
DOES CORPORATE GOVERNANCE IMPROVE SMALL-FIRM PERFORMANCE? THE MEDIATING ROLE OF ORGANIZATIONAL CULTURE

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Abstract:

This study examines how organizational culture helps corporate governance positively influence the performance of small companies. Using a primary database of small companies in Medellín, we develop a Structural Equation Model. Our results show that, on its own, corporate governance is not sufficient to positively influence the performance of small companies. It needs the mediating effect of organizational culture. These findings help to understand the sometimes inconclusive evidence of the inclusion of governance policies in small organizations. Moreover, our proof paves the way for managers and policymakers to develop specific policies that increase the performance of this type of organization.

Key words: *Corporate Governance, Strategy, Business Value, Performance, Organizational Culture.*

1. Introduction

Micro, small, and medium-sized enterprises (MSMEs) face distinctive challenges, including limited growth, informality, and resilience (Cámara de Comercio de Medellín, 2024). Furthermore, these challenges coexist in an economic environment characterized by low growth and a weak labor market (Adebowale & Agumba, 2023; Gamage et al., 2020; Jung, 2022).

In this context, Díaz Peláez (2021) posits that corporate governance may be helpful because it is inextricably linked to the delegation of responsibilities by owners to their executives, enabling them to make decisions that may affect the organization. This process is implemented through procedures, protocols, and norms, thereby establishing a direct correlation between governance and organizational outcomes.

Good corporate governance not only regulates the effectiveness of routine decisions but also improves business results by promoting effective and efficient management of resources and processes. In this sense, corporate governance is pivotal to the sustainability and strategic development of companies, as it aligns stakeholder interests and enhances transparency in decision-making (Claessens & Yurtoglu, 2012). Moreover, studies have demonstrated that sound governance enhances productivity, competitiveness, and the capacity for innovation in MSMEs, thereby contributing significantly to their long-term success (Rao & Tilt, 2016). Consequently, it becomes a strategic tool that enhances MSMEs' ability to adapt, grow, and consolidate their competitive position in the market.

The potential issue may arise when responsibilities are not properly distributed, hindering the effectiveness and efficiency of MSMEs. Consequently, these companies face obstacles, including difficulties accessing markets beyond the local sphere, low customer satisfaction and loyalty, limited capacity for innovation, and a lack of transformational leadership. These shortcomings not only limit the competitiveness and sustainability of these enterprises but also harm their profitability. The absence of adequate governance structures and more structured management models (as opposed to empirical management) directly affects MSMEs' ability to address these challenges (Noriega and Farfán, 2025). For example, MSMEs with inadequate governance structures are less likely to access new markets, which significantly limits their growth and financial performance (Dubey and Das, 2022).

Furthermore, inadequate governance practices can hinder the adoption of innovative and sustainable strategies, which are vital for staying competitive in today's dynamic business environment. Such limitations weaken firms' ability to respond to shifting market demands and evolving consumer expectations (Chen & Liu, 2020). Similarly, the absence of sufficient internal support structures can erode employee motivation and lead to operational inefficiencies, both of which are crucial to achieving strong organizational performance (Fridan & Maamari, 2023). These challenges are particularly pronounced in MSMEs, which often operate with limited resources, making it imperative to examine whether sound governance practices can strengthen their performance.

Governance practices are especially impactful at the group level, where shared cultural norms and coherent practices shape collective behavior and institutional outcomes. Aguilar-Rodríguez et al. (2023) emphasize that all dimensions related to organizational culture and employee engagement significantly contribute to embedding solid governance principles into institutional strategies. Although not always directly correlated, these cultural attributes are strong predictors of the development of effective corporate governance frameworks.

Despite a growing body of research on corporate governance and organizational culture in business management, few studies have examined how their interaction can shape organizational performance (Nasrallah & El Khoury, 2022; Tiep Le & Nguyen, 2022). This gap is particularly evident in the MSMEs context, where the combined

influence of governance structures and cultural dynamics remains underexamined. There is a lack of research that jointly measures corporate governance and organizational culture as interconnected elements influencing an organization's ability to implement strategic initiatives that lead to innovation, business value, customer satisfaction, and long-term retention.

Ntongho (2016) also highlights a research gap concerning the cultural impact on the convergence of corporate governance, showing that cultural values are closely linked to key governance elements and actively shape the diffusion of good governance practices. In this light, organizational culture is not merely a supportive environment but a direct force shaping governance behavior and institutional effectiveness.

Building on these insights, this study examines how corporate governance shapes small firms' performance and how organizational culture mediates that relationship. It focuses on clarifying the mechanisms through which governance practices, together with cultural attributes, influence the strategic processes that affect small firms' performance.

More specifically, the study suggests that corporate governance, when enacted through organizational culture, significantly impacts organizational outcomes. It explains how the analyzed strategies demonstrate that organizational culture mediates the relationship between governance and performance, offering insight into why culturally grounded governance practices may lead to better results in small firms. In this framework, governance and culture are essential pillars of strategic effectiveness, influencing decision-making and improving the organization's ability to adapt to contextual factors that impact performance. (Jarne-Jarne et al., 2022). This dual focus fills a notable gap in the literature and offers practical insights for building more resilient and responsive governance models in resource-constrained environments.

2. Literature review

2.1. Corporate Governance and Performance

Enterprise performance is defined as a set of outcomes measured by business indicators derived from strategic decisions. Historically, these results have been evaluated from a financial perspective, such as return on investment (ROI), with little consideration of variables related to market development and the organization's differentiating factors (Morgan & Strong, 2003). Nevertheless, recent research highlights the importance of indicators such as market share, customer satisfaction, competitive position, customer retention, and sales growth in a comprehensive evaluation of business performance. For example, the quality of after-sales service and customer satisfaction are significant predictors of customer retention and sales growth in sectors such as the automotive industry (Shokouhyar et al., 2020). Moreover, a substantial correlation has been identified between customer satisfaction and a company's financial performance, underscoring its pivotal role as a mediator in marketing strategies and decision-making processes (Otto et al., 2020). Along these lines, the enhancement of organizational procedures through quality instruments, such as Total Quality Management (TQM), has enabled companies not only to reclaim competitive advantages but also to significantly expand their market shares and customer satisfaction (Gupta & Mittal, 2021). This approach highlights the importance of considering a range of organizational performance dimensions that extend

beyond financial metrics. Consequently, an analysis of organizational performance must extend beyond the conventional metrics, integrating additional perspectives that consider both market indicators and the impact on customers and employees.

The structure established by corporate governance is defined by the way shareholders delegate their mandate to a group of executives (i.e., the Board of Directors), who are bound by a fiduciary duty to act in the best interests of shareholders and are responsible for establishing the various internal control mechanisms (Lefort, 2003).

The implementation of corporate governance models facilitates the achievement of objectives that benefit both shareholders and stakeholders. This is consistent with research findings that associate these practices with positive financial indicators, such as higher returns on investment and lower costs (Al-ahdal et al., 2020). Likewise, companies that implement transparent corporate governance strategies can establish stronger relationships and improve their financial indicators. This is supported by studies that link such practices to sustainability and value creation in global markets (Naciti et al., 2022).

Accordingly, the existing literature suggests that decision-making processes based on enhanced corporate governance practices are crucial to achieving effective organizational performance. In alignment with the arguments, the following hypothesis is put forth:

H1: Corporate Governance has a positive effect on Performance.

2.2. The Mediating Role of Organizational Culture

Serna (2014), cited by Alviar Romero (2018), defines organizational culture as a set of values, beliefs, and behaviors shared by members of an organization. This concept encompasses several key elements, including leadership, strategic vision across organizational levels, business regulations expressed through rules and procedures, and decision-making processes within administrative functions. These elements are regarded as fundamental tenets of effective corporate governance and directly influence organizational outcomes. Furthermore, Alviar Romero (2018) identifies pivotal variables associated with organizational culture, including market share, customer satisfaction levels, enhanced competitive positioning, customer retention rates, and increased sales, all of which influence business performance.

In this context, translating corporate governance policies and guidelines into concrete behaviors and practices is identified as a crucial factor in enhancing organizational outcomes (Barney, 1986). For these policies to be effective and sustainable, they must be supported by a robust organizational culture that integrates and perpetuates them over time. This enables consistent, sustainable results throughout the organization. This interconnection between organizational culture and results underscores its strategic significance for developing competitive, success-oriented organizations.

Organizational culture plays a central mediating role in internal dynamics and institutional governance. Harrison (1972) provided a framework for understanding how organizational culture interacts and shapes organizational functioning, in addition to productivity and performance outcomes (Díaz Peláez, 2021). In this line, it also influences both performance and corporate social responsibility (Alkhadra et al., 2023)

Ntongho (2016) offers a more governance-focused lens, arguing that culture and corporate governance are inextricably linked. He notes that while culture can evolve, deeply embedded systems tend to resist change unless catalyzed by significant events. This view contrasts with more optimistic perspectives, such as those of Alkhadra et al. (2023), who suggest that leadership alignment can actively shape culture. Moreover, Ntongho (2016) work aligns well with the contributions of Aguilar-Rodríguez et al. (2023), who argue that organizational culture does not merely support governance—it actively configures it. Their findings show that participation, value alignment, and internal consistency form the cultural backbone of effective governance systems. Aguilar-Rodríguez et al. (2023) further operationalize this idea by recommending three strategic actions: strengthening culture as a structural foundation, establishing performance indicators to guide and reward employees, and promoting teamwork to achieve collective goals. This approach is based on Denison (1984) Organizational Culture and Effectiveness Theory, which links cultural traits—such as mission, adaptability, and involvement—to organizational success. What is more, the most accepted models for measuring culture are: The Three-Dimensional Model of Culture (Payne, 2001), the Cultural Orientation Model (Hofstede, 1984), Schein's Model (Schein, 1988), the Competency Value Model (CVM) (Cameron & Quinn, 2011), and Denison's Model (Denison, 1984). Taken together, these approaches converge on the idea that culture is a dynamic and strategic force.

To understand the impact of cultural factors on organizational effectiveness, it is crucial to acknowledge the challenges posed by cultural barriers and rigidities. Idiosyncrasies and cultural taboos impede the implementation of efficient management decisions (Macías & Román, 2014). Companies that are reluctant to comply with the most elementary principles of transparency, accountability, and fairness to their shareholders and investors cannot develop an efficient and ethical corporate culture.

This approach posits that organizational culture may serve as a mediating factor: implementing effective governance strategies could enhance productivity, thereby reducing the discrepancy between managerial and employee perceptions.

H2a: The relationship between Corporate Governance and Organizational Culture in MSMEs is positive.

A robust organizational culture is a crucial factor in motivating employees and aligning their actions with the company's strategic objectives. By sharing a common vision and values, internal cohesion is fostered, and a clear direction is established, facilitating the implementation of strategic plans and improving performance. This, in turn, favors a positive relationship between culture and business performance (Kotter & Heskett, 2008).

As stated by Cameron & Quinn (2011), a robust organizational culture is underpinned by employees' effective assimilation of the company's values and objectives.

The model proposed by Cameron & Quinn (2011) indicates that organizational cultures are positively associated with organizational performance.

In a similar vein, Chow (2012) argues that high-performance work systems (HPWS) influence firm performance and demonstrates that implementation processes and organizational culture mediate this relationship. Likewise, the effect of corporate

governance practices on business performance may also operate through mediating variables such as organizational culture, which shapes individuals' attitudes and behaviors and, in turn, affects organizational outcomes.

What is more, organizational culture can be an effective means of strengthening employee engagement and a strategic tool in the organizational environment (Amtu et al., 2021). Moreover, Fridan & Maamari (2023) emphasize that a favorable organizational culture is crucial for optimal employee performance, a pivotal aspect for MSMEs. The establishment of governance systems that foster a positive, collaborative work environment has been shown to enhance employee commitment and productivity. The study proposes that leaders should prioritize establishing organizational cultures that facilitate the implementation of governance strategies as a fundamental element for achieving success.

Furthermore, Hasan (2023) demonstrates that organizational culture exerts a considerable influence on organizational learning and employee engagement, which, in turn, directly affects business performance. The integration of cultural dimensions into MSME organizational governance models fosters an environment conducive to innovation and sustainable growth. So, empirical evidence shows a relationship between a robust organizational culture and superior performance indicators.

The role of organizational culture appears to be to establish conditions conducive to productivity and the realization of organizational objectives. When a state of unity is achieved, the path to fulfilling organizational objectives is facilitated. It may therefore be assumed that, if all the constituent parts are aligned, progress can be achieved more quickly. Considering the evidence, the following hypothesis is put forth for consideration:

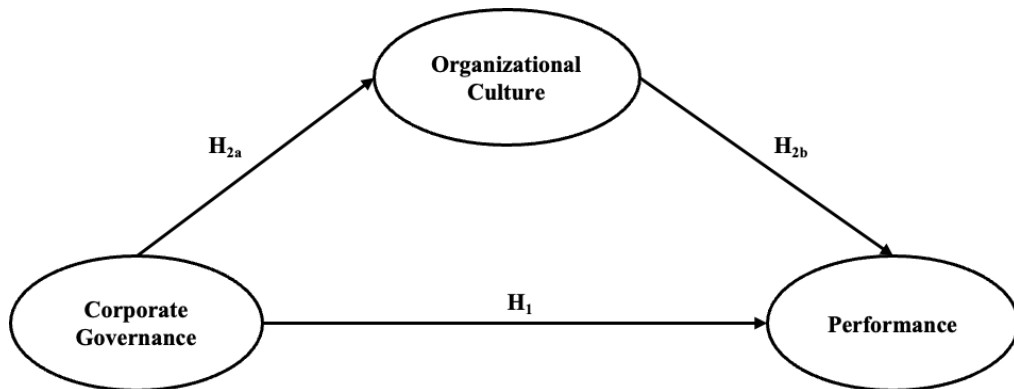
H2b: Organizational Culture in small firms positively affects performance.

Confirming H2a and H2b, we show that:

H2: Organizational Culture in Small Firms mediates the relationship between Corporate Governance and performance

Based on these arguments, the model in Figure 1 is constructed to examine the direct effect of corporate governance on MSMEs' outcomes (H1) and the indirect effect of corporate governance on MSMEs' outcomes (H2). To test hypothesis H2, it is necessary to test the relationship between corporate governance and organizational culture (H2a) and the relationship between culture and performance (H2b). The above discussion leads to the conceptual model and hypotheses proposed in Figure 1.

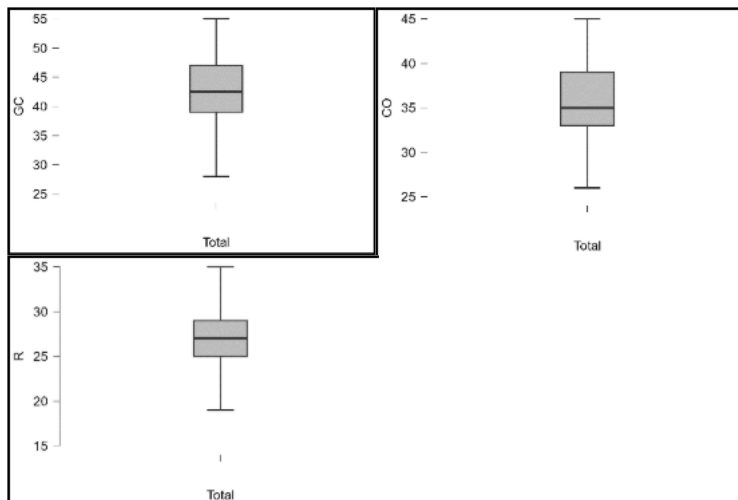
Figure 1. Model and hypotheses incorporating organizational culture as a mediator.



3. Methodology

Our sample was obtained using a convenience sampling approach, with ad hoc interviewers. The sample included 150 business owners. The analysis began with descriptive statistics, followed by factor analysis to identify the most relevant items and remove those that contributed little. A structural equation model was then applied to examine the relationships among the variables and assess the influence of the mediating factor. The aim was to show that organizational culture functions as a mediator and that effective governance strategies can strengthen organizational outcomes.

Figure 2. Box Diagrams. Corporate Governance, Organizational Culture, and Performance



Note: Information adapted from data generated by Jasp 18.3.0

The study focused on small companies in the commerce sector. This choice aligns with data from the Medellín Chamber of Commerce's 2023 Business Census for Antioquia, which reports that microenterprises in this sector make up 44.86% of the city's business

landscape. They are followed by firms in the service and industrial sectors, representing 26.37% and 12.28% of the business fabric, respectively.

As illustrated in Figure 2, the values for Corporate Governance (CG) and Organizational Culture (OC) are slightly right-skewed. In contrast, the Performance values indicate that the mean and median are approximately equal, indicating that the data are symmetrical.

Regarding the sample size for studies using structural equation modeling, Kline (2005) suggests that an adequate sample should have between 10 and 20 participants per estimated parameter. MacCallum et al. (1996) suggest that it depends on the statistical power of the hypotheses to be tested and on the complexity of the model (the more complex the model, the larger the sample size should be). Jackson (2003) suggests that the reliability of the observed measures and the number of indicators per factor determine the model fit. Controlling for these factors, the minimum recommended sample size for any structural equation model (SEM) is 200 subjects. Finally, we worked with a sample of 150 companies, as per Iacobucci (2010), which is sufficient to achieve the study's objectives.

The partial least squares method in SmartPLSc (v.4.1.0.0) (Ringle et al., 2022). In these multivariate techniques, the total variance of the constructs is used to estimate the model (Hair et al., 2017). This technique has two advantages: it does not require assumptions about the distribution of the indicators, and it does not require independence of the observations (Chin, 2010).

3.1. Variables

From the survey, we used the following constructs: corporate governance, organizational culture, and performance. All items in all scales are measured on a five-point Likert scale ranging from 1 (strongly disagree) to 5 (strongly agree). Likert scales are effective for subjective questions that aim to measure states such as opinions, knowledge, feelings, and perceptions (Iarossi, 2006). As the main variables of interest in this study are respondents' perceptions, the chosen scale is appropriate. Additionally, all survey items are marked as mandatory to prevent missing data. Table 3 shows the research instrument.

Corporate governance encompasses the framework of standards that guide an organization's operations and decision-making processes. Poor corporate governance performance can be attributed to several challenges. Two primary barriers to the effective implementation of corporate governance principles are the absence of penalties for companies that fail to adhere to these principles and the cultural tendencies within communities to prioritize informal practices and habits over formal legal regulations (Hasanudin, 2023).

Organizational culture, as a collective framework of beliefs, values, and practices shared by members, guides their daily work and supports the pursuit of institutional objectives. It not only shapes behaviors by determining which qualities are valued or discouraged but also establishes norms for rewarding or penalizing actions. This culture influences interpersonal interactions by dictating whether collaboration or competition takes precedence and by defining strategies for engaging with the external environment, ranging from aggressive exploitation to responsible negotiation or proactive exploration

(Harrison, 1972). So, it is accepted that the importance of a cohesive internal culture, rooted in shared values, effective leadership alignment, and seamless coordination across functions, is to ensure that all efforts are aligned toward achieving the overarching organizational goals (Mobley et al., 2005).

Finally, performance refers to the outcomes a company can achieve through its management model. Rodríguez and Maya (2021) state that SMEs tend to measure their performance only with financial indicators, which limits the comprehensive understanding of their effectiveness. This reductionist view ignores factors such as quality, innovation, customer satisfaction, and workplace well-being, essential for sustainability. Additionally, Medina (2025) states that SMEs seek not only profitability but also organizational well-being, which implies the adoption of transformational leadership approaches to improve well-being and internal cohesion, thereby achieving healthier organizations.

Table 1 summarizes variables.

Variable	Items	References
Corporate Governance - CG	Mark with an X the option that corresponds to the frequency with which each of the following corporate governance criteria is applied. Always, almost always, sometimes, rarely, never.	Andrade-Valbuena et al. (2021)
	1. Communication channels 2. Sufficient and transparent information. 3. Communication with suppliers. 4. Communication with financial systems. 5. Communication with customers. 6. Communications with employees. 7. Policies and regulations 8. Policy updates. 9. Planning exercises. 10. Evaluation of action plans. 11. Accountability.	
Organizational Culture OC	Mark with an X the option that corresponds to the frequency with which each of the following organizational culture criteria is applied. Always, almost always, sometimes, rarely, rarely, never.	Harrison (1972)
	1. Decision-making	
	2. Management	
	3. Process-oriented management. (Task and rule management)	
	4. Procedures and processes	

5. Cost reduction-oriented management. (Resource utilization).
6. Market development-oriented management. (cost reduction)
7. Staff growth and development (market development)
8. Employee growth
9. Employee incentives.

Mark with an X the option that corresponds to the frequency with which management is oriented towards the achievement of the following performance. Always, almost always, sometimes, rarely, rarely, never

Performance	<ol style="list-style-type: none"> 1. Usefulness. 2. Customer satisfaction. 3. Customer retention. 4. Market Share. 5. Innovation. 6. Foreign market. 7. Efficiency. 	Alviar Romero (2018)
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Although the original instrument, based on Andrade-Valbuena et al. (2021), Harrison (1972), and Alviar (2018), considered 27 variables (11 in corporate governance, 9 in organizational culture, and 7 in performance). We have included in our model the following control variables: size of the enterprise (micro and small), Chamber of Commerce affiliation (has, does not have, is in the process), gender of the owner-manager (male and female) and level of education of the person in charge of the enterprise (primary, secondary, technical-technological, university and postgraduate). Beltrán et al. (2020) highlight that the inclusion of control variables accounts for additional aspects that may eventually influence small business performance, such as different visions, knowledge, experiences, and attitudes.

4. Results/findings

The number of MSMEs in Medellín is 5,678. Table 2 presents the information on the population delimited from the 2023 Business Census data of the Chamber of Commerce of Medellín for Antioquia, as well as the size and distribution of our sample. For the empirical validation of the structural model, in addition to structural equation modeling (SEM), a survey, designed for this purpose and based on relevant literature, will be used to test the proposed hypotheses in Medellín's small firms. For the analysis of the variables shown in Table 3. Descriptive Statistics: A variable was elaborated on with the results of

the sum of each item associated with the variable. The aim was to measure the measures of central tendency and dispersion of the variables.

Table 2. Sample distribution and sampling error by group

Commune	Population Size	%	Sample Size	Error NC	95%
Belén	554	10%	20	20,47%	
El Poblado	1.984	35%	30	16,06%	
Guayabal	842	15%	20	20,47%	
La Candelaria	1.518	27%	60	9,83%	
Laureles	780	14%	20	20,47%	
Grand Total	5.678	100%	150	7,90%	

Source. Chamber of Commerce of Antioquia, Medellín, 2023. Own elaboration

Within the data set, by company size, 61% of companies have fewer than 50 employees, 18% have between 51 and 150 employees, and 21% have more than 150 employees. Regarding the age of the companies, 7% are less than 2 years old, 12% are between 2 and 5 years old, 30% are between 6 and 10 years old, and the rest are more than 10 years old. Regarding the age of the organization's manager, 30% of companies have a manager under 40, while the remaining 70% have a manager over 40. Table 3 shows the main descriptive statistics of the dependent and independent variables.

Table 3. Descriptive Statistics

	Corporate Governance	Organization Culture	Performance
Average	42.	35	27
Standard deviation	5	3	3
Min	28	26	19
Max	55	45	35
First quartile	39	33	25
Second quartile (median)	42	35	27
Third quartile	47.	39	29

4.1. Internal model

The standardized root-mean-square residual (SRMR) value for the model was 0.099. A cut-off point of <0.09 is advised for samples of 100 cases or fewer, whereas for samples exceeding 100 instances, a cut-off of 0.09 or lower is recommended. (Cho et al., 2020).

The loading (λ) of each element of the model construct (Figure 3) should exceed 0.707, thereby verifying the reliability indicator and the Performance construct indicator. The aspects of sufficient and transparent information, communication with suppliers, communication with the financial system, communication with customers, regulations, and policies, planning exercises, evaluation of action plans, and accountability of corporate governance; decision making, direction, procedures, and processes, employee growth, and employee incentives of organizational culture; utility, customer satisfaction, market share, external market, and efficiency of performance are below the parameter, and thus were eliminated. The remaining indicators are very close to or above 0.707 (Martelo-Landroguez et al., 2019)

The model meets the requisite standards for reliability, as evidenced by the Dijkstra-Henseler indicator (ρ), Cronbach's Alpha coefficient, and composite reliability exceeding 0.7 (Table 4). As shown in Table 4, the AVE values exceed the 0.5 threshold, indicating convergent validity.

Ultimately, all variables demonstrate discriminant validity, as evidenced by the satisfactory fulfillment of the Fornell-Larcker criterion and the attainment of the threshold value within the bootstrap-based confidence interval for the HTMT value (Table 4).

Table 4. Reliability, convergent validity, and discriminant values of outer model.

Construct	Composite Reliability rho_c	AVE	HTMT		
			C	G	Performance
Organizational Culture - OC	0.804	0.507			
Corporate Governance - CG	0.812	0.591	.658		
Performance -	0.783	0.649	.516	.356	

Note: Information adapted from data generated by SmartPLSc (v.4.1.0.0.0) (Ringle et al., 2022)

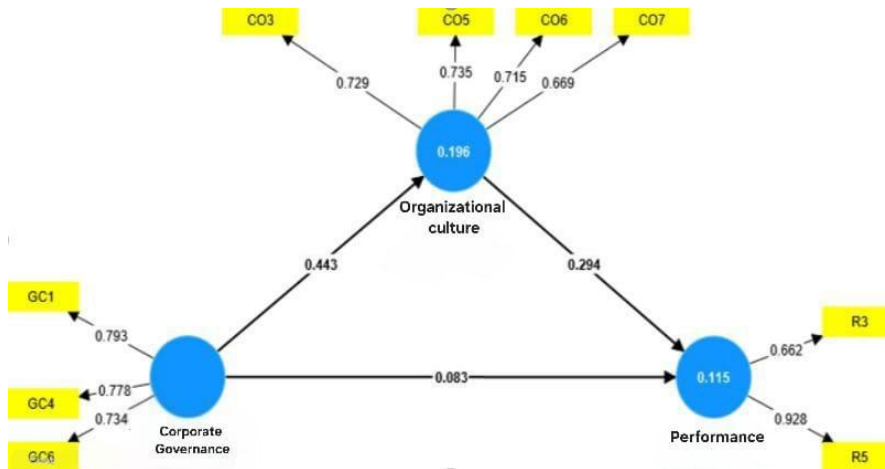
4.2. External model

Hayes & Scharkow (2013) demonstrated that the bootstrap-calculated confidence interval is the correct approach for detecting path coefficients. Path coefficients were found to be compatible in all cases. Table 4 shows the bootstrap confidence intervals ranging from 2.5% to 97.5%. Figure 2 shows the structural model and the results. This model explains 11.5% of the variation in the companies' results (Performance).

The mediating role of the Organizational Culture variable was analyzed to assess the type of mediation and the magnitude of the indirect effect (Table 5). Bootstrapping - PLS results for the combination of the paths from Organizational Culture to Performance and from Corporate Governance to Organizational Culture were used to test the significance of the indirect effect, which was found to be significant. The direct impact of Corporate Governance on the Performance pathway is not statistically significant, as the

interval estimate includes zero (Hair et al., 2017). The indirect effect was significant, indicating a mediation effect (Nitzl et al., 2016). The results of the internal model analysis are presented below.

Figure 3. Structural model and results



Note: a two-tailed test was used by testing through the percentile confidence interval

Table 5. Direct Effects for Corporate Governance, Organizational Culture, and Performance $p < 0.05$

DIRECT EFFECTS						
	Coef. Effect	2.5%	97.5%		p – value	Level of Signif.
				Valor t		
H (Culture → Performance)	0.294	0.122	.465	.333	.001	***
H (Governance → Culture)	0.443	0.321	.578	.719	.000	***
H (Governance → Performance)	0.083	- 0.097	.253	.930	.353	No Sig.
TOTAL INDIRECT EFFECTS						
Route (H Governance → Performance)	0.130	0.058	.229	.946	.003	***
SUMS INDIRECT EFFECTS						
H (Governance → Culture → Performance)	0.130	0.058	.229	.946	.003	***
TOTAL, EFFECTS						

H (Culture → Performance)	0.294	0.122				0	***
			.465	.333	.001		
H (Governance → Culture)	0.443	0.321				0	***
			.578	.719	.000		
H (Governance → Performance)	0.213	0.073				0	***
			.363	.889	.004		
(*): $p < 0.1$; (**): $p < 0.05$; (***) $p < 0.01$							

Note: Information adapted from data generated by SmartPLSc (v.4.1.0.0) (Ringle et al., 2022)

As previously stated, the PLS technique comprises three distinct phases. The initial phase involves examining the model fit. The overall model fit test was not rejected ($dG = 0.119$, dG 95%) and ($dULS = 0.437$, $dULS$ 95%), while the value of the Standardized Root Mean Square Residual (SRMR) for the estimated model was $SRMR = 0.099$. (Hu & Bentler, 1998) It is recommended that a value below 0.09 be proposed. As previously stated, this indicates that the model does not modify the operationalization of the variables.

Table 6. Q² Predictive Relevance Path for Corporate Governance, Organizational Culture, and Performance $p < 0.05$.

Construct	Q ² predict	MSE	R AE	N ²	R
Organizational Culture	0.17	0	0	0	0
	1	.920	.761	.196	
Performance	0.03	0	0	0	0
	0	.995	.835	.115	

Note: Information adapted from the data generated by SmartPLSc (v.4.1.0.0) (Ringle et al., 2022)

The Q² of Geisser (1974) and Stone (1974) is a technique for evaluating the predictive relevance of the structural model; it is necessary to ensure that the resulting value is greater than zero (Chin, 1998). Furthermore, Q² values of 0.02, 0.15, and 0.35 indicate weak, moderate, and vigorous predictive relevance, respectively. In this instance, the Q² values for the endogenous constructs, namely Organizational Culture, exceed 0.15 and fall below 0.35, thereby indicating a robust threshold. Conversely, the Q² value for Organizational Outcomes is 0.030, which suggests a moderate threshold. Although the model does not demonstrate an optimal fit for operationalization, it does, however, allow for prediction.

5. Discussions

The results indicate that the first hypothesis is not supported (coefficient 0.083, p-value 0.353). Corporate governance does not directly help small firms to overcome the specific weaknesses that characterize them: low profitability and efficiency, difficulties in

accessing markets other than local markets, low customer satisfaction and loyalty, and low innovation (Loaiza-Velez et al., 2021; Londoño Aldana et al., 2014; Páramo, 2015). This finding is consistent with studies showing that the impact of corporate governance may be less favorable than expected. According to Daenvironmentally et al. (2003), corporate governance has no positive effect on firm performance when internal and external factors are misaligned. Additionally, there may be disadvantages to responding to internal management demands. Similarly, there may be difficulties in dealing with changes (Tosi et al., 1997).

However, the results confirm the second hypothesis of our study, the mediating effect of organizational culture. On the one hand, both H2a (coefficient 0.443, p-value 0.000) and H2b (coefficient 0.294, p-value 0.000) are confirmed. Consequently, the indirect effect of corporate governance on performance through culture concordance (coefficient 0.130, p-value 0.003) confirms the indirect impact. As a result, the total effect (direct effect plus the indirect effect through cultural moderation) of corporate governance on small firms' performance is significant (coefficient 0.213, p-value 0.000).

According to the findings, MSMEs can improve their performance because sound corporate governance standards are more likely to enhance their ability to overcome the adversities that characterize them, particularly when mediated by an organizational culture oriented towards strengthening governance.

The adoption of corporate governance practices, while necessary, is not sufficient to positively impact the performance of MSMEs. These organizations have shortcomings and specificities that require a higher degree of organizational development, such as implementing a business culture focused on process management, compliance with governance rules, market development, staff growth, and, above all, meeting the demands of shareholders and stakeholders. It is crucial to promote training programs and tax incentives that facilitate the development of all actors involved in MSMEs. Likewise, business managers must prioritize management models that foster a solid organizational culture, optimize resources, and expand into new markets. According to Jorquera (2011), the best results for MSMEs, especially in fragmented environments such as Medellín, depend on adequate coordination among actors, social groups, and institutions, accompanied by well-designed corporate governance strategies.

Our findings have important theoretical implications. Our study reinforces recent research highlighting the mediating role of organizational culture in the impact of corporate governance on MSME performance, particularly in emerging economies where organizational development is limited (Macías & Román, 2014; Weiss, 2014). This study demonstrates that corporate governance can have a significant total impact on MSME performance. In a competitive business environment, MSMEs must review and redesign their strategies to meet new challenges, considering not only material and economic resources but also the requirements of their shareholder and stakeholder base. Adan Gallo et al. (2022) have a strategic vision focused on strengthening corporate governance and organizational culture, thereby laying the foundation for development and market leadership and contributing to improved business performance. de Lema et al. (2010) argue that, in the context of environmental uncertainty, organizations must actively manage their culture to develop a proactive attitude toward challenges. This implies not

only the continuous improvement of current practices but also the establishment of relationships with strategic actors to explore and introduce new products and services, which highlights the need for constant innovation. In MSMEs, effective management of organizational culture can be a strategic tool for adapting to changing business conditions.

Consequently, MSMEs must be willing to analyze both internal and external factors that influence their management. This requires that the roles of the organization's members be aligned with a shared business culture that promotes cohesion toward common goals. This organizational culture not only encourages improvements in product and service quality but also strengthens MSMEs' ability to compete effectively in dynamic markets, thereby consolidating their long-term development and positioning.

Practical implications stem from the specific environment of our study. In emerging areas, MSMEs face a challenging environment, especially given the prevailing belief that formalization is associated with higher taxation and, consequently, reduced opportunities for business development. This cultural perception makes formal activity less attractive to MSMEs. In addition, the lack of penalties for non-compliance with corporate governance principles, combined with a cultural tendency to follow informal norms rather than formal laws, significantly hampers the adoption of corporate governance practices. As Hasanudin (2023) argues, good corporate governance is not just a legal requirement but also an essential factor in cultivating a robust and sustainable corporate culture. Furthermore, for MSMEs, implementing corporate governance enhances their competitiveness and adaptability in a dynamic business environment, which is crucial for ensuring long-term sustainability and promoting innovation (Mumu et al., 2022). Our results involve guidance for MSMEs. Effective corporate governance can establish a robust organizational culture, which, in turn, can reinforce values such as ethical conduct, transparency, and teamwork. When governance policies are perceived as fair and consistent with employee values, organizational culture is reinforced positively. This evidence supports the assertion that there is a positive relationship between governance and culture, and, in turn, performance (Weiss, 2014).

Furthermore, our findings are notably helpful for MSMEs, since in small companies where it is challenging to embrace changes, a pronounced culture facilitates translating established corporate governance guidelines into tangible actions that foster teamwork and, consequently, enhance results.

Moreover, in the challenging area of sustainability for MSMEs, our findings have important implications. Doghan et al. (2022) demonstrate how organizational culture and governance aligned with sustainable principles can work in concert to enhance organizational performance. This finding is particularly relevant for MSMEs seeking to maintain competitiveness in a market that is increasingly prioritizing sustainable practices. So, our study highlights the significance of governance that cultivates cultural values in alignment with environmental sustainability. In this way, Fok et al. (2022) demonstrate that the combination of a robust organizational culture and sustainability-focused governance practices is associated with positive performance outcomes. Our results show that the interplay between governance and organizational culture is a fundamental determinant of MSMEs' success. By promoting a strategic alignment between the two, these companies

can optimize their performance, increase productivity, and enhance their sustainability in increasingly competitive markets.

Finally, we show MSMEs how to become more resilient and flexible. Our study shed light on the need for aligning governance and culture to achieve a more comprehensive outcome in small companies, beyond just financial results. The absence of a multidimensional framework for evaluating performance leads to incomplete strategic decisions, affecting competitiveness and the ability to adapt in dynamic environments (Benítez, Mérida, & Portilla, 2022).

6. Conclusions

This study underscores that a strong organizational culture is essential for MSMEs seeking effective corporate governance. The analysis suggests that governance mechanisms have their most significant impact when they are supported by shared values, aligned roles, and a culture that fosters strategic coherence. In this view, governance operates through culture, shaping how firms formulate and execute strategies and how they respond to internal and external pressures. This perspective strengthens the study's contribution by showing that culture is not just a contextual factor but a central mediator that amplifies the effect of governance on organizational performance.

The findings, drawn from 150 MSMEs in the commercial sector, highlight that neither governance nor culture alone is enough to secure consistent results. Their interaction is what enables better resource management, proactive responses to environmental challenges, and the creation of sustainable value. The involvement of shareholders and stakeholders also emerges as a key element, as their participation reinforces governance practices and supports cultural alignment. To broaden the scope of these insights, future research should examine other sectors and firm sizes and consider potential moderating factors such as company size or different governance systems, which may influence how governance and culture work together to improve performance.

Our study has several limitations. First, it relies on cross-sectional data, which captures organizational conditions at a single point in time and therefore limits the ability to observe dynamic changes in governance, culture, and performance. Second, the use of convenience sampling and a relatively small sample of 150 firms may affect the generalizability of the results. In addition, the analysis focuses on small firms in the commercial sector within a single geographical area, which limits the extent to which the findings can be applied to other industries or regions. Future research could address these limitations by employing longitudinal designs, expanding the sample size, including firms from different sectors and sizes, and covering a broader geographical scope to further validate and extend the proposed relationships.

7. References

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