The antecedents of leadership development practices in SMEs: The influence of HRM strategy and practice

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The antecedents of leadership development practices in SMEs: The influence of HRM strategy and practice

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Abstract
This article explores leadership development in small- and medium-sized enterprises (SMEs). We investigate determinants of the adoption of leadership development practices in established SMEs expecting human resource management (HRM)-strategy fit, human resource (HR)/leadership expertise and the existence of gaps in leadership capability to influence both the presence and intensity of leadership development practices. We found that all three variables positively related to both measures of adoption. The attitudes of owner-managers towards development mediated the HRM-strategy fit–adoption relationship. The theory and practice implications of our findings are evaluated.

Keywords
HR strategy, leadership, SMEs

Introduction
Leadership development is not only critical for small- and medium-sized enterprises (SMEs) (Fuller-Love, 2006; Mitchelmore and Rowley, 2013) but also challenging to implement (Thorpe et al., 2009). SMEs typically lack formal leadership development practices and are unlikely to have
internal leadership development expertise (Smallbone et al., 2015; Thorpe et al., 2009). Managers are time constrained and so have few opportunities to undertake formal leadership development (Gibb, 2009), while owner-managers have limited time for leadership development (Chadwick et al., 2012). The SME context has advantages in that there is a greater scope for informal leadership development practices (Smith and Morse, 2005) and the closeness of the management team may facilitate observational development (Kempster and Parry, 2014).

Managerial quality is of vital importance to SME performance given the need to operate under conditions of resource limitation. Managers in SMEs perform both strategic and operational roles; however, they are likely to have variable competence and skill across such roles (Lubatkin et al., 2006). The adoption of leadership development practices should result in significant direct and indirect performance payoffs (Teo et al., 2011) and also improve employee management (Schlosser, 2015). Leadership development can help SMEs to enhance manager human capital (Subramony, 2009) and develop unique managerial resources that align with SME strategy (Polyhart, 2006). The resource-based view suggests that SMEs develop internal capabilities and unique resources to respond to external contingencies. (Oliver, 1991). Therefore, SMEs should target managerial development (Mabey and Ramirez, 2005). Following this line of argument, SMEs need to adopt leadership development practices aligned with strategy drawing upon both formal and informal practices. Informal practices are the norm and involve developing leaders in practical and experiential ways (Leitch et al., 2013; Shaw and Conway, 2000). Complex resource-based theory suggests that these practices are an important resource given synchronicity to the SME operating context (Colbert, 2007).

We know little about the adoption of leadership development practices within SMEs; thus, the antecedents of adoption are unclear. It is also unclear as to whether the factors that explain the adoption of other SME human resource (HR) practices are relevant to leadership development (Behrends, 2007; Marchington and Suter, 2013; Sheehan, 2014). These studies do suggest useful avenues of investigation. First, few studies examine the human resource management (HRM)-strategy fit–adoption relationship in a leadership development context. Resource-based and contingency perspectives suggest that SMEs will differ in strategic choices regarding leadership development practices (Messersmith and Guthrie, 2010). Second, SMEs lack the leadership and HR expertise to adopt formal leadership development practices. Large firms manage implementation of leadership development by creating specialist units or roles that focus entirely on leadership development (Wu et al., 2013). Therefore, HR expertise gaps impact the adoption of leadership development practices. Third, SMEs have leadership competencies gaps (McBain et al., 2012) that will affect performance more so than in larger firms. Consistent with the resource-based view, SMEs who address these gaps will benefit competitively, and this, in turn, informs the adoption of leadership development practices (Cantner et al., 2010).

In this article, we respond to calls for research on the adoption of leadership development practices (Nolan and Garavan, 2015) and in addition, the examination of the role of owner-managers in this process. Owner-managers dominate decision making in SMEs (Gibb, 2009) and are often reluctant to delegate responsibility and develop others for fear they could become a threat to succession (Perren and Grant, 2001). There are also possibilities that competitors (Matlay, 2000) will poach well-developed managers or they will leave to establish a competitor business (Lange et al., 2000). Consistent with the attention-based view (Ocasio, 1997) and upper echelons theory (Hambrick, 2007), we investigate the mediating influence of owner-manager attitudes to leadership development.

Our study makes a unique contribution by investigating these relationships with data obtained from 189 owner-managers of SMEs and 492 managers. We choose SMEs in operation for 5 years or more, employing between 10 and 249 employees because firms of this size and age provide a
more direct test of the relationships. Our sample is inherently ‘success’ biased; however, start-up ventures have limited formal leadership development practices (Leitch et al., 2013). Using insights from several theoretical perspectives, we develop a model that investigates three antecedents of leadership development practices adoption: HRM-strategy fit, HR/leadership development expertise and leadership skill deficits. We also test whether the attitudes of owner-managers to leadership development mediate the HRM-strategy fit–practice adoption relationship. We also offer a contribution by investigating both the presence and intensity of leadership development practices in SMEs. We define presence as the existence of the practices and intensity as the number of managers covered by the practice (Innes and Wiesner, 2012; Sheehan, 2014). We included a measure of leadership development incorporating both formal and informal practices (Mitchelmore and Rowley, 2013; Shaw and Conway, 2000).

To address these issues, the article is structured as follows: our first section outlines theory development and hypotheses; we then outline the method and results before discussing the key findings and offering conclusions regarding the implications of this study.

Theory development and hypotheses

In this section, we develop the theoretical arguments and hypotheses making up our theoretical model (Figure 1).

Leadership development and leadership development practices in SMEs

The literature on leadership development in SMEs falls into three categories: first, studies of new business owner-managers, the leadership roles they perform and their development needs (Chen, 2007; Gibb, 2009); second, studies that focus on managers other than the owner-manager who occupy leadership roles in SMEs analysing the competencies and development required to become proficient (Gray and Mabey, 2005; Matlay, 2000); third, studies exploring management learning that emphasise processes such as observational learning, conversations and experience-based
development (Higgins et al., 2013; Thorpe et al., 2009). However, the meaning of leadership development in the SME context is conceptually unclear. Leadership development typically means ‘leader development’ with a focus on individual leader competencies, skills and attitudes (Day et al., 2014; Leitch et al., 2013) or what Day (2011) describes as the intrapersonal dimension of leadership. Less researched are interpersonal, collective and contextual notions of leadership development. In this study, we propose that leadership development involves the development of leadership processes at team and firm level in addition to the development of individual owner-manager and SME manager leader competencies. Day (2011) suggested that leadership development is both multi-level and continuous. It contributes to both within- and between-person development and the development of teams and organisations over time (Mabey, 2013).

Leadership development practices can range from formal to informal where the first approach tend to reinforce the message that leadership is about personal attributes or leader competencies. Owner-managers may hinder the adoption of formal practices as they enhance leader competencies offering a stronger individual voice and thus decreasing owner-managers’ decision-making power. Formal practices include classroom-based practices, formal mentoring, coaching and multi-source feedback processes (Garavan et al., 2014). The second approach, informal practices, represents a collective and contextual approach to leadership development emphasising collective capability and development as part of day-to-day work processes. They include learning through conversations, from mistakes, informal team coaching and reflection processes (Garavan et al., 2009; Leitch et al., 2013).

**HRM-strategy fit and leadership development practices**

HRM-strategy ‘fit’ captures the idea that SMEs will adopt and implement configurational leadership development practices as the link between HRM and strategy is critical to business success (Way and Johnson, 2005). Consistent with the arguments of Clarke and Higgs (2015), SMEs may adopt leadership development practices as a sub-set of HRM practices that align with strategic goals. This analysis of leadership development reveals that business strategy is an important contingency factor connected to leadership development. Therefore, SMEs will align their leadership development practices to the strategic requirement of the firm. Best-fit theory emphasises the importance of ensuring that HRM practices are appropriate to firm strategy (Wright et al., 2001a). SMEs will be more effective when they achieve strong HRM-strategy fit (Wright et al., 1994). This vertical integration or fit is crucial to a strategic approach to leadership development.

Baird and Meshoulam (1998) emphasised the relationship between vertical fit and stages of firm development. This suggests, consistent with the complex resource-based view, that SMEs will adopt informal and leadership development practices. As an SME grows, it moves towards formality. However, formal practices are costly and time-consuming. The achievement of HRM-strategy fit in SMEs is dynamic (Chadwick et al., 2012) as strategy formulation is frequently simplistic with little formal matching of HRM practices with strategy. The burden of operational and strategic issues and competing demands can result in limited attention given to leadership development. However, a contrary view suggests that because SME managers are proximate to the operating core, they not only formulate strategy but also are fundamental to its implementation. As such, they will be more knowledgeable about leadership development practices that align with strategy (Lubatkin et al., 2006). Thus, we predict the following hypothesis:

**Hypothesis 1.** The extent of HRM-strategy fit within an SME will be positively related to both the presence and intensity of leadership development practices.
Leadership skill gaps and adoption of leadership development practices

Human resource scholars emphasise the role of a firm’s leadership capabilities in achieving competitive advantage (Jiang et al., 2013). The resource-based view suggests that SMEs will benefit competitively from a skilled leadership talent pool and achieve sustainable competitive advantage through the acquisition and maintenance of idiosyncratic leadership resources that are rare, difficult to imitate and non-substitutable (Barney, 1991). Valuable leadership resources can set a firm apart from competitors and if developed to fit the context, will act as a barrier to imitation. HRM practices aimed at developing leaders directly influence leader capital (McMahan et al., 1999). The behavioural perspective proposes that leaders require different role behaviours depending on firm context. SMEs, for example, that pursue differentiation strategies require leaders to be customer-focused and change-oriented. Leadership development practices help develop these role behaviours (Jackson et al., 1989) addressing competence and behaviour gaps. (Table 1)

Based on the logic of both the resource-based and behavioural perspectives, leadership skill and behaviour gaps will, subject to resource constraints, lead SMEs to adopt leadership development practices. Cantner et al. (2010) found that SME leadership teams required a broad range of knowledge and skills to enable growth. Such teams may, however, be unaware of these skill gaps due to the absence of performance management and needs identification processes. The identification of skill gaps in SMEs is highly political due to the influence of the owner-manager who may be slow to acknowledge their own skill gaps (Higgins et al., 2013) Thus, we predict the following hypothesis:

Hypothesis 2. The extent of perceptions of leadership skill gaps within an SME will be positively related to both the presence and intensity of leadership development practices.

HR/leadership expertise and the adoption of leadership development

Axiomatically, HR expertise is pivotal to the adoption of HR practices; specialists provide information and knowledge (Terpstra et al., 1996; Wu et al., 2013) and so play a major role in the implementation of leadership development practices. HR expertise helps SMEs to bundle practices and manage the inter-dependencies between different practices. Strategic HRM theory suggests that HR expertise is required to influence owner-managers (Chen and Huang, 2009) – to convince owner-managers that leadership development practices benefit the firm (Schuler, 1990). SMEs typically lack such expertise due to economy of scale issues (Gibb, 2009) and as they grow typically lack source external expertise such as consultants, employer associations and leadership development specialists (Forth et al., 2006). At a particular size (about 100 employees), they are likely to hire HR specialists (Bennett and Robson, 2003; Curran and Blackburn, 2000) for as Saridakis et al. (2013) found, as firms grow they need to professionalise HR and emulate large firm practices. Thus, we predict the following hypothesis:

Hypothesis 3. The extent of HR/leadership development expertise within an SME will be positively related to the presence and intensity of leadership development practices.

The mediating role of owner-manager perceptions of leadership development. We draw on two theoretical perspectives to explain the mediating influence of owner-managers. Adopting the logic of upper echelons theory (Hambrick, 2007), differences in the values and attitudes of owner-managers towards leadership development will be reflected in the practices adopted. This theory suggests that the decision making of owner-managers is an interpretative, rather than a technical, issue. Therefore, owner-managers will perceive decision choices in respect of leadership development...
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<th>Items</th>
<th>Scale</th>
<th>Factor loading</th>
<th>Average variance extracted</th>
<th>Alpha (α)</th>
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<tr>
<td>1. HRM strategies are linked to the business strategy of the firm</td>
<td>5-point: disagree strongly to agree strongly</td>
<td>.84</td>
<td>.70</td>
<td>.88</td>
<td>Ngo et al. (2011), Fey et al. (2000)</td>
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<td>2. The HRM function in the firm is proactively involved in the strategic planning process</td>
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<td>3. HRM practices help to prepare the firm for major change</td>
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<td>4. The HR role within the firm has a strong understanding of business issues</td>
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<td>5. HRM practices help the firm to think strategically</td>
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<td>6. HRM practices are used to help managers in this firm to think strategically</td>
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<td>7. The firm has a succession plan that is linked to its strategy and goals</td>
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<td>8. HRM practices in the firm help to shape its strategies</td>
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<td>9. HRM practices are sufficiently flexible to align with the strategies of the firm</td>
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<td><strong>Leadership skill gaps</strong></td>
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<td>10. We need to enhance the problem-solving and decision-making skills of our managers</td>
<td>5-point: disagree strongly to agree strongly</td>
<td>.86</td>
<td>.69</td>
<td>.91</td>
<td>D’Netto et al. (2008), Garavan et al. (2009)</td>
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<td>11. We need to enhance our managers’ ability and skills to reflect on their performance and its impact on the performance of the firm</td>
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<td>12. We need to improve the communications and interpersonal skills of our leaders</td>
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<td>13. There is a need to remedy poor leadership performance in our firm</td>
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<td>14. There is a need to improve the strategic skills of our leaders</td>
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<td>15. There is a need to improve the team-working skills of managers in the firm</td>
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<td>16. There is a need to develop managers’ skills to think and act in a more creative way</td>
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<td>Owner-manager attitudes to leadership development</td>
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<td>17. As an owner-manager/my owner-manager: perceives leadership</td>
<td>5-point: disagree strongly</td>
<td>.86</td>
<td>.68</td>
<td>.87</td>
<td>Hurtz and Williams (2009), Noe (1986)</td>
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<td>development as a priority</td>
<td>to agree strongly</td>
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<td>18. Supports leadership development in the firm</td>
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<td>19. Perceives leadership development as a necessity rather than a perk</td>
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<td>20. Perceives leadership development is more important than any other training and development activity</td>
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<td>21. Values leadership development as an important activity for the firm to undertake</td>
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<td>22. Perceives leadership development is an enjoyable activity for managers to undertake</td>
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<td>23. Communicates positive messages about the value of leadership development</td>
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<td>Leadership development practices</td>
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<td>24. In-house leadership development programmes</td>
<td>4-point scale</td>
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<td>Day (2000), Garavan et al. (2009)</td>
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<td>25. Development reviews as part of the appraisal process</td>
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<td>26. Leadership development programmes for the owner-manager/top team</td>
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<td>27. Internal executive coaching activities</td>
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<td>28. Formal mentoring activities</td>
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<td>29. Formal coaching activities</td>
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<td>30. Action learning projects</td>
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<td>31. External seminars and conferences</td>
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<td>32. Team development activities</td>
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<td>33. E-learning activities</td>
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<td>34. Courses lending to a management qualification</td>
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<td>35. Internal secondments and job rotations</td>
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<td>37. Multi-source feedback activities</td>
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<td>38. Development centres</td>
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<td>39. Psychological assessments with feedback</td>
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<td>40. Stretch assignments</td>
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<td>41. Outdoor/outward bound development activities</td>
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<td>42. Development through conversations with manager peers</td>
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<td>43. Learning from experiences and mistakes</td>
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<td>44. Informal day-to-day coaching</td>
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<td>45. Informal mentoring activities</td>
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<td>47. Shadowing of more experienced managers</td>
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<td>48. Observation of more experienced managers</td>
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<td>49. Use of the Internet to solve problems</td>
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<td>50. Contacts with experienced managers in other firms</td>
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<td>51. Personal contacts with peer managers</td>
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HRM: human resource management; HR: human resource.
through highly personalised lenses influenced by their values and attitudes. Wynaczyk et al. (1993) found that owner-managers may have negative attitudes towards formal leadership development; however, given that they learn in an experiential fashion, they may also have more positive attitudes towards informal leadership development practices. However, Klass et al. (2010) found that owner-managers with previous exposure to HR practices would better understand the value of such practices. Thus, following the logic of upper echelons theory, SMEs will differ in their adoption of leadership development practices.

The attention-based view suggests that one of the greatest barriers in SMEs to the adoption of leadership development practices is a lack of managerial attention by the owner-manager, that is, the failure of an owner-manager to recognise the importance of leadership development. In the SME context, owner-managers experience time constraints given multiple responsibilities combined with fewer opportunities to delegate. Yet, where they do focus upon leadership issue clearly, it will promote leadership development practices (Chadwick et al., 2013). Such heightened attention is particularly important as most SMEs lack specialised leadership development expertise.

However, owner-manager attitudes directly affect the adoption of leadership development practices; we suggest that the relationship is not that straightforward. SMEs may adopt leadership development practices to respond to strategy fit issues, regulatory pressures, demands of suppliers or customers and/or specific skill shortages. Such firms may have similar resource configurations, market niches and competitive and institutional pressures; however, they may not all adopt leadership development practices. We, therefore, propose that owner-manager attitudes towards leadership development will mediate the relationship between HRM-strategy fit and the adoption of leadership development practices. Thus, we predict the following hypothesis:

**Hypothesis 4.** Owner-manager attitudes towards leadership development will mediate the relationship between HRM-strategy fit and the (a) presence and (b) intensity of leadership development practices.

**Method**

**Sample and data collection**

Using two databases, we identified 350 small- to medium-sized enterprises (SMEs) (i.e. employing 10–250 employees) in Ireland and Scotland operational for a minimum of 5 years. We drew the sample from the Dun and Bradstreet database, the most recent UK and Republic of Ireland database of enterprises. We defined an SME as an independent entity that employs between 10 and 250 employees. Small firms employ between 10 and 49 employees, whereas medium-sized firms employ 50–249 employees (European Commission, 2005).

We used the 5 years in operation as cut-off, given that successful SMEs are more likely to have adopted leadership development practices after that time. Initially, contact was through letters to owner-managers explaining the research project, inviting participation and promising that each participating SME would receive a summary of the findings. Consistent with prior research (e.g. Smith et al., 2005), we asked owner-managers to identify managers within the firm and sent an email to each of them inviting participation in the research through survey completion. After excluding incomplete surveys and responses from those with less than a 50% senior team response rate, we received usable responses from 189 owner-managers and 472 of their senior team. Using follow-up emails enabled us to achieve a high response rate of 54% among owners and 67% from managers.
The mean age of the final sample was 14 years with an average of 127 employees; the sample demographics were not significantly different from the overall distribution of SMEs in both the Republic of Ireland and Scotland. The mean age of owner-managers was 48; mean tenure was 11.25 years with 69% males and 51% had a third-level qualification at degree level. SME senior teams averaged 4.25 members (including the owner-manager) and 68% were males. Mean management tenure was 8.21 years with the average age being 44.5 years.

**Measures**

**HRM-strategy fit.** HRM-strategy fit was measured using a nine-item scale drawn from Ngo et al. (2011) and Fey et al. (2000) which have demonstrated strong reliability. Sample items include the following: ‘HRM practices are linked to the business strategy of the firm’ and ‘HRM practices help the firm to think strategically’. Both owner-managers and senior managers provided data on HRM-strategy fit. The Cronbach alpha reliability estimate for HRM-strategy fit was .84.

**Leadership skill gaps.** Leadership skill gaps were assessed using a six-item scale from D’Netto et al. (2008) and Garavan et al. (2009). Sample items include the following: ‘We need to remedy poor leadership performance in the firm’ and ‘There is a need to improve the team-working skills of managers in our firm’. Both owner-managers and senior managers provided data on leadership skill gaps. The Cronbach alpha reliability estimate for leadership skill gaps was .85.

**HR/leadership development expertise.** We measured HR/leadership development expertise using five indicators: (a) HR/leadership development expertise, (b) leadership competency expertise, (c) availability of coaching expertise, (d) talent and succession management expertise and (e) the use of external development consultants. Owner-managers and managers provided data on HR/leadership expertise. The indicators were measured using a scale ‘not available=0’, ‘yes=1’ or ‘don’t know’.

**Owner-manager attitudes to leadership development.** Owner-manager attitudes towards leadership development were measured using a seven-item scale that combined items from Hurtz and Williams (2009) and Ford and Noe (1987). Sample items include the following: ‘Leadership development is perceived as a priority by me/my owner-manager’ and ‘I/my owner-manager supports leadership development’. Owner-manager provided data on their attitudes to leadership development. The Cronbach alpha reliability estimate for owner-manager attitudes in this study was .82.

**Leadership development practices.** We measured the presence of leadership development practices using a scale developed from the literature (Day, 2000; Garavan et al., 2009). We asked owner-managers to indicate whether a number of leadership development practices were available in the firm. Consistent with previous research (Wright et al., 2001b), we only included the ‘agree strongly’ answer to compute the presence of leadership development practices. We included 17 formal leadership development practices: for example, multi-source feedback, coaching, in-house development programmes, action learning projects and 10 informal leadership development practices.

In order to assess whether leadership development practices were widespread within the firm, we asked managers to indicate the percentage of managers covered by the practice. The simple presence of a leadership development practice may not depict the extent of adoption by a firm (Della Torre and Solari, 2013; Gilman and Edwards, 2008). Those who experience HRM...
practices are the most reliable source of these data. A variety of cut-offs are used to indicate the intensity of use of a practice (50%, Della Torre and Solari, 2013; 90%, Sheehan, 2014); we selected the median usage (62%) as the cut-off. We calculated scores for each firm to indicate the use of 27 leadership development practices. The Cronbach alpha reliability for the leadership development index was .84.

Control measures. Contextual factors including firm size, sector and number of managers influence the adoption of leadership development practices. For example, Cardon and Stevens (2004) found differences between micro and small firms in the use of HR practices. We would expect that where an organisation had a greater number of managers this will explain the adoption of leadership development practices. Therefore, we controlled for the influence of firm size and number of managers. We measured firm size based on the number of employees in the firm. Appendix 1 describes the technical measurement issues related to the study variables.

Results

Descriptive statistics

The average score for presence was 10.57, suggesting moderate presence of leadership development practices. The average score for intensity was 9.44 from a maximum of 27. Accordingly, the average SME in our sample has about one-third of the leadership development practices after applying the cut-off for coverage of the practice. This is consistent with the findings of Sels et al. (2006) and Sheehan (2014) on the use of high-performance work practices in SMEs. The inter-scale correlations in Table 2 show the expected direction of associations. Specifically, firm size is significantly positively related to both the presence ($r = .19$) and the intensity ($r = .26$) of leadership development practices. The number of managers is significantly positively related to the intensity of leadership development practices ($r = .19$). HR-strategy fit is significantly positively related to both the presence ($r = .21$) and intensity ($r = .27$) of leadership development practices. HR/leadership development expertise is significantly positively related to both the presence ($r = .39$) and intensity ($r = .42$) of leadership development practices. Leadership skill gaps are significantly

<table>
<thead>
<tr>
<th>Variables</th>
<th>Mean</th>
<th>SD</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
<th>8</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Firm size</td>
<td>187</td>
<td>38</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. Number of managers/leaders</td>
<td>4.25</td>
<td>1.50</td>
<td>.51</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. HRM-strategy fit (1, 2)</td>
<td>3.26</td>
<td>.82</td>
<td>.08</td>
<td>.07</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. HR/leadership development expertise (1, 2)</td>
<td>3.81</td>
<td>1.65</td>
<td>.10</td>
<td>.05</td>
<td>.11</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5. Leadership skill gaps (1, 2)</td>
<td>4.14</td>
<td>.58</td>
<td>.21</td>
<td>.04</td>
<td>.13</td>
<td>.15</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6. Owner-manager attitudes towards development (1)</td>
<td>3.31</td>
<td>.63</td>
<td>.15</td>
<td>.03</td>
<td>.14</td>
<td>.42</td>
<td>.29</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

SD: standard deviation; HRM: human resource management.
1= Responses to these variables are from owner-managers ($N=189$).
2= Responses to these variables are from senior team leaders ($N=472$).
*p < .05; **p < .01 (two-tailed test).
positively related to the presence \((r = .22)\) and the intensity \((r = .26)\) of leadership development practices. Finally, owner-manager attitudes are significantly positively related to both measures of adoption of leadership development practices \((presence: r = .19; intensity: r = .14)\)

**Hypothesis testing**

We used hierarchical multiple regression analysis to test Hypotheses 1–4 (Table 3). First, the control variables were entered, and firm size showed significant effects on the presence \((\beta = .18; p < .05)\) and intensity \((\beta = .16; p < .01)\) of leadership development practices in SMEs. Second, we entered HRM-strategy fit in Step 2. The results revealed that HRM-strategy fit was a significant predictor of both the presence and intensity of leadership development practices. HRM-strategy fit strongly predicted the presence \((\beta = .39; p < .01)\) of leadership development practices and the intensity \((\beta = .29; p < .01)\) of leadership development practices. We, therefore, found support for Hypothesis 1. We entered leadership skill gaps and HR/leadership expertise in Steps 3 and 4 separately. We found that leadership skill gaps was a significant predictor of both the presence \((\beta = .26; p < .01)\) and intensity \((\beta = .24; p < .01)\) of leadership development practices, thus supporting Hypothesis 2. HR/leadership expertise was a very strong predictor of both the presence \((\beta = .39; p < .01)\) and intensity \((\beta = .44 p < .01)\) of leadership development practices supporting Hypothesis 3.

We followed Baron and Kenny’s (1986) procedures to assess the mediation effects of owner-manager attitudes. First, HRM-strategy fit (the independent variables) should be significantly related to owner-manager attitudes (the mediator variable). The result of the regression analysis shows that HRM-strategy fit \((\beta = .25; p < .01)\) was significantly related to owner-manager attitudes (Block 3, Step 2). Second, the independent variables should be related to the dependent variable. HRM-strategy fit had a strong and significant effect on both presence and intensity (Block 1, Step 2 and Block 2, Step 2). Third, the mediating variable should be related to the dependent variable. As shown in Block 1, Step 5 \((\beta = .16; p < .05)\) and Block 2, Step 5 \((\beta = .14; p < .05)\), owner-manager attitudes are positively related to both the presence and intensity of leadership development practices. When both the independent variable and the mediator are included in the equations, together (Blocks 1 and 2, Step 6), the \(\beta\) coefficient for HRM-strategy fit remains significant but is reduced for the presence of leadership development practices (partial mediation). In the case of the intensity of leadership development practices, the \(\beta\) coefficient for HRM-strategy fit becomes non-significant (full mediation).

To further investigate mediation, we used Sobel’s (1982) test for indirect effects. The results showed that the intervening effects of owner-manager attitudes on the relationship between HRM-strategy fit on the presence and intensity of leadership development practices were both significant \((p < .05)\). We found partial support for Hypothesis 4(a) and complete support for Hypothesis 4(b).

**Discussion**

The adoption of formal leadership development practices by SMEs is complex due to resource limitations and other disadvantages related to firm size; accordingly, such firms tend towards informal development practices (Cardon and Stevens, 2004; Nolan and Garavan, 2015). There is a high incidence of manager involvement in work-related learning (Kyndt and Baert, 2013) and some evidence of formal management development practices (Fuller-Love, 2006; Gray and Mabey, 2005). We found evidence of both formal and informal practices in SMEs; yet, the previous focus has largely been upon the presence of leadership development practices and less so on implementation. However, we investigated both the presence and intensity of practices as the latter is a more
Table 3. Hierarchical regression results for testing mediation (N = 189 owner-managers and 472 senior leaders).

<table>
<thead>
<tr>
<th>Variables</th>
<th>Leadership development practices: presence</th>
<th>Leadership development practices: intensity</th>
<th>Owner-manager attitudes</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Step 1</td>
<td>Step 2</td>
<td>Step 3</td>
</tr>
<tr>
<td>Size of firm</td>
<td>0.18*</td>
<td>0.12*</td>
<td>0.10*</td>
</tr>
<tr>
<td>Number of managers</td>
<td>0.05</td>
<td>0.04</td>
<td>0.04</td>
</tr>
<tr>
<td>Sector</td>
<td>0.07</td>
<td>0.05</td>
<td>0.04</td>
</tr>
<tr>
<td>HRM-strategy fit</td>
<td>0.39**</td>
<td>0.49**</td>
<td>0.39**</td>
</tr>
<tr>
<td>Leadership skill gaps</td>
<td>0.26**</td>
<td>0.23*</td>
<td>0.18*</td>
</tr>
<tr>
<td>HR/leadership development expertise</td>
<td>0.39**</td>
<td>0.17*</td>
<td>0.34**</td>
</tr>
<tr>
<td>Owner-manager attitudes</td>
<td>0.16*</td>
<td></td>
<td></td>
</tr>
<tr>
<td>$R^2$</td>
<td>0.10</td>
<td>0.25</td>
<td>0.33</td>
</tr>
<tr>
<td>$\Delta R^2$</td>
<td>0.15</td>
<td>0.08</td>
<td>0.06</td>
</tr>
</tbody>
</table>

HR: human resource.

*p ≤ .05; **p ≤ .01.
First, we predicted that HRM-strategy fit would influence the adoption of leadership development practices drawing upon research findings from previous studies (Fuller-Love, 2006; Gray and Mabey, 2005). We derived theoretical support from the resource-based and complex resource-based view finding strong support for a positive relationship between HRM-strategy fit and both the presence and intensity of leadership development practices. This suggests that both theories have real value for future studies on leadership development in SMEs. In particular, they explain why an SME will adopt a sub-set of HR practices targeted towards a key group of employees; at present, there is limited application of these theories in the leadership development literature. The strong predictive value of HRM-strategy fit helps explain the diversity of leadership development practices we found in the sample of SMEs. Formal practices enhance leader capabilities of SME managers and the uniqueness and inimitability of managerial resources. Complex resource-based theory suggests that informal practices are valuable because of their synchronicity with context such that they provide flexibility and responsiveness to competitive conditions. Colbert (2007) proposed that within SMEs, there is a ‘continual, deliberate reinterpretation of HR policies and practices in the context of the organisation’ (p. 355). SMEs will continue to revise strategy as they gain experience, thus demonstrating the dynamic nature of the HRM-strategy fit relationship. We found that SMEs of different sizes have combinations of leadership development practices, and these distinct combinations align with strategic requirements.

Future research should expand the research focus and consider variables not included here such as the growth orientation of the SME, the sector in which the SME operates, the role of different types of strategy and whether the firm has internationalised or not. It would also be useful to invest the influence of external agencies, suppliers and customers in practice adoption. These latter factors highlight the potential value of institutional theory and the impact of industry norms and practices on the adoption of leadership development practices.

We utilised strategic HR theory to predict the extent to which the existence of HR/leadership development expertise would predict both the presence and intensity of leadership development practices. More specifically, strategic HR theory predicts that HR/leadership professionals will influence owner-managers to adopt leadership development practices. These specialists help to operationalise leadership development practices and are a vital resource orchestration strategy (Chadwick et al., 2014). Our results indicate a strong positive relationship between an index of HR/leadership development expertise and both the presence and intensity of leadership development practices. We found that the existence of HR/leadership development expertise was particularly important for the intensity of practices. It explained significant additional variance ($\Delta R^2 = .11$).

These findings present SMEs with a significant dilemma and challenge. Drawing on the resource-based view, resource poverty is a major impediment to the adoption of leadership development practices. The adoption of formal leadership development practices requires attention to the implementation and availability of leadership development expertise and significant time and effort to embed the practices. This involves significant resource allocation and a strategic orientation by the individual responsible for leadership development (Hauff et al., 2014). SMEs typically find it difficult to outsource leadership development activities or utilise consultants given the lack of financial resources and effectiveness of such arrangements (Klaas et al., 2000). As such, SMEs have to develop a strategy or approach without the benefits of a significant resource-base and specialist expertise available to large firms (Georgiadis and Pitelis, 2012). Small firm resource poverty issues (10–49 employees) will affect the adoption of formal leadership development practices. We suggest that future research should investigate these resource poverty issues with more newly established SMEs and micro-firms.
We drew on the resource-based view to predict a positive relationship between leadership skill gaps and both the presence and intensity of leadership development practices. The resource-based view argues that SMEs will benefit from a skilled leadership pool. In the case of this hypothesis, we adopted a deficit view of resources to argue that SMEs with significant leadership gaps will adopt leadership development practices. The results provide strong support for this hypothesis in the case of both presence and intensity of practices. Leadership in SMEs is associated with the capability of a small number of individuals; Kempster and Cope (2010) suggested that these capabilities depend on the growth stage of the SME. In the early stages of growth, managers perform flexible roles and undertake informal communication and knowledge sharing. In more established SMEs, managers have more defined roles and greater people management responsibilities (CIPD, 2014); consistent with the resource-based view (RBV), these firms adopt leadership development practices to ensure they possess the skills to align with the growth stage of the firm. Future studies should, however, measure skill deficits using a multiple measures rather than rely on the single measure used in this study.

Finally, we utilised upper echelons theory and the attention-based view to argue that the attitudes of owner-managers towards leadership development will influence the adoption of leadership development practices. Accordingly, we investigated whether the perceived importance that owner-managers attach to leadership development will mediate the relationship between HRM-strategy fit and practice adoption. Our finding of strong mediation points to the central role of the owner-manager in SMEs; it suggests that strategy fit issues alone do not drive the adoption of leadership development practices. It highlights the important role of cognitive factors; attitudes of owner-managers have received very little attention in empirical research on SME HR adoption. This study begins to address this gap and provides support for upper echelons theory. Owner-managers inject their personal values, beliefs and attitudes into decision making and so adopt leadership development practices based on personal attitudes. This has led to suggestions that the attitudes of owner-managers are extremely important to the success of the firm (Mayson and Barrett, 2006).

The evidence from this study also provides support for an attention-based view where managers provide more attention to leadership development practices. Owner-managers are reluctant to devote attention to leadership development; it is time-consuming and not considered central to SME operations (Messersmith and Guthrie, 2010). Future research should investigate the types of events that may attract the attention of the owner-manager. Are there particular events or situations that direct their attention? To what extent does owner-manager attention change and what factors trigger such changes? What, for example, will lead to a re-evaluation of the role of leadership development and alter the practices of SMEs? It would be informative to conduct qualitative research including observational methods to observe the behaviour of owner-managers when confronted with leadership deficit situations.

Future research can add to upper echelons theory by exploring how the extent of managerial discretion and job demands moderates the influence of owner-manager attitudes. Hambrick (2007) suggested that the greater the extent of managerial discretion, the greater the influence of owner-manager characteristics. Owner-managers who have significant job demands are more likely to take mental shortcuts and draw upon past experience. These questions are yet unanswered in the context of HRM and leadership development practices; however, they suggest that the attitudes of owner-managers towards leadership development will be salient. We also acknowledge that there may be other mediating variables not captured here that may link HRM-strategy fit to the two measures of adoption used in this study. These include the mediating role of line manager learning orientation, learning motivation and organisational factors such as the types of complementary HRM practices implemented within the firm.
Implications for practice

The evidence that HRM-strategy fit is positively related to the adoption of leadership development practices suggests that considerable efforts should be devoted to the selection of formal practices and the creation of conditions where informal practices can flourish. SMEs should customise leadership development practices to reflect the uniqueness of the SME work environment; they should be selective in their use of leadership development practices to ensure good coverage or intensity of implementation. Our findings on the predictive power of leadership skill deficits indicate that HR practitioners should utilise methods that help to clarify the nature of the skill gaps. Finally, the findings on the mediating role of owner-manager attitudes towards development suggest that policy initiatives directed at encouraging SMEs to adopt formal practices. It is important that efforts are undertaken to influence and change the attitudes of owner-managers and make the case for the adoption of leadership development practices including their value to firm performance.

Conclusion

Our study found that three antecedents, HRM-strategy fit, HR/leadership development expertise and leadership skill gaps, predicted the adoption of leadership development practices in SMEs. Where owner-managers have positive attitudes towards leadership development and perceive it to be strategically important, there will be greater adoption of leadership development practices. Owner-manager attitudes are particularly important in explaining the intensity of leadership development practices. Therefore, policy makers should focus their efforts on owner-managers and the provision of resources to help SMEs implement leadership development practices.

Appendix 1

Measurement issues

Because our study variables (human resource management (HRM)-strategy fit, human resource (HR)/leadership development expertise, leadership skill gaps, owner-manager attitudes and leadership development practices) were measured via self-reports, we analysed the extent to which our results were contaminated by common method bias. We also examined the convergent and discriminant validity of our self-report measures. First, we used Harman’s one-factor test to identify whether a common or single method or factor existed that would account for the variance in our findings. Using SPSS, we performed an exploratory factor analysis by entering all variables. Results showed that more than one factor emerged and the general factor explained 26.21% of the total variance. We performed a confirmatory factor analysis (using MPlus) on five of the variables included in the study. We excluded the measure of HR/leadership expertise because it was measured using dichotomous variables. We compared a baseline measurement model that included HRM-strategy fit, leadership skill gaps, owner-manager attitudes and leadership development practices with a series of models that constrained the correlation of one pair of constructs to be equal to 1.00. Following the advice of Little et al. (2002), a significant chi-square difference would indicate that the pair of constructs is not collinear. Following the advice of Hair et al. (2006), we calculated five fit indices to determine how the model fitted our data: $\chi^2$ goodness of fit index (GFI), comparative fit index (CFI), root mean square error of approximation (RMSEA) and standardised root mean square residual (SRMR). For GFI and CFI, values greater than .9 represent a good model fit and for SRMR and RMSEA, values less than .07 indicate a good model fit (Kline, 2005).
We found that the fit for a five-factor model that included the five separate factors exhibited a much better fit to the data than any of the alternative models ($\chi^2 = 207.91; \text{df} = 142; p < .01; \text{GFI} = .90; \text{incremental fit index (IFI)} = .92; \text{CFI} = .92; \text{Tucker–Lewis index (TLI)} = .91, \text{SRMR} = .05; \text{RMSEA} = .06$). When we inspected the factor loadings and factor co-variances of the five-factor model, it showed that all factor loadings were significant (standardised loadings ranged from .67 to .87 with $t$ values ranging from 5.81 to 11.26, $p < .01$).

To determine whether the constructs in our model were distinct from each other, we performed a test of the scales’ discriminant validity following the advice of Fornell and Larcker (1981). We first calculated the average variance extracted (AVE) for HRM-strategy fit, leadership skill gaps, owner-manager attitudes and leadership development practices. We found support for convergent validity. The AVEs were .70, .69, .68 and .64, respectively, exceeding the benchmark of .50. Fornell and Larcker (1981) proposed that scale variables are sufficiently different from each other if a scale’s AVE is greater than the shared variance of any other study measures included in the model. This condition was met by the data, and we therefore concluded that all scales were distinct from each other. The values were .82 for HRM-strategy fit, .82 for leadership skill gaps, .83 for owner-manager attitudes towards leadership development and .84 for leadership development.

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