

## Chapter 2

# Differential HRM Dynamics and Leadership Paradigms in SMEs: Overcoming Corporate Bias in Research Exploration

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### **ABSTRACT**

*Human resource management and leadership styles are one of the key strategic issues for small and medium size enterprises. With the growing importance of SMEs all over the world, many small firms fail in their formative stage of life cycle. Academic research on SMEs in this context is scarce. In addition to scarcity of research, researchers overlooked the specific characteristics of small firms. In this chapter, the authors have provided a theoretical rationale for the differences in specific characteristics of SMEs. They have established the arguments that conducting the research in small firms on the same grounds as large firms leads to unreliable and hazy results. They have proposed that innovative research techniques and instruments must be established to get the true picture of human resource management techniques and leadership styles in SMEs.*

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## **INTRODUCTION**

There are several compelling motivations for HRM scholars to examine human resource management and leadership styles in SMEs. The most important aspect is the socio-economic importance of SMEs. Small and medium-sized enterprises are the largest employers in the private sector and have significant impact on job creation and reduction. In the World, around 95% of all jobs and 60% of jobs in private sector are created by SME (OECD, 2019). Thus, there is undeniable contribution of SMEs in sharing knowledge, creating new ideas and bringing people together. For example, as per World Bank report in 2021, 70% of new jobs and 40% of GDP in emerging markets are contributed by SMEs. These small enterprises, with limited resources and more structured and transparent chain of command are easily observable and therefore have an impact of HR practice on their success or failure. Furthermore, owing to limited resource allocation, less rigid human resource systems, and greater dependency on labor-intensive endeavors, SMEs assume an elevated significance in the realm of HR management and concurrently face heightened susceptibility in HRM protocols. The above discussion collectively renders Small and Medium-sized Enterprises (SMEs) an increasingly important platform for scholarly investigation into the complex ways that HRM affects these businesses in different situations and ways (Amarakoon & Colley, 2022; Barrett & Mayson, 2008).

These peculiar characteristics of SMEs suggest that HRM and employment-related research should intensely focus on SMEs which currently is overlooked. Harney and Akhlaq (2021) explored that only 0.5% studies published in HR and employment journals have focused on SMEs. So there is notable shortage and insufficiency of empirical data in this domain (Gilman & Edwards, 2008; Chadwick & Li, 2018; Cooke et al., 2020). However, there is mounting evidence that HRM techniques can yield positive outcomes in SMEs (Rauch & Hatak, 2016; Wu et al., 2015).

In this chapter we have described different human resource management dynamics and leadership styles that are specific to small and medium size enterprises. We have contributed towards literature to reduce the large-firm biasness while exploring the human resource and leadership characteristics of small firms. There is irrefutable evidence that assessment of human resource management and leadership styles for large and small firms leads to hazy outcomes. This behavior by the academic researchers has made the situation more unclear. This chapter firstly, discusses the biased views in the HRM literature on the SMEs. Secondly, we reviewed how owners as managers in small firms make these firms different from the large firms. Thirdly, we explain how SMEs are different in talent management. In subsequent sections, we have discussed three major relevant theories such as institutional theory, economic theory and resource dependence theory. The difference in small and large firms on the basis of these theories is discussed on multiple aspects. Finally, we explained different leadership styles in large and small firms. The last section concludes this chapter.

## **BIASED VIEW ON HRM IN SMES**

One significant problem in academic research is that numerous studies have prolonged large firm bias. This bias has a significant impact on the relevant literature in significant ways. For instance, researchers established methods and instruments that were actually developed for large firms. In case of the results contradictory to the theories, these studies infer that HRM has insignificant impact on SMEs value addition (Harney et al., 2022). Human resource management is generally the practice of managing humans

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