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HIGH-PERFORMANCE WORK SYSTEMS AND THEIR IMPACT ON FINANCIAL PERFORMANCE IN SMES*

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Abstract. Small and medium-sized enterprises (SMEs) are a significant source of wealth and employment in economies. Enterprises must use modern systems to manage their employees in an increasingly turbulent business environment. These systems will help them to improve their financial performance and gain a competitive advantage in the marketplace. This study examined the role of High-Performance Work Systems (HPWS) as a predictor of SMEs' financial performance (FP) based on the link between human resource management and economic performance. The study examined the mediating role of SMEs' reputation (RE) and SMEs' social value (SV) in the relationship between HPWS and FP and the direct relationship between these constructs. The study quantifies this relationship in the context of human resource management in small and medium-sized enterprises in Slovakia. Data were collected from 128 SME owners/managers through a questionnaire instrument. Partial least squares structural equation modelling (PLS-SEM) using Smart PLS 4 was used to test the study's hypotheses. The study highlighted a significant positive effect of HPWS on all RE, SV and FP constructs. In addition, this study also confirmed the mediating role of RE in the relationship between HPWS and FP. The expected direct mediating effect of the SV construct between HPWS and FP was not confirmed. The study also includes limitations and recommendations for future research.

Keywords: high-performance work systems; financial performances; small and medium-sized enterprises; social value; company's reputation

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1. Introduction

Small and medium-sized enterprises (SMEs) are vital to any country's economy. Their importance and relevance are multifaceted, and they intervene in various economic, social or societal areas. SMEs are an essential and invaluable source of jobs. According to recent studies, in most countries, SMEs account for 90% of enterprises and employ about 60% of the world's workforce (Naradda Gamage et al., 2020). Thus, SMEs are the most productive sector in creating jobs (Auzzir et al., 2018). By creating employment opportunities for different demographic groups, including young people, school leavers, women, senior citizens, and vulnerable groups, SMEs help to reduce unemployment and social inequalities in the economy. SMEs help eradicate poverty, inequality and unemployment in rural regions, support people in meeting their basic needs and help marginalised groups such as people with disabilities, female-headed households, uneducated, unskilled labour force and rural

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families (Fiseha & Oyelana, 2015). SMEs reduce regional disparities, promote balanced economic development, and relieve pressure on large cities. They are also an important centre for innovation and the creation of new technologies. Their smaller size and flexibility are an advantage for them in this case, as it allows them to be faster and more flexible in adapting to new trends and market needs. Unlike large companies, SMEs are highly resilient to technical change and have better adaptability to market fluctuations while making quick decisions due to their organisational structure (Baeshen et al., 2021). SMEs, the cornerstone of the economy's business structure and a key creator of employment and wealth, increasingly need a competitive and better-prepared workforce to compete in a fiercely competitive environment. In recent years, there has been a lot of research and debate on what human resource practices should be used in businesses to achieve employee prosperity and well-being, thereby ensuring the retention of skilled workers in the company, which would help SMEs to achieve greater efficiency, competitive growth and better financial performance. Nowadays, enterprises are moving towards implementing modern human resource management systems in the enterprise, which enable enterprises, not only large enterprises but also SMEs, to gain a competitive advantage and improve their financial performance. Changes in human resource management systems require enterprises to innovate. From the perspective of efficiency theory, the adoption of management innovations by enterprises is influenced by the efforts of these enterprises to achieve defined business. Similarly, adopting human resource management innovations such as HPWS is considered voluntary and rational behaviour by the enterprise to enhance its overall performance viability. HPWS can be viewed as an advanced system of human resource management practices in an enterprise, which should result in improved employee skills, higher employee commitment, and higher employee well-being (Xiao & Cooke, 2022).

Unlike other more conventional human resource management systems, HPWS promotes organisational flexibility, emphasises employee autonomy, and encourages knowledge transfer. HPWS seeks to improve performance through effective management of people and resources. HPWS leads SMEs to sustainable performance in the presence of innovative work behaviours that result from the practical application of HPWS in enterprises and come through the active involvement of employees in work activities.

2. Development of hypotheses based on theory

The performance of SMEs can be analysed and monitored from a quantitative perspective: efficiency, production levels, number of customers, etc., and from a qualitative perspective: goal achievement, leadership style, employee behaviour, customer satisfaction, product and process innovation, organisational and marketing innovation, etc. Anyway, financial performance is of crucial importance.

2.1 High-performance work systems (HPWS) and financial performance of SME (FP)

The growth of competitiveness and financial performance in an enterprise is also closely related to innovation. Innovation is a crucial determinant of the success of any enterprise. Therefore, based on the preceding text, the introduction and implementation of HPWS in SMEs is a management innovation that improves the performance of the enterprise. High-performance work systems (HPWS) have positively influenced a firm's financial performance retention, productivity, efficiency and flexibility, and employee commitment. Some studies have argued that the relationship between a firm's human resource management practices and firm performance varies depending on whether the firm's performance is measured in operational or financial terms (e.g., Tzabbar et al., 2017; Morán et al., 2024).

Other research has suggested that the relationship between a firm's human resource management practices and firm performance is invariant across performance indicators. However, these studies were primarily based on previous research on individual human resource management practices rather than on human resource management practices as a system overall. Integrated human resource management practices into one system, known as a high-performance work system (HPWS), have been the subject of investigation by various researchers for decades (Kaushik & Mukherjee, 2022), who, among other things, analyse in their studies, for example, how HPWS affect the financial performance of a company. Many studies have found that using the HPWS package is relatively low in small firms (Kaushik & Mukherjee, 2022). Thus, one unresolved question is whether this low utilisation is the result of smaller firms simply doing a little bit of everything but in a less sophisticated way than larger firms (Sun & Mamman, 2022) or whether smaller firms deliberately adopt smaller

packages of procedures instead of the entire comprehensive HPWS system. This path has yet to be explored much so far. To understand this issue more deeply based on previous research, we consider it interesting to empirically study HPWS and its impact on financial performance in SMEs, and therefore, we assume that:

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

2.2 High-performance work systems (HPWS) and company's reputation (CR)

The importance of reputation increases significantly in the current turbulent business environment when more than having a good technology or product alone is needed for success. A positive reputation becomes an effective weapon in the fight against the competition and, at the same time, affects the company's market value. Reputation is influenced by many factors inside the company, as well as in its external environment. It is difficult to assign any criteria of importance to them. Only their cooperation can bring a long-term positive reputation. In the past, reputation was part of marketing and marketing communication. Corporate reputation belongs to the corporate part of human resource management and is an integral part of corporate strategy (Liang-Chih et al., 2022). Reputation fundamentally affects the success of the organisation - customer trust, quality and commitment of employees, and the cooperation of partners and institutions.

Human resource management can give SMEs a competitive advantage. Still, they also found that customers can influence SMEs' decisions on whether or not to adopt new management practices. Customer satisfaction can significantly impact the decision-making of small and medium-sized enterprises regarding the adoption and implementation of HPWS. Customers are among the interested parties that significantly affect the company's reputation; therefore, interested parties, not only customers but also competitors, business partners or the public, can ultimately considerably influence the decision-making of small and medium-sized enterprises on the introduction and implementation of HPWS in the company to maintain good name, reputation. Let's look at HPWS from a different angle. It is an integrated human resource management system supporting higher quality human capital, primarily through employee development and their impact on the company's ability to attract talent. Businesses must attract, develop and retain talent to compete effectively. Through its procedures, such as selective recruitment or extensive training, HPWS contributes to the acquisition, development and retention of top experts in the company. The presence of high-quality human capital in the company contributes to building the company's reputation, which in turn attracts more clients. More clients mean more orders and sales, which positively affects the quantitative indicators of the company's performance. Therefore, we assume that:

H2: HPWS have a positive effect on building the reputation of the company.

2.3 Company's reputation (CR) and financial performance (FP)

A better reputation ultimately leads to better company performance (Cazacu et al., 2023; Das et al., 2023). Therefore, the company's reputation is an intangible resource that is difficult for competitors to imitate and can be effectively transformed into an advantage that benefits the company's performance. Consequently, we assume that:

H3: Company reputation is positively associated with SME performance.

H4: Reputation mediates the relationship between HPWS and FP.

2.4 High-performance work systems (HPWS) and social value (SV)

Ensuring well-being at the workplace is one of the most critical social challenges in companies today due to its positive effects on employee motivation, achieving a good name (company reputation) and subsequently increasing the company's financial performance and social value. If small and medium-sized enterprises are to achieve this goal, they must introduce responsible human resource management in their organisations. Human resource management procedures alone are not a direct source of a company's competitive advantage. Instead, the advantage derives from the contributions of people selected, trained and developed through such practices. In particular, the human and social capital that HPWS creates provides businesses with the means to achieve superior competitive performance, financial performance, and growth in corporate social value (Messersmith & Guthrie, 2010). Therefore, we assume the following:

H5: HPWS positively affect the growth of the company's social value.

2.5 Social value (SV) and financial performance (FP)

Quality is the most crucial variable in creating internal social value in small and medium-sized enterprises, directly related to improving the enterprise's financial performance. If we talk about creating external social value, Marinič (2016) found that customer satisfaction can positively enhance the company's performance. Daromes et al. (2023) demonstrated that a company's creation of social values is an opportunity to improve financial resources. Employees, consumers, and the company are increasingly sensitive to its social performance, level of social responsibility, and the formation of social value. Recent studies found that the ethical treatment of employees was the most crucial aspect of social value formation, and it greatly impacted employee commitment to the company and job satisfaction (Tyrrell, 2006; Cao et al., 2022). SMEs often form a single operating unit in a community with a predominantly local workforce. Therefore, their business position near the local community is crucial for small and medium-sized entrepreneurs. The responsible behaviour of SMEs in the business environment contributes positively to forming the company's social value, which should be reflected in the overall performance. For this reason, we believe that when SMEs work on their social value, it positively impacts financial performance. This leads to the following hypothesis:

H6: Social value positively affects the financial performance of small and medium-sized enterprises.

H7: Social value mediates the relationship between HPWS and FP.

3 Materials and method

Based on the above theory, a conceptual model (Fig. 1) was developed to assess the interrelationships between high-performance work systems (HPWS), SME reputation (RE), SME social value (SV) and SME financial performance (FP). The assumed relationships indicate the wording of the hypotheses.

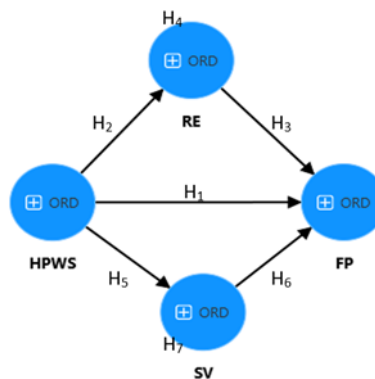


Figure 1. Conceptual framework (model)

Source: own elaboration

From a theoretical point of view, the model is referred to as a multiple mediation model (Hair, 2019). The article aims to quantify the outlined relationships, verify the formulated hypotheses and compare the results with published scientific outputs.

Data from a questionnaire survey was selected to evaluate the proposed conceptual model in this study. The questionnaire was implemented in 2023 and was part of the solution to a research task associated with research on the development of human resource management in SMEs in Slovakia. The operationalisation of the concepts was partly based on the research of Rubio-Andrés et al. (2022). The measurement tool used to operationalise the constructs of the theoretical framework was a multi-item measurement. The respondent rated each item using a "five-point" standardised Likert-type scale ranging from 1 to 5 (strongly disagree, disagree, neither agree nor disagree, agree, strongly agree). The investigated constructs were identified in a pilot study based on exploratory factor analysis. The sample size analysed was 128, corresponding to a return rate of 63%.

Structural equation modelling with partial least squares SmartPLS 4 (Ringle, 2024) was used for quantitative data analysis. Due to its robustness, PLS-SEM is the preferred and widely used analysis method (Peng & Lai, 2012). There are several reasons for using PLS-SEM in this study. First, incremental characters are used (i.e., mediating the role of RE and SV between HPWS and FP and of SV). Other reasons are the study's predictive nature and the structural model's complexity, which has many constructs and indicators. A significant reason for applying the SEM-PLS method was the smaller sample size, the ordinal nature of the investigated variables, and the distribution function of the experimental data. The greater statistical power of the method means that PLS-SEM is more likely to identify significant relationships if they are present in the population (Sarstedt & Moi, 2019).

4. Results

The model, analysed in the SmartPLS 4, was based on the conceptual framework shown in Figure 1. The abbreviations explained in the theoretical part are used for the investigated constructs. The comprehensive evaluation model is shown in Figure 2, which identifies links between the constructs and the items that saturated the individual constructs.

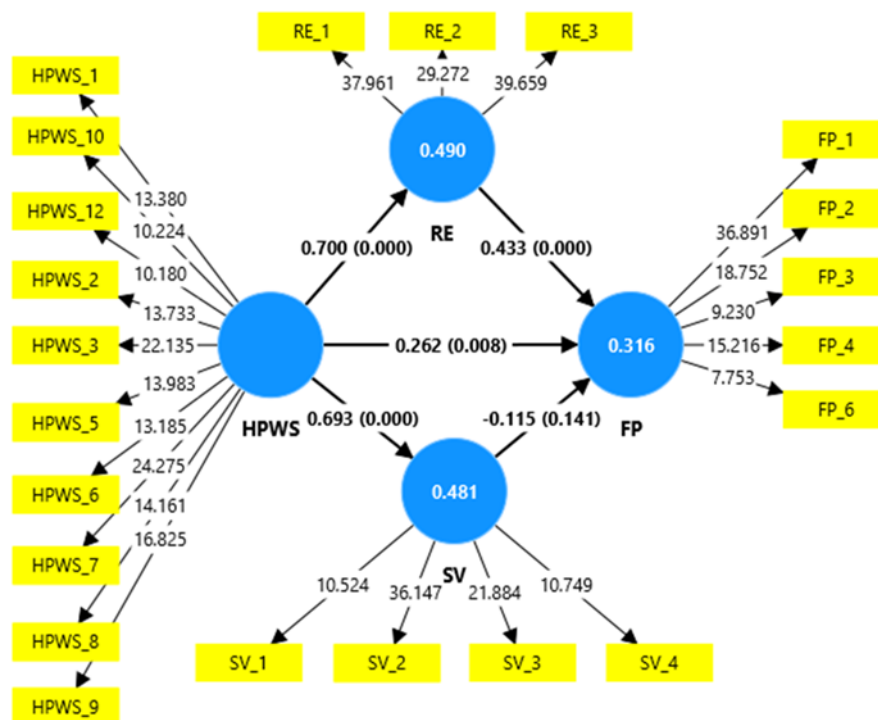


Figure 2. PLS-SEM results from bootstrapping
Source: own calculation

The analysis was carried out according to the procedures and recommendations given in the publications Hair (2019), Saersted et al. (2021), and Ringle et al. (2017). In the first step, the measurement model is evaluated. In the case of satisfactory results, the analysis of the internal structural model follows, followed by the prediction of the endogenous variable. Each step assesses the calculated values of individual criteria with threshold values. Bootstrapping is also recommended when evaluating the significance of individual computed measures. The model estimation uses the PLS-SEM algorithm, the path weighting scheme, a maximum of 300 iterations, a stop criterion of 10^{-7} , and an equal indicator weight for the initialisation. It was verified that after running, the algorithm converged, and the stop criterion was met.

4.1 Assessment of the Measurement Reflective Model

From the point of view of operationalising the constructs by items, the nature of the constructs in the external model was adequate. 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 the values of the outer loadings and the AVE coefficient. Internal consistency reliability assesses the extent to which the items measure a specific latent construct. Composite reliability (ρ_c) was evaluated as a measure of internal consistency. The results, limit, and recommended values are shown in Table 1 below.

Table 1. PLS-SEM assessment results of reflective measurement models

Latent variable	Indicators	Convergent validity			Internal consistency reliability		Composite reliability ρ_c
		Loadings	Indicator reliability	AVE	Cronbach's α	Reliability ρ_A	
		> 0.70	> 0.50	> 0.50	0.70 - 0.90	> 0.70	
HPWS	HPWS_1	0.706	0.498	0.531	0.901	0.907	0.918
	HPWS_2	0.691	0.477				
	HPWS_3	0.807	0.651				
	HPWS_4	Item del.					
	HPWS_5	0.722	0.521				
	HPWS_6	0.689	0.475				
	HPWS_7	0.814	0.663				
	HPWS_8	0.739	0.546				
	HPWS_9	0.795	0.632				
	HPWS_10	0.636	0.404				
	HPWS_11	Item del.					
	HPWS_12	0.667	0.445				
RE	RE_1	0.898	0.806	0.786	0.864	0.867	0.917
	RE_2	0.869	0.755				
	RE_3	0.893	0.797				
SV	SV_1	0.702	0.493	0.606	0.778	0.788	0.859
	SV_2	0.877	0.769				
	SV_3	0.828	0.686				
	SV_4	0.690	0.476				
FP	FP_1	0.877	0.769	0.567	0.802	0.830	0.865
	FP_2	0.838	0.702				
	FP_3	0.645	0.416				
	FP_4	0.777	0.604				
	FP_5	Item del.					
	FP_6	0.585	0.342				

Source: own calculation

CV assessment requires checking the items' outer loading values and the average variance extracted (AVE). The recommended limit value for external loads is $\lambda > 0.708$. This ensures that the construct explains more than 50% of the variance of the indicator. HPW_4, HPW_11, FP_5 were no longer included in the further analysis, as the external loads were very low (Hair, 2019). All other loads had a minimum value of around 0.7. The AVE value is calculated after removing these items. An acceptable AVE value is 0.50 or higher, which means that the construct explains at least 50 per cent of the variance of the items. The AVE for all constructs was found to be acceptable: HPWS (0.531), RE (0.786), SV (0.606), FP (0.567). This confirmed the convergent validity of the constructs. The last step in assessing the suitability of the measurement model is discriminant validity. Discriminant validity (DV) refers to the extent to which the constructs used in the model are distinct (Hair et

al., 2017). Three methods were applied to assess DV: Fornell and Larcker criterion, the Heterotrait-Monotrait Ratio (HTMT) and cross-loadings of items. Fornell and Larcker's method compares the correlation between the constructs and the square root of AVE for that construct. To achieve DV, the square root of the AVE for each latent variable must exceed the correlation value of the same construct. The results are in Table 2.

Table 2. Fornell-Larcker criterion for assessing DV

	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 calculation

It is apparent from the values in Table 2 that the square root value of AVE for a specific latent variable is higher than the correlation values provided in the rows and columns. Henseler et al. (2015) suggested using the heterotrait-monotrait criterion (HTMT), which is defined as the average value of item correlations across constructs relative to the average (geometric) correlations for items measuring the same construct. Values were obtained from the bootstrapping procedure with 1000 samples with percentile bootstrap confidence interval and one-tailed testing at the 0.05 significance level (Table 3).

Table 3. HTMT criterion for assessing DV

Path	Heterotrait-monotrait ratio (HTMT)
HPWS <-> FP	0.573 (UB ₉₅ : 0,702)
RE <-> FP	0.631 (UB ₉₅ : 0,747)
RE <-> HPWS	0.782 (UB ₉₅ : 0,872)
SV <-> FP	0.483 (UB ₉₅ : 0,628)
SV <-> HPWS	0.815 (UB ₉₅ : 0,899)
SV <-> RE	0.871 (UB ₉₅ : 0,943)

Source: own calculation

The problem with discriminant validity is present when the HTMT value is high (0.90 or in some cases 0.85). The value is significantly lower when assessing the influence of SV on FP (Table 4).

Table 4. Cross loading analysis

	FP	HPWS	RE	SV
FP_1	0.877	0.401	0.515	0.315
FP_2	0.838	0.302	0.469	0.230
FP_3	0.645	0.361	0.285	0.284
FP_4	0.777	0.436	0.378	0.343
FP_6	0.585	0.340	0.320	0.253
HPWS_1	0.422	0.706	0.593	0.632
HPWS_10	0.301	0.636	0.450	0.453
HPWS_12	0.344	0.667	0.512	0.436
HPWS_2	0.297	0.691	0.473	0.562
HPWS_3	0.462	0.807	0.563	0.540
HPWS_5	0.310	0.722	0.442	0.397
HPWS_6	0.275	0.689	0.395	0.349
HPWS_7	0.407	0.814	0.570	0.583
HPWS_8	0.342	0.739	0.454	0.448

HPWS_9	0.323	0.795	0.575	0.555
RE_1	0.478	0.581	0.898	0.609
RE_2	0.437	0.615	0.869	0.723
RE_3	0.504	0.662	0.893	0.574
SV_1	0.235	0.555	0.607	0.702
SV_2	0.337	0.586	0.643	0.877
SV_3	0.323	0.538	0.536	0.828
SV_4	0.269	0.471	0.419	0.690

Source: own calculation

The values from the table of cross-loadings point to the fact of acceptable discriminant validity. In conclusion, the overall results of the measurement model indicated adequate internal consistency reliability, convergent validity, and discriminant validity. Before assessing the structural model, multicollinearity must be checked in addition to validity and reliability. Multicollinearity can be evaluated through the variance inflation factor (VIF). Hair et al. (2014) recommend a maximum acceptable value of 3.0 for multicollinearity. The results of HPWS -> FP (VIF=2.306), RE -> FP (VIF=2.444) and SV -> FP (VIF=2.401) indicate that the problem of multicollinearity between latent constructs was not identified.

4.2 Evaluation of the structural model (internal model)

The structural model assesses the causal relationship between constructs using section coefficients. Using the bootstrap method with repeated selection is recommended when evaluating statistical significance. The measurement model is an accurate predictor of the formulated hypotheses. Assessment of the internal structural model involves examining the relevance of the model's projections and the connections between the constructs. Correlation between two variables (R^2), path coefficient (β) and T-statistic value, effect size (f^2), predictive relevance of the model (Q^2) and goodness-of-fit index (GOF) are essential standards for evaluating the internal structural model. The results of the evaluation of the structural model are in Table 5 below.

Table 5. Path coefficients of the structural model and significance testing results

Path	β	T statistics (O/STDEV)	p values	Significant (p<0.05)?
Direct effect				
H1: HPWS -> FP	0.262	2.424	0.008	Yes
H2: HPWS -> RE	0.700	11.975	0.000	Yes
H5: HPWS -> SV	0.693	14.298	0.000	Yes
H3: RE -> FP	0.433	3.620	0.000	Yes
H6: SV -> FP	0.115	1.076	0.141	No
Indirect effect				
HPWS -> FP	0.224	2.666	0.004	Yes
Specific indirect effect				
H7: HPWS -> SV -> FP	0.080	1.057	0.145	No
H4: HPWS -> RE -> FP	0.303	3.277	0.001	Yes

Source: own calculation

The statistical significance of the formulated hypotheses in the theoretical part of the study (H1 – H7) was assessed using section coefficients, i.e. the β value. For unit variability in the independent construct, the β symbol represented the predicted variability in the dependent construct(s). The higher the values of the β coefficient, the more significant the influence on the endogenous latent construct. The level of significance of the value is confirmed using the T statistic. The results in the first five rows assess the statistical significance of

the direct relationship between the investigated constructs. The causal effect of the SV construct on FP, which was identified as indirect and statistically insignificant, is problematic. The results in Table 5 identify complementary mediation types of relationship between HPWS → FP. The indirect and direct effects are significant and point in the same direction. Cause-effect relationships in PLS path models imply that exogenous constructs directly affect endogenous constructs without any systematic influences of other variables. In many instances, however, this assumption does not hold, and including a third variable in the analysis can change our understanding of the nature of the model relationships. The mediating variables RE and SV mediate between the two related constructs HPWS and FP—change of the mediator variable, which, in turn, changes the endogenous construct. Analysing the strength of the mediator variable's relationships with the other constructs allows for substantiating the mechanisms underlying the cause-effect relationship between an exogenous and endogenous construct. Mediation using the SV variable is identified as a competitive mediation type. The mediating construct SV acts as a suppressor variable, substantially decreasing the magnitude of the total effect of HPWS on FP. The total indirect effect is the sum of the specific indirect effects. (0.199), which is a weak effect. In addition to the above criteria, the internal model was also assessed based on the coefficient of determination (R^2), effect size (f^2) and predictive relevance (Q^2) values. The coefficient of determination measures the general effect size and variance explained in the endogenous construct for the structural model, which also indicates the model's predictive power. An R^2 value > 0.75 is considered substantial, an R^2 value greater than 0.50 is considered moderate, and an R^2 value less than 0.26 is considered weak.

Table 6. Assessment of the internal model

	R^2	f^2	Effect size	VIF
HPWS → FP	0.316	0.044		2.306
HPWS → RE	0.490	0.961		1.000
HPWS → SV	0.481	0.926		1.000
RE → FP		0.112		2.444
SV → FP		0.008	weak	2.401

Source: own calculation

As seen in Figure 2 and Table 6, the HPWS construct explains 49% ($R^2=0.490$) of the variability in RE, 48.1% of the variability in the SV construct ($R^2=0.481$), and 31.6% of the variability in the FP construct. The magnitude of the effect of each exogenous latent construct on the endogenous latent construct is represented by f^2 . When the independent construct is removed from the path model and R^2 changes, the exogenous latent construct has a significant effect on the value of the endogenous latent construct. The recommended thresholds for f^2 are 0.35 for a high impact, 0.15 for a moderate effect, and 0.02 for a weak effect. In our case, a weak effect of the SV construct can be observed, but previous findings also suggest this.

Finally, the model's goodness of fit and predictive ability was assessed. The GoF (0.854), SRMR (0.084), Chi-square (566.721) and NFI (0.691) metrics are used to validate the overall structural model. The values of all calculated metrics indicate a good model fit Chen (2007). The predictive power of the estimated model was assessed using the Q^2 statistic, which is appropriate in a reflective measurement model. $Q^2(\text{FP})=0.214$, $Q^2(\text{RE})=0.472$, $Q^2(\text{SV})=0.463$. Further proof is carried out by comparing the RMSE values. Subtraction results between RMSE on PLS-SEM and LM are negative. This indicates that PLS-SEM produces a more minor prediction error and vice versa. Two of the 12 endogenous construct items produce positive values, so most of the RMSE generated by PLS-SEM has a minor prediction error. So that conclusions can be drawn based on the PLSpredict estimation results, the proposed research model has good predictive power in the medium category.

5 Discussion

The empirical research has yielded interesting and novel findings. Based on the studies and literature search, a multiple mediation model was developed, which consisted of four constructs and proposed direct and mediating relationships between them. The quality of the proposed model was judged to be appropriate according to the criteria evaluated; therefore, the results can be interpreted. These conclusions partially correspond to the research results published in the study of Rubio-Andrés et al. (2021). Key targets construct financial

performance of SME (5 items) of SME on the right-hand side of the PLS path model, was examined as a latent variable, dependent on three variables: high-performance work systems (10 items), reputation (3 items) and social value (4 items). HPWS directly affects financial performance (HPWS $\rightarrow$ FP; $\beta = 0.262$; $p < 0.01$). The effect size is moderate but statistically significant. Therefore, we do not reject hypothesis H₁. The largest, strong effect on financial performance is organisation reputation (RE $\rightarrow$ FP; $\beta = 0.433$; $p < 0.000$); H₃ is not rejected. The value of the path coefficient of the relationship SV $\rightarrow$ FP is negative ($\beta = -0.115$; $p > 0.05$); we reject hypothesis H₆. Two more causal relationships are evaluated with direct effect. The effect of HPWS $\rightarrow$ Re is the strongest in the entire model considered ($\beta = 0.700$; $p < 0.000$). This result allows us to conclude that we accept H₂. A strong enough effect can also be observed between HPWS $\rightarrow$ SV ($\beta = 0.693$; $p < 0.000$); thus, we do not reject hypothesis H₅ anyway. Since the model under consideration was designed as a multiple mediation model, proceeding to a comprehensive evaluation is still necessary. We arrived at interesting results when assessing the mediation effect of the construct's reputation and social value. The direct mediation effect of the reputation construct was statistically significant HPWS $\rightarrow$ RE $\rightarrow$ FP; ($\beta = 0.303$; $p < 0.01$). We do not reject hypothesis H₄. The hypothesised direct mediating relationship between HPWS $\rightarrow$ SV $\rightarrow$ FP was not identified, even though the value of the standardised regression coefficient was negative. Hence, we reject H₇. The predictive quality of the considered model was rated as a medium category based on the calculated criteria. In the context of the research conducted, the importance of the mediating role of the reputation of the SME-type organisation in improving the relationship between HPWS and financial performance needs to be emphasised. We illustrate how employee participation in decision-making, selective hiring, investment in training, lifelong learning, performance appraisal, equal pay and contingent pay enable SMEs to increase their economic growth. By introducing HPWS, workplaces are improved because greater motivation, reputation and transparency reduce employee absenteeism rates. The importance of the positive impact of reputation as a mediator on financial performance can be confirmed. This leads to a more remarkable ability to adapt to environmental changes, influencing better financial performance, namely higher growth and profitability. The mediating effect of reputation can be interpreted to mean that if SMEs improve their transparency and image, they will increase their financial performance. The results also highlight the indirect effect of the latent variable SV between HPWS and FV.

Given the need for research to analyse the impact of HPWS on FP in the context of SMEs in Slovakia, we confirmed the causal relationship between HPWS and FP and the presence of a mediator (RE) on the relationship between HPWS and FP. The data obtained from a questionnaire survey of owners/managers of SMEs in Slovakia strongly supports our research model. The results of this study reveal that HPWS is a significant predictor of FP, either directly or mediated through other factors.

6 Future research implications and limitations

The present study provides opportunities for future research but has several limitations. Respondents expressed their attitudes about the extent to which HPWS are implemented in their organisation. As such, several unobserved factors may influence this assessment of HPWS perceptions. Also, the contradictory results and the negative impact of the financial performance construct on the enterprise's social value must be addressed. The model could include new mediating variables, such as sustainable innovation, work well-being, and employee quality of life. As a limitation of the study, it should be emphasised that the empirical study was conducted exclusively in Slovakia. Given the importance of SMEs across Europe, extending the analysis to a European scale would be interesting. Another limitation relates to using self-diagnosis questionnaires based on the opinions of entrepreneurs of their own companies. The information they provide could be subjective. Respondents from other stakeholders could also complement attitudes. The findings of this study have both theoretical and practical implications. The study contributes to the literature by providing empirical support for the mediating role of reputation in the relationship between particular practices in human resource management and firm financial performance. Theoretically, it provides a conceptual insight into analysing conventional approaches in quantifying the causal relationship between HRM and SME performance.

7 Conclusions

Due to the significant contribution of small and medium-sized enterprises (SMEs) to the global economic system, human resource management, which has a consequent direct effect on the enterprise's financial performance, is currently the subject of theoretical study and practical solutions. In human resource management research, the PLS-SEM method allows complex models to be estimated and assessed while imposing relatively few constraints regarding data analysis. From the theoretical results, it is clear that owner-managers should focus their efforts in SMEs on applying HPWS in their organisations through selective selection processes. These include the identified aspects: workplace safety, employee involvement in decision-making, ensuring employee career development, participation in training, lifelong learning, feedback and performance appraisal, and awareness. These high-performing HR practices, based on good practice, create organisational reputation and social value. It is through them that the financial performance of the business is improved. Economic performance is critical to market competitiveness and is mediated by other factors. It is, therefore, logical for an organisation to have high-performance work systems in place, which ultimately lead to more motivated employees in the workplace, achieving greater transparency and reputation, as well as creating better products, more efficient processes and happier clients, which will undoubtedly lead to superior financial performance.

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