

LEADERSHIP IN SMEs – A CURRENT EXAMINATION OF
ITS PARTICULAR CHARACTERISTICS AND ITS IMPACT
ON EMPLOYER ATTRACTIVENESS

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Abstract: According to the European Commission’s annual report on European SMEs 2023/2024, over 99% of all companies in the European Union (EU) are SMEs (Katsinis et al. 2024, p. 1). Due to this extremely high economic relevance and the large number of employees working in such companies, leadership also plays a very important role. Small and medium-sized enterprises (SMEs) have special characteristics, which in turn also have an impact on leadership. The focus of this paper is on the investigation of this particular leadership characteristics based on the specifications of SMEs. In addition, the effects on the employer attractiveness will be highlighted. In times of a shortage of skilled workers, demographic change and digital transformation, the question arises as to whether (internal) leadership could also have an influence on employer attractiveness for potential applicants. Through a comprehensive literature review, the article aims to compile and correlate existing studies in order to generate findings that can serve as a starting point for follow-up research.

Keywords: Leadership; SMEs; Employer attractiveness; Management styles; Leadership development

INTRODUCTION

The common definition of small and medium-sized enterprises (so-called SMEs) is the definition of EU Recommendation 2003/361 since 01.01.2005 (ifM Bonn 2025). The following table visualizes the corresponding values:

Table 1. Definition of SMEs (quantitative)

Company size	Number of employees	and	Turnover €/year	or	Balance sheet total €/year
micro	up to 9		up to 2 million		up to 2 million
small	up to 49		up to 10 million		up to 10 million
medium-sized	up to 249		up to 50 million		up to 43 million
(SME) together	up to 250		up to 50 million		up to 43 million

The table shows that a company is classified as an SME if it has a maximum of 249 employees and an annual turnover of no more than EUR 50 million or a balance sheet total of no more than EUR 43 million.

Since over 99% of companies in the European Union are SMEs, this has enormous economic significance. Approximately 65% of all employees in the EU work in SMEs (Katsinis et al. 2024, p. 2). Scientific studies have already shown that SMEs have certain characteristics that set certain requirements for the success of companies in terms of business management and leadership (see further course of this article).

This brings us to the three main questions in this paper: What are the special characteristics of SMEs? What impact does this have on leadership? The third question is how this affects the company attractiveness.

RESEARCH METHODOLOGY

The findings of this thesis can be obtained with a completely theoretical research approach, as a certain amount of prior knowledge already exists in this subject area. By means of a comprehensive literature review, the current state of research can be extensively determined, resulting in research gaps. This opens up a number of opportunities for follow-up research. Methodologically, structured (scientific) databases were searched according to specific search criteria and keywords such as “leadership in SMEs”, “leadership approaches”, leadership and employer attractiveness, “SMEs and employer attractiveness”. The focus of the search in the subject area of leadership was always on characteristics associated with SMEs. The derivation of the current state of research was also easy to determine based on the publication data. The investigation took place in such a systematic way.

RESULTS

First of all, the special characteristics of SMEs should be listed (with no particular focus on leadership). According to Fust and Fueglistaller (2016), SMEs are characterized by the following qualitative criteria:

- ▷ SMEs are usually managed by the founder/owner or their family, who raise the capital for the company.

- ▷ The management in SMEs is usually still involved in operational activities.

- ▷ The relationship with customers and employees is also particularly important in SMEs. Contact often takes place on a daily basis. The proximity to the employees is greater.

- ▷ Another characteristic of SMEs is the lower hierarchy (levels). As a result, communication within the company is shorter and more informal. Decisions can be made more quickly.

- ▷ SMEs are also characterized high flexibility.

- ▷ Lower level of available resources. (Fust and Fueglistaller 2016, p. 56)

In addition, further criteria according to Pichler, Pleitner and Schmidt (1997) can be cited.

- ▷ An SME is characterized by the personality of the entrepreneur.

- ▷ The degree of formalization is low for SMEs.
 - ▷ The activities of SMEs are often regional or limited to a certain market size.
 - ▷ SMEs are better able to provide individualized and differentiated services.
- (Pichler, Pleitner and Schmidt 1997, p. 12)

The next crucial question is what impact these special characteristics of SMEs could have on leadership. Research has already identified a number of prerequisites that successful SMEs have in common:

- ▷ Employees are highly valued, as they make a contribution to the company's success, especially in small companies.
- ▷ All tasks relating to employees are shaped by an overriding principle.
- ▷ Employees have a say in decisions. They take part in decision-making processes.
- ▷ Particularly in SMEs, the qualification of employees is of enormous importance. (Pekruhl and Vogel 2018, p. 34)

Leadership is also one of these prerequisites. Leadership in small and medium-sized enterprises is often characterized by the following characteristics:

- ▷ Management in small companies is usually centralized (top down) (Wolf, Paul and Zipse 2009, p. 18).
- ▷ Decisions of greater importance are made by the owner himself, or he must at least "approve" them (Wolf, Paul and Zipse 2009, p. 18).
- ▷ There is a more familial relationship between manager and employee, which is characterized by respect (Schön 2012, pp. 135-137, as cited in Fritz 2019, p. 11).
- ▷ Compared to larger companies, there is greater loyalty and recognition between managers and employees (Schön 2012, pp. 135-137, as cited in Fritz 2019, p. 11).
- ▷ The corporate culture is also strongly influenced by the owner. In contrast to large companies, however, SMEs usually do not have a written code of values (Wolf, Paul and Zipse 2009, p. 18).
- ▷ SMEs are often founded by people with technical training, who therefore know very little about leadership. (Pfohl 2006, p. 18, as cited in Fritz 2019, 11).
- ▷ A strategic company orientation is often neglected because the focus is on completing operational tasks (Pfohl 2006, p. 18, as cited in Fritz 2019, 11).

We will now discuss whether and how such leadership in SMEs can have an impact on employer attractiveness. The special characteristics of SMEs allow for some logical conclusions to be drawn here, which are presented below. It should be mentioned that the conclusions offer potential for further scientific research. On the other hand, existing findings from other studies have been supplemented to substantiate them.

Employer attractiveness can basically be defined as the expected benefits that a

potential employee will derive from working for a particular organization (Berthon et al. 2005, p. 156 as cited in Lohaus and Rietz 2018, p. 4). For companies in this respect, the crucial question is which factors are very important for (potential) employees (Lohaus and Rietz 2018, p. 6). The contribution to employer attractiveness can be derived as follows. It is assumed, for example, that cooperative leadership behavior on the part of managers is the best fit. Such leadership behaviour is characterized by the involvement of employees, empathy, an atmosphere of performance and well-being, which in turn also favours entrepreneurial action (Wunderer 2009 as cited in Helbich and Herzig 2014, p. 29). It should be noted here that the design of leadership, which is perceived as supportive and appreciative by employees, must not only be supported by the managers themselves, but also by a higher-level HR department (which, as mentioned above, do not usually exist in SMEs). Further training must also contribute to managers being able to implement leadership topics professionally in the first place (Helbich and Herzig 2014, p. 29).

The most important part of leadership is communication. Leadership also has an impact on employer attractiveness because messages such as positive experiences with superiors and with leadership are also conveyed to the outside world. Through good traditional and new communication in both professional and private communication behavior, existing employees should remain loyal and new employees should be attracted (Helbich and Herzig 2014, p. 29-30).

Even though there is still very little research on this specific connection, the following conclusions can be drawn for employer attractiveness in connection with leadership in SMEs, which of course give rise to further (empirical) examination.

If we follow the above argument that good leadership cannot be shaped by managers alone, it is clear that this does not apply to SMEs. Due to scarce resources, SMEs often do not have their own HR departments. In addition, the person responsible for leadership is usually the owner, who is still very busy with operational activities and does not concentrate fully on management tasks. As mentioned above, most SMEs do not have an explicit code of conduct. Leadership, which also has a positive influence on employer attractiveness, must therefore be shaped differently in SMEs.

Since SME owners themselves have an exorbitantly high level of influence on the company, communication often takes place with the owner himself, which is due to the few hierarchical levels on the one hand and informal communication channels on the other, management takes place centrally via the owner and the owner-employee relationship is rather family-like, the person of the owner and his personal leadership qualities also play a decisive role in terms of employer attractiveness. According to Helbich and Herzig (2014), cooperative management behavior is necessary, but this does not usually exist in SMEs, as the important decisions are made by the owner themselves, for example. Regardless of which communication channels are used, external communication can only create an encouraging and positive image of the employer if there is essentially a very good quality of relationship between the line manager (which is usually the owner) and

the employee. This sounds simple at first, but is probably no easier than in large companies. There are numerous leadership approaches that deal with the quality of the relationship (e.g. LMX theory), but also with good leadership behavior depending on the situation (Fiedler's contingency model) and leadership characteristics.

Leadership will therefore only have a positive impact on employer attractiveness if the owner, as an individual and usually the central leadership figure, manages to maintain positive leadership relationships with employees. In such a family environment, where it is not possible to change supervisors, change departments, consult with the works council or refer to a code of ethics, for example, any leadership is only as good in theory as it is put into practice by the owner. The attractiveness of the employer therefore stands and falls with him and how he and his leadership behavior are perceived by the employees.

CONCLUSION

The purpose of this article is not to clarify the topic of how leadership can influence employer attractiveness in SMEs. This would require further research on a much larger scale. However, the paper provides a good insight into the current study situation and shows that although leadership in SMEs has already been well researched in principle (although certainly not conclusively), the effects on employer attractiveness still offer many opportunities for potential research. There are also publications on topics such as "Employer branding and SMEs", although the leadership component is missing and employer branding cannot be equated with employer attractiveness.

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ЛИДЕРСТВОТО В МАЛКИТЕ И СРЕДНИТЕ ПРЕДПРИЯТИЯ – АКТУАЛНО ИЗСЛЕДВАНЕ НА НЕГОВИТЕ ОСОБЕНОСТИ И ВЛИЯНИЕТО МУ ВЪРХУ ПРИВЛЕКАТЕЛНОСТТА НА РАБОТОДАТЕЛЯ

Резюме: Според годишния доклад на Европейската комисия за европейските малки и средни предприятия (МСП) за периода 2023 – 2024 г. над 99% от всички дружества в Европейския съюз (ЕС) са МСП (Katsinis et al., 2024, p. 1). Поради тази изключително висока икономическа значимост и големия брой служители, работещи в такива дружества, лидерството също играе много важна роля. МСП имат специфични характеристики, които от своя страна също оказват влияние върху лидерството. Фокусът на настоящата статия е върху изследването на тези специфични характеристики на лидерството въз основа на спецификациите на МСП. Освен това ще бъде подчертано въздействието върху привлекателността на работодателя. Във времена на недостиг на квалифицирани работници, демографски промени и цифрова трансформация възниква въпросът дали (вътрешното) лидерство може да окаже влияние и върху привлекателността на работодателя за потенциалните кандидати. Специалните характеристики на МСП често са и силните страни на тези предприятия, които им позволяват да оцелеят на пазара и в конкуренцията. Чрез обстоен преглед на литературата статията има за цел да обобщи и съпостави съществуващите изследвания, за да се стигне до изводи, които могат да послужат като отправна точка за последващи изследвания.

Ключови думи: лидерство; малки и средни предприятия; привлекателност на работодателите; стилове на управление; развитие на лидерството

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