

TITLE:

IN PROSPERITY AND ADVERSITY? THE VALUE OF HIGH-PERFORMANCE WORK PRACTICES FOR SMES UNDER CONDITIONS OF ENVIRONMENTAL HOSTILITY AND SOCIAL EMBEDDEDNESS

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In prosperity and adversity? The value of high-performance work practices for SMEs under conditions of environmental hostility and social embeddedness

Structured abstract

Purpose: Taking a resource-based view, we analyse the effect of high-performance work practices (HPWPs) on the performance of small and medium-sized enterprises (SMEs) under conditions of environmental hostility, and consider how this relationship is influenced by managers' embeddedness in social networks. We argue that high perceived levels of environmental hostility strengthen the strategic value of HPWPs in SMEs, whereas high levels of manager embeddedness in social networks weaken this contingent relationship.

Design/methodology/approach: These hypotheses were tested in a sample of 249 SMEs, from two Spanish industries related to food production, using linear regression with two- and three-way interaction effects.

Findings: The study results show that the implementation of HPWPs benefits SMEs' performance in hostile environments. However, the dark side of managers' social capital could undermine any such benefit, especially if there is a high degree of network closure. In hostile contexts, such closure appears to limit managers' willingness to depart from the common practice of reducing investment in human resources.

Originality: This study advances our understanding of the specific conditions under which HPWPs sustain SME performance. It also introduces the dark side of managers' social capital into considerations of this relationship. Our findings provide new insights that are counterintuitive to business practice.

Practical implications: Contrary to predominant beliefs that managers facing economic adversity should reduce costs by cutting investment in personnel development, our study indicates that supporting HPWPs enhances a firm's objective financial performance.

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Introduction

SMEs make a huge impact on Western economies. SMEs provide a singularly interesting and useful context in which to analyse human resource management (HRM) practices (Harney and Alkhalaf, 2021). On the one hand, they have limited resources with which to deploy the routines and structures required for the effective implementation of these practices, i.e., they are subject to “the liability of smallness” (Gimenez-Fernandez *et al.*, 2020), which makes HRM strategies particularly difficult for SMEs. On the other hand, SMEs are particularly dependent on the performance of people and, therefore, HRM issues strongly determine these companies’ viability and success (Harney and Alkhalaf, 2021). Together, these factors make the situation of SMEs a particularly interesting one for HRM research (Harney and Alkhalaf, 2021; Chadwick *et al.*, 2013).

Previous studies have emphasised that managers’ approaches to HRM and their perceptions of the employees and the business environment strongly influence how HRM practices are implemented in SMEs (Harney and Alkhalaf, 2021; Kim *et al.*, 2021; Wu *et al.*, 2014). This paper seeks to advance researchers’ and practitioners’ knowledge on this topic by focusing on the conditions under which the adoption of HPWPs is likely to enhance the performance of SMEs. Most prior research in this area has focused on the applicability of HPWPs to SMEs (Bryson and White, 2019) and the conditions under which SMEs adopt these practices (Wu *et al.*, 2014). This decision appears to be influenced, among other factors, by the firm’s involvement with business advisory networks (Wu *et al.*, 2014), the resources available to it, and issues related to strategic decision-making (Kroon *et al.*, 2013). However, it is not enough to identify the conditions for the adoption of HPWPs. We also need a more contextualised understanding of the contingencies under which HPWPs improve SME performance (Harney and Alkhalaf, 2021).

The literature suggests that HPWPs, defined as business capabilities composed of mutually reinforcing HR practices (Harney and Alkhalaf, 2021), have a generally positive effect on SME performance (Lai et al., 2017; Pascual Ivars and Comeche Martínez, 2015; Rauch and Hatak, 2016; Sels et al. 2006; Huselid, 1995). Research also shows that SMEs do not all benefit equally from implementing HPWPs and that the relationship between HPWPs and business performance is contingent on various factors, such as job satisfaction, the age of the firm and the industry sector in which it operates (Lai et al., 2017; Rauch and Hatak, 2016). We suggest it is necessary to seek a comprehensive understanding of the conditions under which HPWPs are more likely to strengthen business performance, including factors that might influence managers' commitment to implement these practices. According to previous literature (Kim *et al.*, 2021; Wu *et al.*, 2014; Kroon *et al.*, 2013), such factors include the degree of environmental hostility (i.e., perception of availability of resources, rivalry and opportunities for growth (Tan and Litschert, 1994)) and the question of managers' embeddedness in business networks (i.e., the frequency of their interaction with business contacts (Coleman, 1990; Collins and Clark, 2003)).

In hostile environments, HPWPs are less common and are of greater strategic importance for SMEs, thus constituting a significant differentiation mechanism. These practices can facilitate the identification of new business opportunities and spur corporate entrepreneurship and innovation (Schmelter *et al.*, 2010). These effects, in turn can help firms reinvent themselves and enhance performance, especially in unfavourable periods. Nevertheless, the successful adoption and implementation of HPWPs is strongly dependent on managerial support, and this is particularly so in SMEs, whose top managers exercise the main responsibility for resource allocation (Kim *et al.*, 2021; Kroon *et al.*, 2013; Sheehan and Garavan, 2022). We therefore propose that managers' embeddedness in social networks

influences the value of HPWPs by shaping managerial support, through the transmission of beliefs about the best policy mix, and that this influence depends on the perceived hostility of the environment.

In sum, to explore these relationships, we draw on the resource-based view (RBV), the contingent approach and social capital theory to argue that the effect of HPWPs on firm performance is more positive in hostile than in munificent environments and that SME managers' embeddedness in social networks further conditions these relationships. By testing these propositions on a sample of 249 Spanish SMEs located in three geographic clusters related to food production, this paper contributes to current understanding of the role played by HPWPs in SMEs in three main ways.

Our first contribution is to advance knowledge of the specific conditions under which HPWPs sustain SME performance. To do so, we introduce two boundary conditions that have not been jointly considered in prior studies: environmental hostility and managers' embeddedness in social networks. Understanding the role of these contingent factors is especially important because practices such as downsizing, centralising decision-making and cutting personnel expenditure are all commonly adopted by firms in hostile contexts (Knudsen and Lien, 2015; Whyman and Petrescu, 2015). Achieving this understanding is especially important for SMEs, which generally have fewer resources than large firms with which to withstand hostile periods (Sels *et al.* 2006; Voss and Brettel, 2014; Wu *et al.*, 2014). Our findings provide insights that are not only new, but counterintuitive to established business practice.

Second, most research into social capital assumes that social networks have a positive effect, regardless of organisational context, because they provide access to embedded resources (Brass *et al.*, 2004). In contrast, we propose that strong embeddedness in social networks may keep

managers on the “righteous path” under conditions of hostility and thus deter them from adopting measures that could benefit financial performance or promote new opportunities for the firm, such as the implementation of HPWPs.

Lastly, whereas most previous studies of the relationship between HPWPs and organisational performance use subjective and self-reported measures of performance (Harney and Alkhalaf, 2021), ours employs an objective multidimensional measure of financial performance. This measure is particularly important to shed light on the question addressed because financial motives are prime drivers of human resources budget cuts in hostile contexts.

Theory and study hypotheses

HRM literature conceptualises HPWPs as a set of capabilities (Harney and Alkhalaf, 2021) composed of mutually reinforcing HR practices (Ahmad *et al.*, 2020). HPWPs aim to enhance business performance by strengthening employee commitment, empowerment, training, innovative behaviour and technical skills and by improving communication and feedback channels (Ahmad *et al.*, 2020; Huselid, 1995; Kehoe and Wright, 2013; Uppal, 2021; Wang *et al.*, 2022). This capability has the potential to enhance employees’ competences and hence create competitive advantages for the firm (Jiang *et al.*, 2012). HPWPs typically include opportunity-enhancing practices such as communication, formal participation, information sharing or autonomy in work-related decision-making; ability-enhancing practices, such as formal selection processes or intensive training; and motivation-enhancing practices, such as formal performance evaluation processes or rewards based on individual and group performance or merit-based promotion systems (Kehoe and Wright, 2013; Rauch and Hatak, 2016). Previous research indicates that the joint consideration of these practices, *i.e.*, addressing

an entire HPWP system, maximises the explanatory power of the role played by HPWPs within an organisation (Combs *et al.*, 2006).

During the last 20 years, studies of the relationship between HPWPs and firm performance have become increasingly prominent and now occupy a central position in HRM literature (Ahmad *et al.*, 2020; Harney and Alkhalaf, 2021; Uppal, 2021). Literature reviews have confirmed that most published papers report the existence of a positive relationship between HPWPs and financial/operational performance (Guest, 2011; Rauch and Hatak, 2016; Saridakis *et al.*, 2017). However, these studies also stress the need to analyse the contingencies under which this relationship may intensify, in order to fully explain the value creation process (Ahmad *et al.*, 2020; Harney and Alkhalaf, 2021; Rauch and Hatak, 2016).

In pursuing this question, several recent studies have emphasised the need for greater attention to the context in which HRM best practices are implemented. Further, research has questioned the validity of such practices for increasing firm performance more strongly in SMEs, due to the latter's smaller resource endowments (Sels *et al.*, 2006) and less-formal human resources practices (Harney and Alkhalaf, 2021). Relatively few studies have analysed the relationship between HPWPs and SME business performance. Of these, some report a positive general link between HPWPs and firm performance (Pascual Ivars and Comeche Martínez, 2015; Sels *et al.*, 2006), while others take a contingency stance, arguing that the relationship depends on employees' commitment and job satisfaction (Lai *et al.*, 2017), the managerial control systems applied (Voss and Brettel, 2014), group culture (Patel and Cardon, 2010) or firm age and industry (Rauch and Hatak, 2016). Research has also found that HPWPs increase SMEs' employee creativity and thus firm innovation in firms oriented towards learning goals (Do and Shipton, 2019). Overall, these studies focus predominantly on the

contingent organisational internal factors that could affect the link between HPWPs and SME performance.

The contingent value of HPWPs under environmental hostility

When using contingency theory to examine the relationship between HPWPs and firm performance, studies have emphasised the need to explore the external circumstances under which this relationship may intensify (Guest, 2011). Various dimensions of this context play a significant role (Paauwe, 2004), but that of hostility within the business environment is of crucial importance. This dimension is characterised by precarity of the industry setting, intense competition, a harsh or even overwhelming business climate, and a relative lack of exploitable opportunities (Covin and Slevin, 1989). Hostility, thus, is based on perceptions of uncertainties derived from strong fluctuations in the environment, availability of resources and severe rivalry among competitors (Tan and Litschert, 1994).

It has been argued that firms usually react to hostility by restricting communication channels, increasing the formalisation and centralisation of decision-making, downsizing, and cutting budgets, personnel, planning and control systems (Knudsen and Lien, 2015). Such actions can diminish human capital, especially in SMEs, where decision making tends to be more centralised in the general manager and whose organisations have fewer resources with which to face adversity (Kroon *et al.*, 2013; Sels *et al.* 2006). Because managers perceive investments in HRM as too costly in a hostile environment, they may prefer to employ cost-reduction strategies. Under such conditions, HPWPs become rare, valuable and difficult to imitate (see Barney, 2001, for a review of RBV principles) and can explain differential performance (Shaw, 2021). Therefore, SMEs that maintain their commitment to HPWPs may enjoy a competitive advantage that is rarer than in munificent environments. Sheehan and

Garavan (2022) find that HPWPs lead to higher SME labour productivity and this relationship is stronger for small than for medium firms, suggesting that HPWPs can act as a differentiation mechanism for more resource-constrained firms.

HPWPs can also be more valuable in hostile environments, for two main reasons. First, HPWPs involve a proactive, organic approach to HRM, and the literature associates strategic proactivity and organic structures with higher performance in hostile environments (Covin and Slevin, 1989). More specifically, HPWPs promote organisational and employee flexibility (Beltrán-Martín *et al.* 2008), commitment, information sharing and participatory mechanisms, and the capabilities needed to implement innovative and alternative turnaround strategies throughout the organisation (Schmelter *et al.*, 2010). HPWPs, thus are important drivers of innovation and corporate entrepreneurship (Schmelter *et al.*, 2010). Second, HPWPs can provide value by strengthening the HRM strategy. Such a strategy acts as a signalling system to employees, highlighting the firm's commitment to their welfare (Jiang *et al.*, 2012). In consequence, employees' morale will be enhanced and their commitment to the organisation strengthened. Iverson and Zatzick (2011) found that organisations with more extensive HPWPs reduced productivity losses from downsizing by increasing their concern for employees' morale and welfare. In the same vein, Bryson and White (2019) found, in the context of the 2011 recession, that the use of HPWPs in small firms had positive effects on employees' motivation. For Whyman and Petrescu (2015), workplace flexibility practices aid SMEs in responding to periods of constrained demand by reducing permanent-employee redundancies and absenteeism and increasing financial turnover.

HPWPs may also be more *difficult to imitate* in hostile environments than in munificent ones. In the latter case, firms tend to implement HRM practices that are like HPWPs under regulations and normative pressures from different stakeholders (Paauwe, 2004). In munificent

contexts, therefore, HPWPs are not that rare and fail to provide the same competitive advantages as in hostile environments, when firms are less likely to implement such practices (Knudsen and Lien, 2015; Barney, 2001; Paauwe, 2004). The relationship between HPWPs and firm performance should thus be stronger in hostile environments. In sum, we draw on the RBV to argue that HPWPs constitute a rare, valuable, and difficult-to-imitate capability in hostile environments. Based on these arguments, we propose the following hypothesis.

Hypothesis 1: Perceived environmental hostility has a positive moderating effect on the relationship between HPWPs and performance, such that in hostile environments, firms with higher levels of HPWPs perform better than firms with lower levels of HPWPs.

The contingent value of HPWPs and managers' social capital for performance under conditions of environmental hostility

We argue above that HPWPs possess greater strategic value for SMEs in hostile than in munificent environments. Further, because SME managers have discretionary power and direct control over HRM practices (Harney and Alkhalaf, 2020; Sheehan and Garavan, 2022), we propose that SME managers' embeddedness in social networks negatively affects their support for the implementation of HPWPs in hostile environments because the dominant logics in such contexts do not favour this response.

Previous literature has shown that CEOs benefit from their networks by accessing expert opinions, skills, know-how and experience, which may be key factors in improving firm performance and achieving competitive advantages (McEvily and Marcus, 2005; Leana and Van Buren, 1999). However, managers with more sparse networks of relationships may identify new business opportunities and industry trends more quickly than those with a high degree of embeddedness in their networks (Burt, 1997; Granovetter, 1973), because the former

are likely to have greater access to new information and knowledge, while the latter will tend to receive more redundant information, and their behaviour will be constrained by network norms (Molina-Morales and Martínez-Fernandez, 2009). In general, it has been suggested that social networks may transmit normative pressures to imitate commonly held best practices or strategies, particularly when managers have a higher degree of network embeddedness (Brass *et al.*, 2004).

Over-embedded CEOs can easily become trapped in an “iron cage” of dense, long-standing ties. CEOs who do not fulfil social norms are at risk of being perceived as “flawed managers” (Greenwood and Hinings, 1996) and may even be sanctioned through social isolation (Coleman, 1990). In the same vein, studies of “management fads” or “fashions” and bandwagon effects have found that constituents will view an action as “accepted practice” when a *critical mass* of organisations adopts the same practice (Abrahamson, 1996). The same phenomenon has been identified in HRM: thus, industry social networks are an important mechanism for the dissemination of human resource practices among SMEs (Wu *et al.*, 2014; Boxall and Steeneveld, 1999).

We propose that in hostile business environments, managers’ network embeddedness may contribute to the diffusion of practices that undermine the positive effects of HPWPs. This assertion is based on the following reasoning. First, most firms respond to a hostile environment by downsizing, centralising, reducing training costs, and/or closing communication channels (Knudsen and Lien, 2015). One reason for this reaction is that in such an environment, the manager’s contact networks may transmit information and advice that are biased towards these “industry recipes” (Boxall and Steeneveld, 1999). For example, Filatotchev *et al.* (2000) found that layoffs were more frequent under hostile conditions and that institutional forces strongly influenced managers’ mimetic responses to hostile economic

conditions. Cascio (1993) also found that the institutional field influenced downsizing strategies (layoffs), with mimicry playing a key role in firms' decisions to downsize. Second, CEOs facing economically adverse conditions are more likely to seek advice from their closer social ties and are more adverse to taking risks by departing from general norms. Finally, in hostile contexts firms may pursue inconsistent practices, such as fostering empowerment whilst simultaneously reducing investment in training. The HRM literature emphasises that "coherent systems of mutually reinforcing HR practices are likely to better support sustainable performance outcomes than are any individual practices" (Kehoe and Wright, 2013; p. 423) and that a clear and consistent message should be transmitted to employees about the company's strategic intent (Jiang et al., 2012). Based on these arguments, we propose the following hypothesis:

Hypothesis 2. In situations of perceived environmental hostility, HPWPs and managers' network embeddedness interact in a negative way, decreasing the positive effect of HPWPs on firm performance as managers' network embeddedness increases.

Figure 1 presents the theoretical model developed in this study.

Insert Figure 1 about here

Methods

Sample selection and data collection

The study hypotheses were tested using a database composed of archival data and of survey responses from the same set of companies. The archival data were obtained from the *Sistemas*

de Análisis de Balances Ibéricos (SABI) database, which includes the yearly accounts of Spanish companies and provided the objective data for the dependent variables and some control variables. A two-year time lag was established between the independent and dependent variables because the performance effects of HPWPs and social capital are not simultaneous. Among other reasons for doing so, this procedure reduces the reverse-causality effect that may be encountered in cross-sectional studies.

The survey data were obtained from a questionnaire sent to the CEOs of 895 industrial companies operating in wine production and agriculture sectors in three geographic clusters in Spain. One is in the northern part of the country, which produces cava, a sparkling white wine similar to champagne. The other two clusters produce fresh fruit and vegetables and are located in two provinces, in the south. The businesses in these three clusters bear certain similarities: most are highly competitive small and medium-sized exporting companies and, therefore, are generally exposed to a hostile context; they incorporate comparable subsectors based on diverse aspects of food production (e.g., food products, seeds, agricultural machinery, pesticides, packaging, fertilisers, irrigation systems, etc.); and they are subject to the same legal regulation, work within similar cultures and share comparable values. The inclusion of different business activity sectors and different geographic areas ensures data variability and strengthens the validity of the study findings. The concentration of these companies within a given geographic area also facilitates valuable exchanges of information and raises the probability of high network embeddedness. The database for these 895 companies was constructed using information from sources such as sectorial associations, webpages recommended by experts in these sectors and business directories for the three regions included in the study. With this extensive mapping, we sought to have a fair representation of the companies operating within these geographic clusters. For the companies that responded to the

questionnaire, we also obtained secondary objective information from the SABI database about the number of employees and published financial data.

Complete, valid data were obtained from 263 firms (response rate: 29.38%), of which 249 were SMEs (i.e. they each had fewer than 250 employees). These firms constituted the final sample analysed. Of these firms, 61% were active in the fruit and vegetable-producing regions, and the rest were located in the wine-producing region. The average firm size was 45 employees and 75% had 64 or fewer employees.

Measures

The multi-industry, multi-area nature of the study sample complicated the interpretation of the scores obtained. For this reason, we standardised the HPWPs, social capital, hostility, employee cost and performance scales by using the average and standard deviation (SD) value, in each case, for the corresponding activity sector and region. All the measures based on scales are included in the final appendix. For all of them we performed a confirmatory factor analysis (CFA) using EQS 6.3. software. The results of these analyses are presented below. The Cronbach's alpha of all these scales is above 0.8, indicating good reliability of the measurement.

Dependent variable: Firm performance. The dependent latent variable was measured using a three-item indicator consisting of the two-year average values for return on total assets, profit margin and economic profit, based on secondary data obtained from the SABI database. Principal component analysis identified only one factor with an eigenvalue higher than 1.0, explaining 87.20% of the variance.

Independent variables: High-Performance Work Practices. To measure the extent to which firms implemented HRM best practices, we used a 12-item scale based on Huselid's (1995) HIWP scale. As above, CFA was conducted to confirm underlying unidimensionality. Four indicators (referred to hiring, information sharing and job analysis) did not present an estimated parameter above 0.70. As recommended, these four items were removed in order to improve parsimony, leaving only the indicators that contributed unique variance to the total score (Bollen and Lennox, 1991; Hair *et al.*, 1999). In the final scale, at least two items were retained from each of the three sets of practices analysed (ability-enhancing, motivation-enhancing and opportunity-enhancing). The model appeared to fit the data well. The goodness of fit indexes were adequate (Chi²/df=3.67; CFI=0.93; NFI =0.91; NNFI=0.91; IFI=0.93; RMSEA=0.06), and all indicator loadings were significant ($p < 0.001$). These findings confirmed the existence of underlying unidimensionality.

CEOs' network embeddedness. One of the main aspects of this study is the degree of managers' embeddedness in social networks, and therefore we considered the network closure dimension of social capital (i.e., the frequency of interaction with business contacts) (Coleman, 1990; Collins and Clark, 2003). Contacts were defined as persons with whom managers discussed significant questions about their firms but who were not affiliated with their companies. The questionnaire asked the managers to identify (by writing their initials) any person not belonging to the company with whom they had frequent conversations about the company. Network closure was measured as the square root of the average number of monthly conversations with the contacts identified.

Perceived hostility. Tan and Litschert's (1994) questionnaire items were used to operationalise perceived environmental hostility. This questionnaire asks respondents to assess the state of their environment by reference to five items scored on a 7-point Likert scale. CFA

showed that the model provided a reasonably good fit to the data (Chi2/df= 6.86; CFI= 0.80; NFI=0.78; NNFI=0.80; IFI=0.81; RMSEA= 0.098) and all indicator loadings were significant ($p < 0.01$).

Control variables. We controlled for cluster type, firm size, CEO tenure and employee costs. Company size was measured as the number of employees, according to the SABI database. CEOs tenure was their experience in the current position (in years). Employee costs were measured as a percentage of operational revenue, according to the SABI database, based on published financial statements. We expected larger SMEs with higher employee costs to be more committed to HPWPs, and CEOs with a longer tenure to be more reluctant to support the implementation of HPWPs.

Analyses and results

Table 1 shows the descriptive statistics and correlations obtained for the study variables considered. Bias was excluded from the results because we did not use a common method of measurement for the dependent and independent variables.

Insert Table 1 about here

The hypotheses were tested by linear regression analysis, the results of which are shown in Table 2. The first column represents the base model, which includes the control variables and the main direct effects. This model explains 18.1% of the variance. The coefficients were estimated using ordinary least squares (OLS). None of the value inflation factors (VIFs) calculated was higher than 2, indicating that our data do not present problems of multicollinearity. The direct effect of HPWPs was positive but not statistically significant, while that of environmental hostility was negative and significant.

Insert Table 2 about here

The two- and three-way interaction effects hypothesised in our model were analysed using a moderated moderation (three-way interaction) test (Hayes, 2013), which estimates the coefficients of the regression using bootstrapping. This technique is especially suitable when parametric assumptions are not viable (as in the case of small convenience samples) and when the models hypothesised involve interaction effects, as it provides greater statistical power than moderated OLS regression analysis (Hayes, 2013). To obtain the estimates, the data were resampled 5000 times using the SPSS macro PROCESS (Hayes, 2013). We first analysed the interaction of HPWPs and hostility, presented in Contingent Model 1 of Table 2. This interaction contributes significantly to explaining the variance in the dependent variable beyond the main effects ($\Delta R^2 = 0.06, p < 0.001$). The regression coefficient for the interaction between HPWPs and hostility ($\beta = 0.226, p < 0.05$) is positive and significant, supporting a contingent perspective on the relationships between HPWPs and firm performance in SMEs. The information used to define the nature of the significant interaction was obtained by the PROCESS macro about the independent variable's effect on the dependent variable for three values of the moderator (environmental hostility): at the mean, one SD above, and one SD below the mean (see Table 3).

Insert Table 3 about here

Table 3 shows that the HPWPs had a negative effect on firm performance, although this effect was nonsignificant in munificent environments. As the level of environmental hostility increased, so did the effect of the HPWPs on the firms' financial performance, and the relation

became positive and significant. The relationship between HPWPs and performance, thus, is stronger and more positive in hostile environments. This result supports Hypothesis 1.

Contingent Model 2 (Table 2) presents the results of the moderated moderation test, which addresses the interaction between network embeddedness, HPWPs and hostility. Introducing this effect led to a statistically significant improvement in model fit ($\Delta R^2 = 0.04, p < 0.001$). The regression coefficients of HPWPs and their first-order interaction with environmental hostility were positive and significant. The coefficients of interaction between HPWPs and social capital and between environmental hostility and social capital were both negative (the former, significantly so, while the latter was only marginally significant). The three-way interaction coefficient between HPWPs, environmental hostility, and social capital was negative and significant ($\beta = 0.15, p < 0.05$). To gain further insight into these interaction effects, we then examined information from the PROCESS macro about the conditional effect of the interaction between HPWPs and environmental hostility at three values of the moderator (manager's social capital): at the mean, one SD above and one SD below the mean (see Table 4).

Insert Table 4 about here

Table 4 indicates that, as the level of managers' embeddedness in social networks increases, the significant positive effect of the interaction between HPWPs and environmental hostility on firm performance is weakened. Hence, the results of the moderated moderation analysis confirm our second hypothesis.

In conclusion, the results of the empirical analysis confirm the two study hypotheses, showing that the implementation of HPWPs benefits SME performance in hostile environments. However, the dark side of managers' social capital can undermine this effect, particularly when there exists a high degree of network closure. In hostile contexts, such closure appears to limit managers' willingness to depart from the common practice of reducing investment in human resources.

Discussion

In response to recent calls for research on this topic (Harney and Alkhalaf 2021), this study was undertaken to improve understanding of the value of HPWPs in the context of SMEs. The results obtained support the study hypotheses concerning the differential effects of environmental hostility and managers' social capital on the relationship between HPWPs and SME performance.

Whereas previous studies have found a positive relationship between HPWPs and firm performance, both for any size company (Guest, 2011; Huselid, 1995; Saridakis *et al.*, 2017; Uppal, 2021) and also in the specific context of SMEs (Lai *et al.*, 2017; Pascual Ivars and Comeche Martínez, 2015; Sels *et al.*, 2006), our findings indicate that implementing HPWPs only enhances SME performance under conditions of environmental hostility. This finding seems consistent with the contingent approach to HPWPs, particularly for SMEs, which suggests that HPWPs enhance firm performance under specific circumstances (Rauch and Hatak, 2016). Because HPWPs are less common and more difficult to imitate in hostile contexts due to resource limitations, they become carriers of strategic value (Guerrero *et al.*, 2021). Our sample included SMEs that belong to a wide variety of sectors but were concentrated in three geographic clusters. This concentration generates both intense social

interactions among firms and frequent exchanges of information (Malmberg and Maskell, 2002), which can easily lead to a high degree of network embeddedness. Moreover, these clusters have large and important sectorial associations. On the other hand, the firms within these clusters have different types of relationships with their sectorial associations, and so there is considerable variability in the extent of managers' network embeddedness. In line with Molina-Morales and Martínez-Fernandez (2009), our findings show that although firms can benefit from the development of such relationships, these relationships also have a dark side. Network embeddedness has a negative influence on the degree of HPWP implementation when managers perceive environmental conditions to be hostile. This suggests that managers aiming to differentiate their businesses in hostile periods through aligned HR practices might face important pressures from their business contacts to “stay on the righteous path”, which in such contexts means reducing investments in HR.

Our results have interesting implications for theory development. Firstly, we contribute to the understanding of the factors that enable SMEs to benefit from the adoption of HPWPs, by introducing two new boundary conditions for the relationship between HPWPs and firm performance that have not been analysed in previous research, namely contextual hostility and managers' network embeddedness. The three-way theoretical model of interaction that we propose makes a two-fold contribution to knowledge in this context. First, we demonstrate that HPWPs are of greater strategic value in hostile than in munificent contexts. This result aligns with that of Bryson and White (2019), who found that using HPWPs in small firms had positive effects on employees' motivation in the context of the 2011 financial recession. We complement this finding by showing that small firms benefit from HPWPs in terms not only of employees' enhanced motivation, but also of financial performance. Our results also reinforce those of Whyman and Petrescu (2015), who found that workplace flexibility practices aid

SMEs' responses to periods of constrained demand, reducing permanent-employee redundancies and absenteeism, and increasing financial turnover. To the findings of Whyman and Petrescu (2015), we add that firms can do more than implementing workplace flexibility practices, and that the adoption of HPWP systems composed of mutually reinforcing HR practices enhances the firm's financial performance. As previous studies have suggested, these practices are more likely to provide better results when implemented together than separately (Kehoe and Wright, 2013; Coombs *et al.*, 2006).

As the second main contribution of this study, while previous research in this area has focused on the positive role of business contacts in the adoption of HPWPs in SMEs (Guerrero *et al.*, 2021; Wu *et al.*, 2014), we enrich this explanation by showing that the role of social contacts must be analysed in conjunction with the characteristics of the context. In hostile environments, HPWPs have a stronger positive effect on performance when managers have less network closure. Several factors may account for this finding. First, the influence of managers' social capital on support for HPWPs is likely to be stronger in SMEs than in large companies, where human resource practices are more institutionalised (Voss and Brettel, 2014). Managers can thus implement rapid and drastic changes in human resources based on the knowledge and insights obtained through their social networks. Second, managers who interact frequently with their networks may feel social pressure to follow dominant management practices in these circumstances, such as downsizing, cost cutting, reducing communication channels and diminishing employee empowerment. These pressures may lessen the support provided by managers to HPWPs and consequently their strategic value. Conversely, managers with less network closure will be less socially constrained and more able to take initiatives that can differentiate their companies. In consequence, in hostile environments, their firms can take full advantage of successfully implemented HPWPs.

Practical implications

HRM is crucial for SMEs in general, but especially so during periods of economic downturn, as it constitutes an important source of employee motivation (Bryson and White, 2019) and firm innovation (Do and Shipton, 2019). Our study demonstrates that developing HPWPs is not only the right thing to do from a human-centred perspective, but it is also the most beneficial option for SMEs' financial performance. This finding is important both for managers and for policy makers.

Contrary to the predominant belief that managers facing economic adversity or hostility should reduce costs by reducing investment in employees' development, our study indicates that supporting HPWPs enhances firms' objective financial performance. Further, managers should be careful when following the recipes usually recommended by business advisors (such as cutting personnel costs), because disengaging with HPWPs can have negative effects on the firm's financial performance. SME managers, therefore, should seek to weigh the HPWP-related knowledge they obtain against potentially counterproductive messages from business contacts during hostile times.

For policy makers, this study indicates that enhancing knowledge and supporting SMEs regarding the adoption of HPWPs not only improves employees' working conditions but also strengthens the performance of the small business fabric.

Limitations of the study and opportunities for future research

The findings obtained from this empirical study should be interpreted taking into account the limitations it presents, such as a certain lack of generalisability. Our analysis focuses on SMEs in the Spanish food industry, and the conclusions drawn may not necessarily be valid for other industries or geographic areas. On the other hand, the study sample considered is composed of a variety of sectors and geographic contexts, which enables us to reasonably assume that the results obtained can be generalised to SMEs in other sectors and contexts. Another point to be considered is the fact that our treatment of the HPWPs as a system of practices does not explore the separate relationships between each of the three main components (ability-enhancing, motivation-enhancing and opportunity-enhancing) and firm performance (Mansour *et al.*, 2021; Jiang *et al.*, 2012). Future studies could usefully examine how the two boundary conditions we propose affect the relationship between each HPWPs component and firm performance.

The exploration of other dimensions of the environment, such as complexity, would also enhance our understanding of the relationship between HPWPs and business performance, as employees' knowledge and performance could play an important role in facilitating competitive advantages in such environments. Our results also indicate a significant effect of employee costs in the proposed model. Future studies could further analyse the role played by this variable the relationship between HPWPs and SME performance. Finally, the processes by which firms develop and modify HPWPs over time and the influence of contingent factors on this evolution are also important areas for future research, particularly in the case of SMEs.

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