

STRATEGIC LEADERSHIP IN THE DIGITAL TRANSFORMATION OF HUMAN RESOURCE MANAGEMENT IN SMALL AND MEDIUM-SIZED ENTERPRISES

Aleksandar M. Damnjanovic

*Faculty of Business and Law, MB University, Belgrade, Serbia,
adm.tfc@gmail.com*

Vesela Vlaskovic

*Faculty of Business and Law, MB University, Belgrade, Serbia,
veselacurkovic@yahoo.com*

Snezana Maksimovic

*Faculty of Business and Law, MB University, Belgrade, Serbia,
galena.mcl@gmail.com*

ABSTRACT

The rapid advancement of digital technologies has significantly reshaped human resource management (HRM), particularly in small and medium-sized enterprises (SMEs). As organizations adopt automation, artificial intelligence (AI), and data-driven HR solutions, the role of leadership becomes crucial in ensuring a smooth transition and sustainable implementation. This paper explores the strategic leadership approaches necessary for navigating the digital transformation of HRM in SMEs, focusing on overcoming resistance to change, fostering digital readiness, and aligning technological advancements with organizational goals. Through a review of contemporary case studies and best practices, we identify key leadership competencies required to drive innovation, enhance workforce adaptability, and optimize HR functions. The findings highlight the importance of vision, agility, and employee engagement in successfully integrating automation into HRM processes. By addressing both opportunities and challenges, this study provides practical insights for SME leaders aiming to leverage digital transformation for long-term organizational growth.

Keywords: *leadership, transformation, SME*

1. INTRODUCTION

In serbia's contemporary business landscape, digital transformation has become a pivotal factor for maintaining competitiveness, especially among small and medium-sized enterprises (SMEs). Integrating advanced technologies into human resource management (HRM) processes enables these enterprises to optimize operations, reduce costs, and enhance efficiency. However, the successful implementation of digital solutions necessitates strategic leadership capable of overcoming challenges and leveraging the benefits of digitalization.

Research indicates that serbian enterprises recognize the importance of digital transformation. According to a study titled "digitalization in hrm in serbia: the role of strategic hrm involvement," the main purpose of this paper is to investigate the level of the usage of digital solutions for human resource management (HRM) processes.

In the context of hrm, digital technologies such as artificial intelligence (AI) and automation can significantly reduce administrative burdens, allowing hr professionals to focus on strategic activities. For instance, the application of AI in recruitment processes can minimize biases and improve the quality of candidate selection, which is particularly beneficial for smes with limited resources (Bogicevic Milikic et al., 2008).

Despite these advantages, many serbian companies face challenges in the digital transformation process. A lack of clearly defined strategies, employee resistance to change, and limited financial resources present significant obstacles. Therefore, the role of leaders is crucial in driving these changes by promoting a culture of innovation, providing adequate training to employees, and effectively managing transitions.

This paper will explore how strategic leadership can support the digital transformation of human resource management in small and medium-sized enterprises in serbia, identifying key success factors and offering guidelines for the effective implementation of digital solutions.

2. LITERATURE REVIEW

2.1 Emotional Intelligence and Change Management

Emotional intelligence (EI) is a critical factor in effective leadership, particularly during organizational change. Leaders with high EI can recognize, understand, and manage their own emotions and those of others, facilitating smoother transitions and reducing resistance to change. Research indicates that emotionally intelligent leaders are adept at addressing employee concerns, building trust, and fostering engagement during periods of transformation. This capability is essential in navigating the human aspects of change management, as it helps mitigate resistance and promotes a more adaptable workforce (Celic, 2020). Now follows visualization in figure 1.

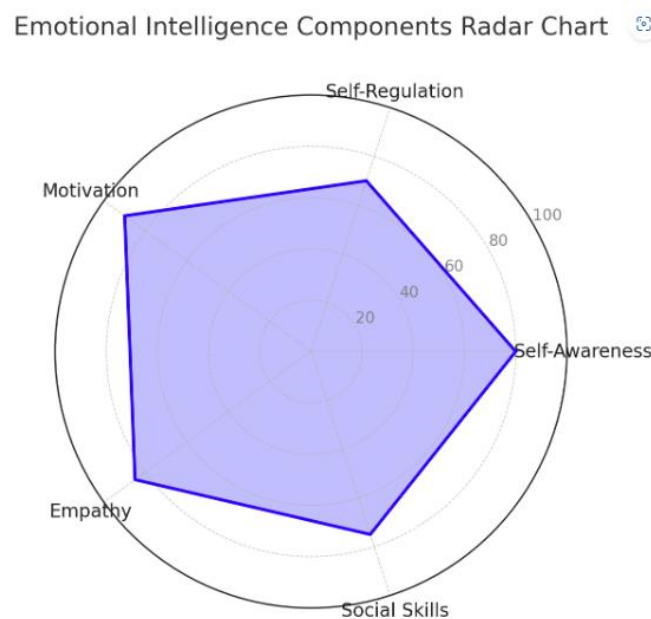


Figure 1: Emotional intelligence components

A study published in the *International Journal of Organizational Analysis* examined the mediating role of psychological capital in the relationship between EI and resistance to change. The findings suggest that EI influences psychological capital, which in turn affects employees' resistance to change, highlighting the importance of EI in managing organizational transitions (Dabic, 2019; Petrovic, 2020).

2.2 Strategic Leadership in HR Automation

Strategic planning in human resources (HR) is vital for aligning HR practices with organizational goals, especially when implementing automation technologies. A strategic

approach enables HR leaders to streamline operations, ensuring efficient resource allocation and minimizing redundancies. By anticipating future needs and trends, HR can proactively develop strategies to attract and retain top talent, positioning the organization for success (Janicijevic, 2017).

The integration of technology in HR management has transitioned from a luxury to a necessity. HR executives are increasingly turning to digital solutions to boost operational efficiency, foster data-driven decision-making, and improve the employee experience. This includes automating tasks such as payroll processing, talent management, and compliance, which not only saves time and resources but also allows HR professionals to focus on more strategic initiatives that drive organizational growth (Milutinovic, 2015).

Furthermore, the implementation of HR automation tools can significantly enhance operational efficiency. By automating repetitive tasks, reducing manual errors, and improving data accuracy, HR departments can free up resources to focus on strategic initiatives. This shift not only improves efficiency but also supports HR in becoming a more strategic partner within the organization (Krstic, 2012).

Authors defined two research hypothesis:

- **Hypothesis 1:** Leaders who demonstrate a high level of emotional intelligence facilitate the acceptance of change and reduce employee resistance to automation.
- **Hypothesis 2:** A strategic approach by leaders in planning and implementing automation enhances operational efficiency within the human resources department.

Emotional Intelligence (EI) in Leadership: Leaders with high EI possess self-awareness, empathy, emotional regulation, and social skills. These competencies enable them to understand and manage their own emotions and those of their team members.

Facilitation of Change and Reduction of Employee Resistance: Leaders with high EI can effectively facilitate change by fostering open communication, building trust, and creating a supportive environment. This approach helps in reducing employee resistance to new initiatives, such as automation (Alawneh, 2009).

Acceptance of Automation and Reduced Resistance: When employees perceive that their leaders are empathetic and supportive, they are more likely to develop a positive attitude towards change. This leads to increased adaptability, a positive attitude towards automation, and enhanced engagement with new technologies (Vemic Djurkovic, 2020).

All of this can be seen in Figure 2.

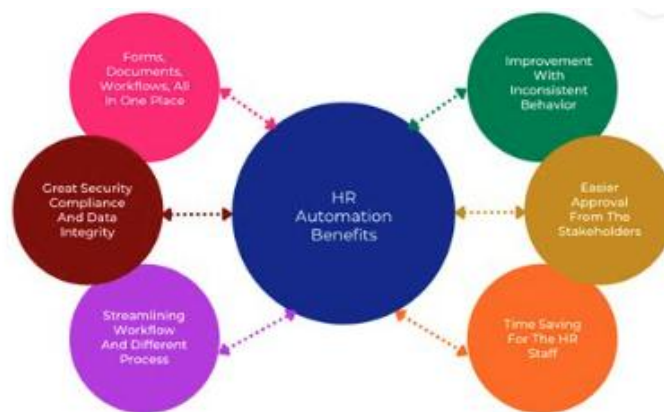


Figure 2: HR Automation benefits

Now follows discussion of research results.

3. DISCUSSION OF RESEARCH RESULTS

1. Emotional Intelligence Components in Leadership

This radar chart depicts the five key components of emotional intelligence as defined by Daniel Goleman:

- Self-Awareness: Recognizing and understanding one's own emotions.
- Self-Regulation: Managing and controlling one's emotions in healthy ways.
- Motivation: Harnessing emotions to pursue goals with energy and persistence.
- Empathy: Understanding and sharing the feelings of others.
- Social Skills: Managing relationships to move people in desired directions.

These components are essential for leaders to effectively manage change and reduce employee resistance.

2. Impact of Strategic HR Planning on Operational Efficiency

This radar chart illustrates how strategic HR planning influences various aspects of operational efficiency:

- Talent Acquisition: Effectiveness in attracting and hiring the right talent.
- Employee Development: Success in training and developing employees.
- Performance Management: Efficiency in evaluating and improving employee performance.
- Succession Planning: Preparedness for future leadership needs.
- Employee Engagement: Level of employee commitment and motivation.

Strategic HR planning ensures that these areas are aligned with organizational goals, thereby enhancing overall efficiency.

3. Benefits of HR Automation on Operational Efficiency

This radar chart highlights the key benefits of implementing HR automation:

- Time Savings: Reduction in time spent on administrative tasks.
- Cost Reduction: Decrease in operational costs due to automation.
- Data Accuracy: Improvement in the precision of HR data.
- Compliance: Enhanced ability to adhere to legal and regulatory requirements.
- Employee Experience: Improvement in the overall experience of employees through streamlined processes.

Emotional Intelligence (EI) is a critical factor in effective leadership, especially during organizational changes such as automation. Leaders with high EI can recognize, understand, and manage their own emotions and those of others, facilitating smoother transitions and reducing resistance to change. Research indicates that emotionally intelligent leaders are adept at addressing employee concerns, building trust, and fostering engagement during periods of transformation. This capability is essential in navigating the human aspects of change management, as it helps mitigate resistance and promotes a more adaptable workforce. A study published in the International Journal of Organizational Analysis examined the mediating role of psychological capital in the relationship between EI and resistance to change. The findings suggest that EI influences psychological capital, which in turn affects employees' resistance to change, highlighting the importance of EI in managing organizational transitions.

Furthermore, integrating EI into change management processes can lead to more effective conflict resolution and a supportive work environment. By understanding and addressing the

emotional aspects of change, leaders can reduce resistance and facilitate smoother transitions (Koumas, 2021).

Strategic planning in human resources (HR) is vital for aligning HR practices with organizational goals, especially when implementing automation technologies. A strategic approach enables HR leaders to streamline operations, ensuring efficient resource allocation and minimizing redundancies. By anticipating future needs and trends, HR can proactively develop strategies to attract and retain top talent, positioning the organization for success (Stankov, 2022; Krstic, 2020).

The integration of technology in HR management has transitioned from a luxury to a necessity. HR executives are increasingly turning to digital solutions to boost operational efficiency, foster data-driven decision-making, and improve the employee experience. This includes automating tasks such as payroll processing, talent management, and compliance, which not only saves time and resources but also allows HR professionals to focus on more strategic initiatives that drive organizational growth (Jaksic, 2023).

Furthermore, the implementation of HR automation tools can significantly enhance operational efficiency. By automating repetitive tasks, reducing manual errors, and improving data accuracy, HR departments can free up resources to focus on strategic initiatives. This shift not only improves efficiency but also supports HR in becoming a more strategic partner within the organization (Melo, 2023).

In summary, both emotional intelligence in leadership and strategic planning in HR automation are crucial for facilitating organizational change and enhancing operational efficiency (Slavic, 2013). Leaders who demonstrate high EI can effectively manage resistance to change, while strategic HR planning and automation contribute to streamlined operations and improved organizational performance (Ferdousi, 2023).

4. CONCLUSION

In conclusion, the digital transformation of Human Resource Management (HRM) in Serbia's small and medium-sized enterprises (SMEs) presents both significant opportunities and challenges. Strategic leadership plays a pivotal role in navigating this transition, ensuring that technological advancements align with organizational goals and cultural contexts.

Research indicates that Serbian SMEs often exhibit an integrative linkage between the HR function and strategy formulation, with HR managers participating in top management teams. This integration facilitates a more cohesive approach to implementing digital solutions within HRM.

However, challenges persist. Many SMEs face obstacles such as limited financial resources, resistance to change among employees, and a lack of clearly defined digital strategies. Overcoming these hurdles requires leaders to foster a culture of innovation, provide continuous training, and effectively manage change processes (Stangl Susnjar, 2016).

The adoption of digital tools, including artificial intelligence (AI) and automation, can significantly enhance HR functions by reducing administrative burdens and improving decision-making processes. For instance, AI-powered platforms can assist in workforce planning by predicting recruitment needs and suggesting qualified candidates, thereby optimizing staffing processes (Muktamar, 2023; Hanic, 2016).

Looking ahead, it is essential for Serbian SME leaders to embrace strategic leadership practices that support digital transformation. This includes developing clear digital strategies, investing in employee development, and leveraging technology to enhance HRM processes. By doing so, SMEs can improve their competitiveness and adaptability in an increasingly digital business environment.

Future research should focus on longitudinal studies to assess the long-term impacts of digital transformation on HRM within Serbian SMEs. Additionally, exploring sector-specific

challenges and best practices can provide more tailored insights, aiding SMEs across various industries in their digital journeys (Rosulj, 2024).

In summary, while the path to digital transformation in HRM presents challenges, with strategic leadership and a commitment to innovation, Serbian SMEs can successfully navigate this transition, leading to enhanced organizational performance and sustainability.

LITERATURE:

1. Bogićević Milikić, B., Janićijević, N., & Petković, M. (2008). *The role of human resource management in developing a company's competitive advantage*. Economic Annals, 53(177), 55-75.
2. Petrov, V. Čelić, Dj., Uzelac, Z., Drašković, Z. (2020). *Three pillars of knowledge management in SMEs: evidence from Serbia*, International Entrepreneurship and Management Journal, Springer, vol. 16(2), 417-438
3. Dabić, M., Maley, J., Dana, LP. (2020). *Pathways of SME internationalization: a bibliometric and systematic review*. Small Bus Econ 55, 705–725. <https://doi.org/10.1007/s11187-019-00181-6>
4. Milutinović, R., Stošić, B., & Mihić, M. (2015). *Concepts And Importance of Strategic Innovation in SMEs: Evidence from Serbia*. Management:Journal of Sustainable Business and Management Solutions in Emerging Economies, 20(77), 35–42. Retrieved from <https://management.fon.bg.ac.rs/index.php/mng/article/view/56>
5. Janićijević, N. (2017). *Organizational culture and organizational change in Serbia: An empirical study*. Economic Annals, 62(215), 67-91. <https://doiserbia.nb.rs/Article.aspx?ID=0013-32641713067J>
6. Krstić, B., & Petrovic, B. (2012). *The role of knowledge management in increasing enterprise's innovativeness*. Facta Universitatis. Series: Economics and Organization, 9, 93-110.
7. Alawneh, Ali & Abuali, Amer & Almarabeh, Tamara. (2009). *The Role of Knowledge Management in Enhancing the Competitiveness of Small and Medium-Sized Enterprises (SMEs)*. Communications of the IBIMA.
8. Vemić Đurković, J., Nikolić, I., & Marinović Matović, I. (2020). *Human resource management in the function of improving the quality of banks' business as a support in financing agriculture in Serbia*. Ekonomika poljoprivrede, 67(3), 781-796. <https://doi.org/10.5937/ekoPolj2003781V>
9. Koumas, M. , Dossou, P. and Didier, J. (2021) *Digital Transformation of Small and Medium Sized Enterprises Production Manufacturing*. Journal of Software Engineering and Applications, 14, 607-630. doi: 10.4236/jsea.2021.1412036.
10. Stankov, Sanja & Brtko, Eleonora & Poštin, Jasmina & Ilić-Kosanović, Tatjana & Nikolić, Milan, 2022. *The influence of organizational culture and leadership on workplace bullying in organizations in Serbia*, Journal of East European Management Studies, Nomos Verlagsgesellschaft mbH & Co. KG, vol. 27(3), pages 519-551.
11. Krstić, S., & Fedajev, A. (2020). *The role and importance of large companies in the economy of the Republic of Serbia*. Serbian Journal of Management, 15(2), 335-352. <https://doi.org/10.5937/sjm15-19553>
12. Jakšić, K., Trajković, S., Deletić, M., & Deletić, V. (2023). *Digital transformation of business through e-commerce in small and medium-sized enterprises (SME's)*. International Review, 3-4, 154-162. <https://doi.org/10.5937/intrev2304151J>
13. Melo, P. N., Machado, C. F., & Brewster, C. (2023). *Human resource management in small and medium-sized enterprises: A performance model definition*. Strategic Management, 28(2), 4-20. <https://doi.org/10.5937/StraMan2200024N>

14. Ferdousi, F., & Abedin, N. (2023). *Strategic Human Resources Management for Creating Shared Value in Social Business Organizations*. Sustainability, 15(4), 3703. <https://doi.org/10.3390/su15043703>
15. Štangl Šušnjar, G., Slavić, A., Berber, N., Leković, B. (2016). *The Role of Human Resource Management in Small and Medium Sized Companies in Central-Eastern Europe*. In: Ateljević, J., Trivić, J. (eds) *Economic Development and Entrepreneurship in Transition Economies* . Springer, Cham. https://doi.org/10.1007/978-3-319-28856-7_12
16. Mukhtamar B, A., Bachtiar, A., Guntoro, G., Riyantie, M., & Ridwan, N. (2023). *The Role of Leadership in Digital Transformation Management in Organisations*. Jurnal Minfo Polgan, 12(1), 1306-1314. <https://doi.org/10.33395/jmp.v12i1.12731>
17. Hanić, A., Pržulj, Ž., Lazarević-Moravčević, M. (2016). *Characteristics of human resource management in SMEs in Serbia*. DOI: <https://doi.org/10.26417/ejes.v4i1.p237-246>
18. Rošulj, D., Petrović, D. Č., & Arsić, S. M. (2024). *Knowledge Management in Serbian SMEs: Key Factors of Influence on Internal and External Business Performances*. Sustainability, 16(2), 797. <https://doi.org/10.3390/su16020797>