MODERN HR APPROACHES IN RELATION TO THE FINANCIAL PERFORMANCE OF SMES

Dana JAŠKOVÁ

Abstract

Small and medium-sized enterprises (SMEs) are key drivers of wealth creation and employment across economies. In today's increasingly dynamic and uncertain business environment, SMEs must adopt modern human resource management systems to enhance financial performance and gain a competitive edge. This study explores the relationship between High Performance Work Systems (HPWS) and organizational financial performance (FP), with a specific focus on empirically validating mediating effects through a rigorous model comparison approach to strengthen the robustness of the findings. Beyond assessing the direct relationship between HPWS and FP, the study investigates the mediating roles of SME reputation (RE) and SME social value (SV). The primary objective is to quantify these relationships within the context of human resource management practices in Slovak SMEs. Data were gathered via a survey of 300 SME owners and managers. Partial least squares structural equation modelling (PLS-SEM), implemented using SmartPLS 4, was used to test the proposed hypotheses. The findings reveal a significant positive effect of HPWS on all three constructs—RE, SV, and FP. Furthermore, the study confirms that RE significantly mediates the relationship between HPWS and FP. However, the hypothesized mediating effect of SV between HPWS and FP was not supported.

INTRODUCTION

Small and medium-sized enterprises (SMEs) represent a fundamental driving force of economic development and are an essential component of most economies, particularly in developing and rapidly emerging countries (Ndiaye et al., 2018; Gherghina et al., 2020). Compared to large enterprises, SMEs are highly flexible, capable of adapting quickly to technological changes and responding to market fluctuations more effectively. Their flat organizational structure enables more efficient and faster decision-making (Baeshen et al., 2021). SMEs also play a key role as employers. According to several studies, they account for approximately 90% of all businesses and provide about 60% of global employment (Naradda Gamage et al., 2020). They are considered the most productive sector in terms of job creation (Qaydi et al., 2021; Auzzir et al., 2018), contributing to the reduction of unemployment and social inequality. Due to increasing market challenges, SMEs require a more skilled and competitive workforce, which places greater demands on effective human resource management (HRM). Contemporary HRM encompasses a wide range of processes, from recruitment and employee selection to onboarding, development, motivation, and eventually, separation. Building a positive work environment, strong organizational culture, and caring for employees are also essential components. Modern organizations are increasingly adopting innovative HR approaches, technologies, and best practices (Gibson et al., 2001; Wood et al., 2002). One such innovation is the High-Performance Work System (HPWS), a comprehensive set of HR practices designed to improve performance by fostering employee engagement, motivation, and capabilities. Over the past decade, HPWS has emerged as a prominent area of HRM research. Organizations implement HPWS to develop employee knowledge, skills, and abilities, while also enhancing motivation through training, empowerment, and performance-based rewards.

Empirical studies have demonstrated the positive impact of individual HPWS components on organizational outcomes. However, the implementation of HR practices alone does not guarantee improved financial performance. It is therefore essential to investigate this relationship through mediating and moderating variables, factors from the internal and external environment that influence business performance (Tzabbar et al., 2017; Rubio-Andrés et al., 2014). Studies have focused on the mediating effects of reputation, employee well-being, and perceived social value between HPWS and financial performance. For example, Garmendia et al. (2021) and Sheehan et al. (2022) emphasize that HPWS influences labour productivity through the moderating effect of HR strategic orientation. Rauch and Hatak (2016), as well as Harney (2021), suggest that the long-term relationship between HPWS and performance may depend on the demographic characteristics of SMEs, such as firm size or age. Reputation and social value are latent, unobservable constructs whose measurement depends on stakeholders' subjective perception. Nevertheless, their mediating role between HPWS and financial performance may be significant. These perceptions can vary across countries, what matters to SME managers in Spain (Rubio-Andrés, 2022) may differ from the expectations in Slovakia or the Czech Republic due to cultural and economic context. To date, the quantification of these relationships within the conditions of Slovakia and the Czech Republic is lacking. Therefore, this study contributes to understanding the importance of reputation and social value as mediators in the HPWS–performance relationship in the specific SME environment of these countries. The following research questions are formulated. What is the individual mediating role of reputation and social value in the relationship between HPWS and financial performance in Czech SMEs? What is the combined mediating effect of reputation and social value in this relationship? What are the cross-country differences in how reputation and social value mediate the HPWS–performance relationship in Slovak and Czech SMEs?

1. Literature Review and Hypothesis Development

1.1 The Direct Effect of HPWS on Financial Performance (FP)

The performance of small and medium-sized enterprises (SMEs) can be assessed from both quantitative and qualitative perspectives. From a quantitative perspective, performance indicators may include efficiency, financial results, production volume, customer base, and more (Anggadwita & Mustafid, 2014). From a qualitative perspective, SME performance may involve leadership style, employee behaviour (Anggadwita & Mustafid, 2014), customer satisfaction (Alpkan et al., 2007), product and process innovations, organizational and marketing innovations, etc. The implementation of HPWS in SMEs is considered a management innovation aimed at improving not only employee engagement but also financial performance. Financial performance is a complex indicator of a firm's ability to efficiently manage its resources and achieve its economic goals, particularly profitability. It is a key measure of a firm's financial health and stability, relevant to owners, managers, investors, financial institutions, and regulatory bodies. The relationship between human resources and financial performance is crucial, as HR practices can have a direct or indirect effect on a firm's economic outcomes. Wang et al. (2018) emphasized the role of HPWS in achieving organizational goals and improving performance. Their study confirmed a statistically significant moderate direct effect of HPWS on SME performance in China ($\beta = 0.425$). Siddique et al. (2019) demonstrated both direct and mediated effects of HPWS on certain dimensions of SME performance, supporting the utility of HPWS in enhancing firm outcomes. Lai et al. (2017) found a positive and statistically significant relationship between HPWS and financial performance in a sample of UK SMEs. Based on these findings, we propose the following hypothesis:

H1: HPWS have a direct positive effect on the financial performance of SMEs

1.2 The Mediating Effect of Reputation

A positive reputation is an effective and strategic asset in gaining competitive advantage and contributes directly to a firm's market value. Corporate reputation is shaped by various

internal and external factors and has become a key element of business strategy (Burke et al., 2011). Boon et al. (2019) found that customer expectations can influence SMEs' decisions to implement new HR practices. As a key stakeholder group, customers significantly affect a firm's reputation. Reputation is widely recognized as a strategic resource that supports sustained competitive advantage (Flanagan & O'Shaughnessy, 2005). Several empirical studies have identified a strong relationship between corporate reputation and firm performance. Kölbel et al. (2017) confirmed a significant association between business reputation and SME performance. Guerci et al. (2019) demonstrated the impact of corporate reputation on stakeholder behaviour and financial performance. Eberl and Schwaiger (2005) concluded that improved corporate reputation leads to long-term performance benefits. Reputation can thus serve as a mediator between internal HR practices and financial outcomes. He et al. (2016) and Nardella et al. (2020) also examined the consequences of poor corporate reputation and its role in shaping stakeholder perceptions. Positive reputations lead to higher profitability, more stable cash flows, and higher market capitalization (Kozáková, 2017). Lange et al. (2011) noted that the relationship between reputation and financial performance may be both direct and indirect. Nejati et al. (2017) suggested that SMEs that engage in responsible HR practices enhance both their reputation and financial outcomes. Reputation, therefore, increases the strength of the relationship between HPWS and firm performance. Based on the above, we formulate the second hypothesis:

H2: The effect of HPWS on financial performance is positively mediated by company reputation in SMEs.

1.3 The Mediating Effect of Social Value (SV)

For SMEs, performance is not only an economic measure but also includes the ability to generate social value. HPWS practices contribute to building human and social capital, which are essential resources for achieving competitive performance, financial success, and social value creation (Messersmith & Guthrie, 2010; Takeuchi et al., 2007). Several studies emphasize the importance of creating both internal and external social value. Internally, the quality of work and organizational culture are crucial factors in driving social value and improving firm performance. Externally, customer satisfaction plays an important role in business outcomes, as shown by Marinič (2016). Auerswald (2009) argued that creating social value enhances financial resources and that SMEs may be better positioned to generate social value due to their agility and local embeddedness. Compared to large corporations, SMEs often operate in closer proximity to their communities, making their social behaviour and responsibility more visible and impactful (Jenkins, 2004). Their reputational standing within the local community can directly affect their performance, and irresponsible behaviour can have immediate and lasting negative consequences. Ethical treatment of employees, transparency, product quality, and responsiveness to customer needs are all key factors that shape social value and influence organizational performance (Brammer et al., 2006). Juscius et al. (2013) identified five dimensions for quantifying social value: (1) SME's commitment to creating social and economic value, (2) product quality, (3) knowledge of customer satisfaction, (4) anticipation of environmental changes, and (5) process efficiency. We therefore propose the third hypothesis:

H3: The effect of HPWS on financial performance is positively mediated by social value in SMEs.

2. Materials and methods

The comprehensive model used to test the research hypotheses was initially developed by Jašková et al. (2024) in a study aimed at identifying key factors of successful human resource development management in Slovak SMEs. Based on their published findings, the model's applicability and predictive power were subsequently tested on a sample of SMEs in the Czech Republic. The conceptual model examines the interrelationships among High Performance Work Systems (HPWS), SME reputation (RE), social value (SV), and financial performance (FP), with the hypotheses derived from these expected linkages.
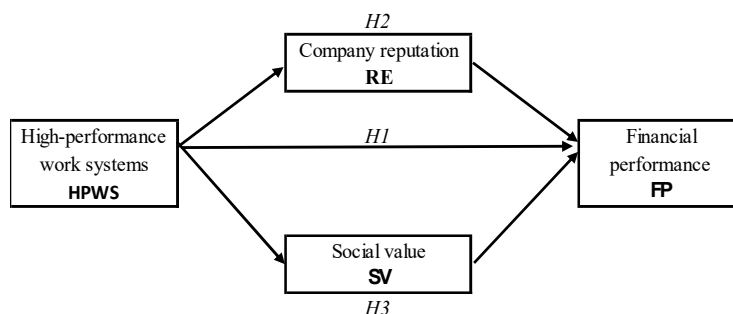
Figure 1: Conceptual model

From a theoretical perspective, the model is classified as a multiple mediation model (Hair, 2019). The objective of this study is to quantify the proposed relationships, empirically test the hypotheses, and compare the results with findings from prior scientific research.

2.1 Data Collection and Sample

To test the proposed conceptual model, we used selected data from a structured survey conducted in 2024 as part of a broader research project focused on the development of human resource management in Slovak SMEs. The operationalization of the constructs was based on validated measurement models from prior research, particularly Rubio-Andrés et al. (2022). The measurement instrument was a multi-item scale adapted from the literature. Each item was assessed by respondents using a standard five-point Likert scale ranging from 1 ("strongly disagree") to 5 ("strongly agree"). Constructs were identified and refined through exploratory factor analysis conducted during a pilot study. The final analysed sample consisted of 300 respondents, corresponding to a response rate of 48%. To determine the minimum required sample size, we used G*Power software, as recommended by Hair et al., (2018a; 2018b; 2020; 2022). Based on the publications, a minimum sample of 120 observations is adequate for social science research with an expected large effect size and a maximum of six predictors per construct.

2.2 Data Analysis Technique

The data were analysed using Partial Least Squares Structural Equation Modeling (PLS-SEM) with SmartPLS4. Due to its robustness and flexibility, PLS-SEM is a widely accepted method for estimating complex models (Peng & Lai, 2012). There are several justifications for using PLS-SEM in this study. First, the model includes mediating effects (i.e., the roles of RE and SV between HPWS and FP), aligning with recommendations from Nitzl et al. (2016). Second, the predictive nature of the study and the model complexity (multiple constructs and indicators) support the use of PLS-SEM. Third, the ordinal nature of the data and the non-normal distribution of observed variables further justify its use. Finally, PLS-SEM is particularly well-suited when the goal is to advance theory through exploring complex relationships in relatively small samples (Sarstedt & Mooi, 2019). The analysis included model fit assessment, construct reliability and validity checks, evaluation of path coefficients, and mediation testing through bootstrapping. The predictive accuracy of the model was also examined.

3. Results

The model, analysed in the SmartPLS 4 environment, was based on the conceptual framework shown in Figure 1. The analysis followed the procedures and recommendations outlined in Hair (2020) and Sarstedt (2021). The first step involved the evaluation of the measurement model. If the results were satisfactory, the analysis proceeded to the inner structural model, followed by the prediction of the endogenous variable. At each stage, the computed values of the relevant evaluation criteria were assessed against established threshold values. In line with best practices, the significance of the estimated path coefficients and model parameters was tested using

bootstrapping, as recommended by the cited literature. The model estimation was performed using the PLS-SEM algorithm, employing the path weighting scheme, with a maximum of 300 iterations and a stop criterion set to 10^{-7}. Equal indicator weights were used for initialization.

The algorithm successfully converged, and the stop criterion was met, confirming the stability of the model estimation process. The demographic characteristics of the respondents, with their respective frequencies, are shown in Table 1.

Table 1: Profile of respondents

What is your current position in the company	Frequency	Percent
company owner	87	29,00
co-owner of the company	43	14,33
managerial position	170	56,67
other		
Type of company		
micro enterprise	102	34,00
small enterprise	98	32,67
medium-sized enterprise	100	33,33
Gender		
male	155	51,67
female	145	48,33
Focus of the enterprise		
manufacture of products	92	30,67
provision of services	208	69,33
Market activity		
less than 1 year	14	4,67
1-5 years	54	18,00
6 - 10 years	57	19,00
11- 15 years	46	15,33
more than 15 years	129	43,00

Source: Own elaboration

3.1 Measurement model assessment

The nature of the constructs in the outer model, in terms of their operationalization through items, was reflective. The criteria for evaluating the measurement model differ for reflective and formative constructs. Examining the measurement model includes indicator reliability, internal consistency reliability, convergent validity (CV), and discriminant validity (DV). Indicator reliability is assessed using outer loadings and the Average Variance Extracted (AVE) coefficient. Internal consistency reliability assesses the extent to which the items measure a specific latent construct. Composite reliability (ρ_c) was assessed as a measure of internal consistency. The results, along with the threshold and recommended values, are presented in the following table 2.

Table 2: PLS-SEM assessment results of reflective measurement models

Latent variable	Indicators	Convergent validity		Internal consistency reliability		
		Loadings > 0.70	AVE > 0.50	Cronbach´s α 0.70 - 0.90	Reliability ρ_A > 0.70	Composite reliability ρ_C > 0.70
HPWS	HPWS_1	0.577	0.563	0.886	0.891	0.908
	HPWS_2	0.614				
	HPWS_3	0.810				
	HPWS_5	0.805				
	HPWS_6	0.753				
	HPWS_7	0.769				
	HPWS_8	0.737				
	HPWS_9	0.815				
	HPWS_10	0.571				
	HPWS_12	0.566				
RE	RE_1	0.834	0.707	0.793	0.797	0.878
	RE_2	0.849				
	RE_3	0.839				
SV	SV_1	0.852	0.654	0.821	0.825	0.883
	SV_2	0.864				
	SV_3	0.792				
	SV_4	0.720				
FP	FP_1	0.762	0.520	0.871	0.886	0.897
	FP_2	0.753				
	FP_3	0.685				
	FP_4	0.833				
	FP_5	0.514				
	FP_6	0.611				
	FP_7	0.579				
	FP_8	0.759				
	FP_9	0.585				

Source: Own elaboration

Convergent validity evaluates the extent to which indicators of a construct are positively correlated with alternative measures of the same concept. This assessment involves examining the outer loadings of indicators and the Average Variance Extracted (AVE). The recommended threshold for outer loadings is λ > 0.708, indicating that the construct explains more than 50% of the indicator's variance. As a result, the items HPW_4, HPW_11, and FP_5 were excluded from further analysis due to insufficient outer loadings (Hair, 2019). All AVE values met the minimum criterion of 0.50,

confirming that each construct explains at least half of the variance in its associated indicators. These results confirm the convergent validity of the measurement model.

Discriminant validity was assessed using three established methods: Fornell-Larcker Criterion, Heterotrait-Monotrait Ratio (HTMT), and Cross-loadings. According to Fornell and Larcker, the square root of the AVE for each latent construct should be greater than its correlations with other constructs. As shown in Table 3, all constructs satisfy this criterion.

Table 3: Fornell-Larcker Criterion for Assessing Discriminant Validity

	FP	HPWS	RE	SV
FP	0.753			
HPWS	0.486	0.729		
RE	0.535	0.700	0.887	
SV	0.376	0.693	0.714	0.778

Source: Own elaboration

The diagonal values (square roots of AVE) exceed the inter-construct correlations, confirming discriminant validity based on this method. Following Henseler et al. (2015), the HTMT ratio was used to provide a more rigorous assessment of discriminant validity. HTMT values were obtained through a bootstrapping procedure (1000 samples), using percentile confidence intervals and one-tailed testing at a 0.05 significance level.

Table 4: HTMT Criterion for Assessing Discriminant Validity

Construct Pair	HTMT (UB 95%)
HPWS ↔ FP	0.573 (0.702)
RE ↔ FP	0.631 (0.747)
RE ↔ HPWS	0.782 (0.872)
SV ↔ FP	0.483 (0.628)
SV ↔ HPWS	0.815 (0.899)
SV ↔ RE	0.871 (0.943)

Source: Own elaboration

Potential issues with discriminant validity arise when HTMT values exceed 0.90 (or 0.85 in more conservative approaches). In this case, all values remained within acceptable bounds. Notably, the HTMT ratio for SV → FP was relatively low, indicating a weaker association between these constructs. The cross-loading analysis further confirmed acceptable discriminant validity, as all indicators loaded more highly on their associated constructs than on others. Before testing the structural model, multicollinearity was assessed using the Variance Inflation Factor (VIF). According to Hair et al. (2014), the maximum acceptable VIF value is 3.0. All VIF values in the model were below this threshold: HPWS → FP: VIF = 2.306; RE → FP: VIF = 2.444; SV → FP: VIF = 2.401. These results indicate that multicollinearity was not present among the latent constructs, supporting the stability of path estimates in the structural model.

3.2 Structural Model Assessment

To assess the structural model, we evaluated path coefficients, t-statistics, and p-values using bootstrapping in SmartPLS 4. The model examines both direct and indirect effects of High-Performance Work Systems (HPWS) on financial performance (FP), with company reputation (RE) and social value (SV) as mediators. The direct effect of HPWS on FP was found to be strong and statistically significant (β = 0.494, t = 5.52, p < 0.001), thus supporting Hypothesis H1. HPWS also had significant positive effects on RE (β = 0.660, t = 13.47, p < 0.001) and SV (β = 0.668, t = 16.21, p < 0.001). However, the direct paths from RE to FP (β = 0.086, t = 0.97, p = 0.332) and from SV to FP (β = 0.030, t = 0.39, p = 0.699) were not

statistically significant. The results are summarised below:

Table 5: Results of the evaluation of direct relationships

Path	Coefficient (β)	t-statistic	p-value	Result
HPWS → FP	0.494	5.52	0.000	Significant (✔ H1)
HPWS → RE	0.660	13.47	0.000	Significant
HPWS → SV	0.668	16.21	0.000	Significant
RE → FP	0.086	0.97	0.332	Not significant (H2 weak)
SV → FP	0.030	0.39	0.699	Not significant (✘ H3)

Source: Own elaboration

The specific indirect effect of HPWS on FP via RE was β = 0.057, suggesting a weak but present mediating effect. Although the path RE → FP was not statistically significant on its own, the full mediation chain contributed to a small indirect effect. The indirect effect via SV was very weak (β = 0.024) and not statistically significant.

Table 6: Results of the evaluation of indirect relationships

Indirect Path	Coefficient (β)	Interpretation
HPWS → RE → FP	0.057	Weak mediation (H2 partially supported)
HPWS → SV → FP	0.024	Not supported (✘ H3)

Source: Own elaboration

The total effect of HPWS on FP, combining both direct and indirect effects, was β = 0.571, which confirms the overall strength of HPWS in influencing firm performance.

4. Discussion and Findings

The results of this study empirically confirm the significant role of High Performance Work Systems (HPWS) in enhancing financial performance (FP) in SMEs. The strong and statistically significant path from HPWS to FP supports Hypothesis H1, and aligns with previous research (e.g., Wang et al., 2022; Lai et al., 2017), which emphasizes that well-developed HR practices contribute directly to business outcomes. These findings are particularly valuable in the SME context, where resources are often limited and HR investments must demonstrate tangible returns. The findings also validate the mediating role of company reputation in the HPWS–FP relationship (H2).

Although the direct path from reputation to financial performance was not statistically significant (p = 0.33), the overall indirect effect was positive, indicating that reputation partially mediates this relationship. This suggests that the implementation of HPWS not only influences internal workforce effectiveness but also enhances the external perception of the firm, which can lead to long-term financial benefits (Eberl & Schwaiger, 2005; Gatzert, 2015). On the other hand, Hypothesis H3 proposing the mediating role of social value (SV) was not supported. While HPWS had a strong positive effect on SV, the path from SV to FP was weak and statistically insignificant. This finding highlights a possible disconnect between social value creation and financial outcomes in SMEs, at least in the short term. It may also reflect the difficulty of translating intangible social benefits into measurable financial returns, or it could point to contextual and cultural differences in

how social responsibility is perceived in Slovakia and the Czech Republic (Jenkins, 2004; Rubio-Andrés, 2022). The inter-comparison of the two studies is shown in Table 7.

Table 7: Peer comparison of studies

Relationship / Path	Present Study (2025)	Published Article (2024)
HPWS → FP (H1)	Strong direct effect (β = 0.494, p < 0.001)	Moderate effect (β = 0.262, p < 0.01)
HPWS → RE (H2)	Strong effect (β = 0.660, p < 0.001)	Very strong effect (β = 0.700, p < 0.001)
RE → FP (part of H2)	Weak effect (β = 0.086, p = 0.33)	Strong effect (β = 0.433, p < 0.001)
HPWS → SV (H3)	Strong effect (β = 0.668, p < 0.001)	Strong effect (β = 0.693, p < 0.001)
SV → FP (H3)	Very weak, not significant (β = 0.030, p = 0.699)	Weak, not significant (β = 0.115, p = 0.141)
HPWS → RE → FP (mediation)	Weak but supported mediation (β = 0.057)	Strong mediation (β = 0.303, p < 0.001)
HPWS → SV → FP (mediation)	Not supported (β = 0.024, p = 0.699)	Not supported (β = 0.080, p = 0.145)
Model Fit and PLS Quality	Good fit (GoF, R², reliability acceptable)	Medium predictive power confirmed (GoF = 0.854)

Source: Own elaboration

These findings provide several key insights for SME managers and HR professionals. First, even small firms benefit from investing in structured HR practices such as training and performance-based incentives, HPWS should be treated as a strategic necessity. Second, HR practices influence not only internal outcomes but also external perceptions; reputation, while intangible, can serve as a valuable competitive asset. Although social value did not directly impact financial performance, it remains important for non-financial outcomes such as employee engagement and stakeholder trust. In locally embedded SMEs, building social value may strengthen community relationships and long-term sustainability. The findings also highlight the importance of local context, what works in one country may not be directly transferable to another. Therefore, HR and CSR initiatives should be adapted to local norms and stakeholder expectations. These results largely align with Jašková et al. (2024), who also confirmed the positive role of HPWS and reputation. However, the reputation–performance link was weaker in the Czech sample, possibly due to cultural or temporal factors. Both studies reaffirm the strategic value of HPWS and the need for cross-country, longitudinal research on how HRM interacts with intangible assets to drive SME performance.

Conclusion, Limitations, and Future Research

This study provides empirical evidence for the positive impact of High Performance Work Systems (HPWS) on the financial performance (FP) of small and medium-sized enterprises (SMEs). The results confirmed a strong and statistically significant direct effect, emphasizing the strategic role of HRM in enhancing business outcomes. Additionally, the mediating role of company reputation (RE) was partially supported, suggesting that reputation can act as an important channel through which HPWS contribute to financial success. Conversely, the hypothesized mediating effect of social value (SV) was not supported, indicating that its relationship with financial performance may be more complex, delayed, or context dependent. These findings offer valuable insights for SME managers, policymakers, and HR professionals aiming to align human capital strategies with

financial objectives. Despite the robustness of the findings, several limitations must be acknowledged. The data were collected at a single point in time, which limits the ability to make causal inferences or observe long-term effects. The use of subjective measures, including financial performance, may introduce bias due to personal perception or social desirability. The sample, while adequate for PLS-SEM, was limited to SMEs in Slovakia and the Czech Republic. Results may not be generalizable to other countries or larger enterprises. Cultural attitudes toward reputation, social value, and HRM may vary significantly across countries, possibly influencing the observed effects.

Building on the current study, future research could address these limitations and further explore the HPWS–performance relationship in several ways: Longitudinal studies should be conducted to examine the causal pathways and long-term effects of HPWS on financial and non-financial performance. Mixed-method approaches combining quantitative analysis with qualitative interviews could provide richer insights into how reputation and social value are constructed and perceived. Comparative cross-country studies could help clarify the role of national culture, institutional frameworks, and economic context in shaping HRM effectiveness. Future models may also integrate additional mediators or moderators (e.g., strategic orientation, innovation capacity, employee engagement) to better understand the mechanisms through which HPWS affect performance.

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Contact:

Dana Jašková, RNDr., PhD.
Alexander Dobček University of Trenčín
Faculty of Social and Economic Relations
Študentská 3, 911 50 Trenčín
Email: dana.jaskova@tnuni.sk