to the responses given by the interviewees regard how they lead their subordinates, it is notorious the presence of qualities that characterize transformational and transactional leaders. Leaders use these different styles of leadership without even realizing it. Both of these styles have been expressed previously to be used in Portuguese and Turkish SMEs Mesu, et al., 2012; Matzler, et al., 2008; Özer & Tınaztepe, 2014).

It was asked how subordinates are being motivated since sometimes growth within an SME is not possible or at least not in a short period of time. Most of the interviewees considered that it is important to maintain a good atmosphere in the firm so that employees feel motivated to go to work. However some differences in the response were notorious, these differences are the clue in order to understand the style of leadership used. *"The fact of being paid, I mean them getting a salary for what they do is what drives them"* said one the leaders. It was also said *"if they do good their job, they will be rewarded"*. This way of motivation is characteristic of transactional leadership, which according to Bass & Avolio (1994) focuses on rewarding the followers as a way to motivate them. The presence of transformational leadership style was also observed, comments such as *"It is important to have a personal connection with the people you work with"*, or *"I try to ask them how they are and if they have any issues because eventually that affects the way they work"*, statements like these show the intention of the leader to affect the subordinate in a deeper way, getting a deeper connection, characteristic of the transformational leader (Bass & Avolio, 1994).

Interviewed leaders tend to lean towards one of these styles however in most cases if not in all they use a mix of both styles. Despite of the unawareness of the use of different styles of leadership, it is possible to recognize the universality in their use, they have appeared to be used by leaders in SMEs in different countries, Portugal, Turkey and now Ecuador, far from what would be expected considering that the effective leadership style varies from culture to culture (House, et al., 2004). These two types of leadership have been mentions, however, styles such as behavioural and trait theory has been identified while conducting the interviews, a deeper description will be given in the next section.

Leaders agreed that their methods of motivate employees are quite effective, however they sometimes considered it a little bit difficult to understand or create a deep bond with people who have a different background, or are from a different city, one of them mentioned that as the employees are from a different city, the way of interaction is different *"they are more shy and reserved therefore it is more difficult to establish a sort of friendship at least for me"* and therefore it is more difficult to lead them. It not depends entirely on the culture of the country as stated by House, et al. (2004) but on the differences among individuals. Differences among two cultures from different countries exist however the same styles of leadership are being used and yet there are some issues when creating a bond with a person who relates to other in a different way than the leader.

4.3   Issues according to SMEs leaders

When asking Ecuadorian SMEs leaders about issues in their firms, all of them immediately made reference to political or economic factors, all of those were mentioned in a previous section. Nevertheless, all of them are aware of the importance of leadership for the organization and therefore they are aware of the lack of training they have and the issues that could arise from it.

Most leaders have acknowledge that in fact they are aware of their lack of managerial training and that leadership is not their strength, for that reason they let the human resources team be the one in charge to evaluate problems and try to find ways to solve them, in this leadership issues are included. If they are all aware of this lack of training how it is possible for them to continue guiding and leading people?. They said that it is an experience of continuous learning. In fact they believe that either with or without this knowledge, it is important if not basic to have a certain number of qualities that allow them to do their job in the best possible way; qualities that are embedded in leaders, without whose it will be impossible to lead a team. Here, the trait theory can be distinguished, they believe that a leader have a group of qualities necessaries in order to influence others (Bass, 2009).

a.   Qualities of leaders in SMEs

When asking them about how a leader should be in order to have a good performance, all of them expressed thoughts lean to the trait theory (Bass, 2009), they explained that someone who wants to be a leader has to have some qualities or skills that make them a good leader. In fact in some cases some of the interviewees mentioned that they do not possess everything that it takes to be a leader and therefore they leave the role of motivating or guiding others to someone else in the team.

According to them qualities such as responsibility, honesty, reliability, charisma, communication have been mentioned as the important ones in order for a leader to successfully accomplish their mission within the firm. One of the leaders mentioned that if someone lack of charisma it is difficult if not impossible to guide a group of people. *"Leaders have to be trustworthy for the subordinates and more important they have to relate to you"* said one of the participants, according to them you can gain these characteristics, they are innate, the only training they can have is in how to manage people, but you already have to count with some of the qualities mentioned. This may reference to the trait theory, however there is qualities such as the charisma that are present as well in the transformational leader.

b.   Motivating Subordinates

Motivating employees in a SMEs is a difficult task since most of the time there is not much opportunity for growth, however according to the leaders of these Ecuadorian firms, it is not a hard task to motivate their employees and they consider that their own well-being, personal and economical, is enough motivation for them. But despite of this thought they have declared that if they find good employees they will not hesitate in creating new positions for them to grow in the organization.

Not only growth within the company is considered as motivation for employees, some leaders have expressed that their employees feel motivated when they find their job as a challenge, *"the idea is to show them the importance of their work and give them a challenge".* The key to the motivation for others, relies on the freedom given to them in order to make their own decisions and only giving opinions or suggestion when necessary, this can be compared to a passive leadership where comment or advice is given on a specific moment.

There is a little bit of reluctance from some leaders, who have stated that their role is not to motivate anyone, *"the motivation should come from each person and I have nothing to do about it"* stated one of them, but according to researchers it is the role of leaders to motivate and inspire subordinates, it is therefore moment to raise a question, if they do not consider themselves to be the ones in charge of giving this motivation who is?. The answer was quick, the team of Human resources. Could this designation of "task", to call it in a way, become an issue for the company?

c.   Training

Previously through all this study, it has been mentioned training as a big issue for leaders, in this section therefore the focus will be mostly on the solutions leaders have until now.

The experience or training that all of the interviewed leaders have is almost null. There were cases where the experience was only the training they had on school, by doing group projects or by helping a professor, but most of the time, leaders make reference to the experience they gain in a previous company. It can be seen that it creates a circle where the culture is reproduced in a new organization and with these culture the style of leadership is replicated, at least if some type of culture is created it can help to make improvements afterwards.

In some cases leaders have express that the team of HRM has plans already for them to attend courses in managerial aspects, as for the cases where there is no HMR team in charge of the issues, leaders have told that they have instituted a program of monthly talks for employees where the leader of each area or the general manager presents a technical talk and a motivational/leadership talk to the team in order to instruct them and prepare them for future roles in the organization.

d.   Other Issues

Some issues has already been raised, however there are two issues that are particular for some leaders and worth to mention.

All of the leaders of the SMEs said that they focus in solving daily problems, so it is difficult or problematic for them to establish long term objectives while trying to gain recognition in the market. The focus on short terms objectives doesn't allow them to see beyond and therefore it is more difficult to guide their subordinates (Yardley, et al., 2012).

Many of the leaders are in their twenties, they mentioned that all of their subordinates are in the same range of age and for some of them, it is difficult to set boundaries and gain the respect they deserve or to set a distance among them.

5   Conclusions

The aim of this study has been to find the leadership issues that Ecuadorian SMEs focusing on services have to face, thanks to interviews with leaders of some SMEs in the country it has been possible to analyse the reality of these firms, how they see leadership and according to them what are the problems they have to face.

Far from what has been thought about the SMEs, above all about the lack of importance that owners or managers give to leadership, this study has shown that people involved in the management of these firms consider leadership as a subject of great importance, they don't have it clear how it can affect the company but surely they think it can affect somehow the organization. The improvement of leadership (by giving training or something similar) goes in hand with the resources that they obtain and the benefits they think will get, therefore, not much effort has been made.

This study has given a different view to the leadership research that has been developed so far, where mainly the interviewees are the subordinates. In most of the cases the subordinates go though a questionnaire and give their own opinion about the situation of the company and the leadership that is imposed. On the other hand, in this study the leaders could give a different perspective of what they think is leadership for their own organizations and what issues are affronting. It is worth mentioning that despite of the fact that they gave their own inside on the issues that they have to face related to leadership, some other have been discovered while trying to understand the situation of the organizations.

The most difficult thing that leaders of Ecuadorian SMEs have to face are the economic and political problems in the country but they haven't left a side the leadership issues that the organization has to face. Some even take this so seriously that have implemented a team to recognize the problems and find solutions to them. The most simple or the most effective way they have found so far in order to overcome the issues that arise is training, as Bass (1998) said, the development of a leader is a matter of training.

This study has made evident that despite of what has been said previously about the efficiency of different leadership styles depending on cultures (House, et al., 2004), at least for SMEs there is a trend on the styles that leaders are using. It has been agreed that the best way to get involved and influence employees is by using transformational and transactional leadership. However, sometimes leaders have to adapt the way they lead, not so because of the culture but because of the personality of each individual, this means that leaders have to take a different approach considering the person they are dealing with which goes in the path with the behavioural theory (Bass & Stogdill, 1990).

It is difficult to make a generalization of how these SMEs work or the structure that they follow since most to not say all of them have been created by entrepreneurs who have little or none managerial training. They, therefore, do things the way they think is best and if it doesn't work they change it over time, however some common points emerge and based on those common points this study has been developed. Every single SMEs has their own reality and what it is common is that they are all trying to deal with everyday issues. Despite of what was expected at first, leaders have an awareness of the importance of leadership and what is more surprising is that they try to replicate what they learned previously in other organizations or by self-learning, since there is not enough time or resources for formal courses.

The lack of managerial knowledge is not the only problem that leaders in SMEs have to deal with. By going through the way they run things within the organization, how they perceive the reality of the organization and the meaning of leadership to them, it was possible to realize that there are more issues to analyse concerning leadership in SMEs. And these issues are increasing or changing because of the volatility of the market they are submerged in, it is important therefore to find a way to solve these issues or at least reduce the impact they have on the leadership of the organization.

Some questions have been raised through this study, it would be good to continue doing a research in a different market sector in order to appreciate if effectively there is a tendency in the leadership styles used in SMEs and if so, it could be easier to establish a generalization on the theories that apply. By doing this, it could be easier to find and improve methods developed to increase the efficiency of leadership in these firms.

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Appendix A: Semi-structured Interview

Leadership Issues in SMEs focused on services - An analysis for the Ecuadorian market

Greetings

Introduction

This interview has the purpose to understand the leadership issues within the company, and it will take approximately 45 minutes of your time.

Questions

Can you tell me about,

- What the organization does?
- How many employees work there?
- What is your role in the organization?
- How long have you been working there?
- Your previous experience or qualifications?

Organization

- How the roles within the organization are structured?
- How many people are managing the company or different areas?
- What are the roles of these people?
- How are they organized among them?
- Who recruits these personnel?
- Who makes the decisions of the company? – Is there a process/discussion?

Culture

- What is the vision and mission of the company?
- How is this pursuit?
- How often do you check if the vision and mission are accomplished?
- Does everyone in the company know about the objectives of the organization?

- How are these objectives communicated to the employees?

- How do you see the company in the next 5 years? – growth, employees, products?

- Has the organization deal with change?

- How it is managed? And when, when there was no other option or before to be innovative?

- Who is in charge of these changes?

- SWOT of the organization?

Role

- Tell me about your role, tasks, objectives, importance within the organization.

- What is your background? Technical, managerial?

- You are in charge of how many people?

- What are the main issues when dealing with the employees?

- What are the main issues dealing with your boss(es)?

- Beside these other issues? Short and long term

- How are these issues approached?

- Issues that have been solved? How long did it take to solve and how was it solve?. Anything that could have been done to avoid it or reduce the time to solve it?

- What issues cannot be solved by you or other member of the organization?

Leadership

- What qualities do you possess for your work

- Qualities for team work

- How strong are you at making decisions for the organization?

- Do you considered that the way you approach employees can be improved? How?

- Do you consider that the approach taking to solve problems can be improved? How?

- What characteristics or qualities do you consider should have a successful organization?

- What are the general qualities of the employees?

- Do you consider that your employees are motivated?

- How do you motivate your employees or who does it?

- Is there possibility to be promoted in the company? Who makes this decision?

- What do you think is the most motivating point about working in the company?

Training

- How has your role developed from the start?

- Have you have any training during this time?

- Have you have any managerial training in the time you've been in charge of people?

- Would you consider important this training? Why?

- When should this training be provided?

- Is there any training available for your employees?

- Do you considered necessary extra training for them? Why?

- If there is a gap in the knowledge of your employees that affects directly their work how do you solve it?

- Is there any person within the organization that is indispensable? Why?

- Do you have any support from any other company?- consultancy? What kind(managerial, technical)?

**University | College of
of Glasgow | Social Sciences**

Ethics Committee for Non Clinical Research Involving Human Subjects

NOTIFICATION OF ETHICS APPLICATION OUTCOME – UG and PGT Applications

Application Type: New   **Application Number:** CSS/BS/2015/001
(select as appropriate)

Applicant's Name: Stefany Carolina Garzon Munoz   **Project Title:** Leadership Issues in SMEs
focused on services - An analysis for the Ecuadorian market

Date Application Reviewed: 3/06/2015

APPLICATION OUTCOME

(A)   Approved Subject to Amendments (criteria below)   ⊠
         (select from drop down as appropriate)

Start Date of Approval: 9/06/2015   End Date of Approval: 30/11/2015

Adam Smith Business School Students to be recruited Select Option

If the applicant has been given approval subject to amendments this means they can proceed with their data collection with effect from the date of approval, however they should note the following applies to their application:

Approved Subject to Amendments without the need to submit amendments to the Supervisor   ☐

Approved Subject to Amendments made to the satisfaction of the applicant's Supervisor   ⊠

Approved Subject to Amendments made to the satisfaction of the School Ethics Forum (SEF)   ☐

The College Ethics Committee expects the applicant to act responsibly in addressing the recommended amendments.

(B)   Application is Not Approved at this Time   ☐

Select Option
(select from drop down as appropriate)

Please note the comments in the section below and provide further information where requested.

If you have been asked to resubmit your application in full then please send this to your local School Ethics Forum admin support staff.

Some resubmissions only need to be submitted to an applicant's supervisor. This will apply to essential items that an applicant must address prior to ethical approval being granted, however as the associated research ethics risks are considered to be low, consequently the applicant's response need only be reviewed and cleared by the applicant's supervisor before the research can properly begin. If any application is processed under this outcome the Supervisor will need to inform the School ethics admin support staff that the application has been re-submitted (and include the final outcome).

The following section is only for completion for applications that required amendments to go to SEF

(C)   Select Option   ☐
         (select as appropriate)
This section only applies to applicants whose original application was approved but required amendments.

APPLICATION COMMENTS

University of Glasgow
College of Social Sciences Research Office
Florentine House, 53 Hillhead Street. Glasgow G12 8QF
The University of Glasgow, charity number SC004401

1

Major Recommendations:

2.4 Supervisor 's name should appear!
PLS Supervisor's contact details should be provided.
PLS and consent form should be carefully proof read.
PLS should state that the application has been reviewed by the Adam Smith Business School Ethics Forum.

Minor Recommendations:

Consent form should have the redundant box at the end deleted.
5.1b If interviews are via phone (Skype?) then recorded verbal consent might be appropriate.
It is conventional to enter N/A or not applicable where appropriate to confirm the issue has been considered as opposed to leaving blank eg 2.5 and 3.7d on the application form.
A starting date of 1/05/2015 had been entered yet the submission for review was only signed off by the supervisor on 19/05/2015 and received by the reviewer 3/06/2015!

Please retain this notification for future reference. If you have any queries please do not hesitate to contact your School Ethics forum admin support staff.

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2