

The HR decision-maker's emotional intelligence and SME performance

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Abstract

Purpose – This paper aims to examine the influence of the emotional intelligence (EI) of the human resources (HR) decision-maker on firm performance in small and medium-sized enterprises (SMEs), as well as the possible mediating role of the use of a system of HR practices in that relationship.

Design/methodology/approach – The research involves a sample of 157 managers responsible for HR in SMEs. SMEs are examined because in these firms, decisions are not usually adopted on a collegiate basis. It makes these firms an ideal context for studying the relationship between HR decision-maker's EI and firm performance.

Findings – Results show that the HR decision-maker's EI determines firm performance in terms of generation of valuable HR and financial outcomes. They also confirm the mediating role of the system of HR practices in that relationship.

Research limitations/implications – This research suggests that an adequate understanding of the importance of EI can guide efforts to boost SMEs competitiveness. Thus, as SMEs are an important part of the business fabric in the majority of developed economies, the implications of this study are significant.

Originality/value – Findings in this research suggest that the workplace is not managed exclusively on a cognitive basis since emotional competences may play an important role in the HR management and SMEs' performance.

Keywords Human resource management, Human resource managers, Emotional intelligence, Small and medium-sized enterprises, Distal outcomes, High-performance human resources practices, Proximal outcomes

Paper type Research paper

1. Introduction

Since organisations operate within the context of emotions (Anand and Udayasuriyan, 2010), researchers have been encouraged to consider the importance of managers' emotional intelligence (EI) (Jamali *et al.*, 2008; Rosete and Ciarrochi, 2005), conceived of as their ability to understand, control and regulate their own and their employees' emotions (Salovey and Mayer, 1997). In fact, starting from Salovey and Mayer's (1990) and Golemans' (1995) contributions, several studies assign EI a critical role in the improvement of a firm's productivity and profitability (Sy *et al.*, 2006; Wong and Law, 2002). Thus, decisions-makers' EI could represent a key resource, offering the firm a competitive advantage over its rivals (Barney, 1991). To corroborate such an expected positive effect of decisions-makers' EI, Alston *et al.* (2010) state that research needs to be conducted to find out if there is a positive link between leaders' EI and desired organisational outcomes. Since studies into leadership,



its effectiveness, and its overall impact on improving performance are important for advancing understanding in the field of human resource management (HRM), the question asked by many authors (Weinberger, 2009) is: What role do emotions and/or EI play in the organisation through effective leadership and organisational performance?

Combining the emotional focus of the firm with the value of HR, we can say that emotional competences can transform the HR decision-maker into a resource that is valuable, unique, inimitable and non-substitutable, influencing HRM and turning it into a source of sustainable competitive advantage. Indeed, managers' perceptions about the value of HR and the outcomes of HR management might be influenced by both rational and non-rational criteria (e.g. empathy, self-control, and interpersonal sensitivity). Although data published on the efficacy of EI competences does exist (Spencer, 2001), the literature has paid scant attention to managers' EI in HRM, failing to bring data on the efficacy of EI to HR professionals' attention. Instead, it has tended to look at the influence of other variables on strategic HRM – e.g. firm size (Geary, 1999), age (Geary, 1999), sector (Hunter, 2000), and competitive environment (Bayo and Merino, 2002). For example, some authors attribute the low level of adoption of HR practices to firm size, and so to its relative lack of available resources. However, according to the findings of Kroon, Van De Voorde and Timmers (2013) and Wu, Bacon and Hoque (2014), size alone is not enough to explain it. Other factors such as managers' perceptions of the utility of HR practices (Boudreau and Ramstad, 2003) and their strategic decision-making (Kroon *et al.*, 2013) provide additional and, in all likelihood, more accurate answers to the question. For example, the lack (or a low level of adoption) of certain HR practices could be due to the fact that some managers are unaware of the importance of these practices for the effective management and development of their HR (Singh and Vohra, 2009). In addition, such low levels of adoption could be related to managers' strategic choices because their decision to adopt HR practices may well depend on their beliefs with respect to the benefits of such systems as a solution for business issues (Kroon *et al.*, 2013). For example, growth-oriented owners/managers seem to be concerned with HRM practices that match the employee to the organisations' values and culture, and not only to job requirements (Heneman *et al.*, 2000).

If the point argued above is true, more research analysing the figure of the individual HR manager is needed, since he/she makes the decision to adopt HR practices. This is quite relevant because, as several authors have shown, HRM issues are of significant professional and personal concern to owners/managers, who are actively seeking additional knowledge about it (Heneman *et al.*, 2000) since it has become one of the major challenges of small firms (Hornsby and Kuratko, 1990; Tocher and Topcic Rutherford, 2009). Moreover, a positive effect of the adoption of HR practices on firm performance has been shown (Dyer and Reeves, 1995; Huselid, 1995; Kehoe and Wright, 2013). Accordingly, academics have increasingly paid attention to the study of how managers' strategic thinking in terms of HRM, and particularly the use of HR practices, can affect organisational performance (Alatailat *et al.*, 2019). As strategic thinking is a process based on managers' intuition and creativity in generating a cohesive perspective of the firm and, accordingly, formulating and executing practices that lead to higher performance (Mintzberg, 1978), the qualities these managers possess, among them EI, become highly relevant.

However, no previous research examines the relationship between the HR decision-maker's EI, the manager's decision to adopt HR practices and their combined effect on the firm's performance. With the aim of filling this gap, the current research seeks to analyse the direct or indirect – through the system of HR practices adopted by the firm – influence of the HR decision-makers' EI on the firm's performance. In light of the theoretical bases that support the relationship between the variables in this study, we decided to analyse small

and medium-sized firms, or SMEs[1], because of their special characteristics. In SMEs, the manager is directly responsible for selecting and developing the workforce. The decisions are not usually made on a collegiate basis (Suárez, 2003), which allows us to analyse the influence of HR decision-makers' EI on firm performance. In addition, the short physical and emotional distance separating the managers from their subordinates (Suárez, 2003) leads managers to take on an important role in deciding both what to do and how to organise the resources to put the decisions into practice. Moreover, in SMEs, the relationship between HRM practices and performance remains under-researched (Sheehan, 2014). Our empirical study takes evidences from the managers of SMEs responsible for decision-making in the HR area – that is, for the system of HR practices operating in their firm when the fieldwork was carried out. Obviously, doubts can emerge about the realistic possibility of these firms adopting HR practices due to their size and the usual scarcity of resources. However, according to small business employers' associations, their members do (Wu *et al.*, 2014), and authors have found evidence of it (Kroon *et al.*, 2013; Bacon *et al.*, 1996). Indeed, Rauch and Hatak's (2016) study revealed little difference between SMEs and large firms. Therefore, there may be considerable value in seeking to identify the factors that are associated with the use of HR practices in small businesses (Wu *et al.*, 2014). Thus, our study is pertinent and potentially fruitful in contributing to existing literature because it is pioneering in terms of the variables examined and the conclusions reached.

First, and with regard to management, this work suggests that the HR decision-maker's EI can be a source of sustainable competitive advantage for the firm, since we found that those firms that have HR decision-makers with high EI show a higher level of performance. Second, in the HRM area, this work stresses the importance of the decision-maker's emotional profile for deciding whether to use a system of HR practices that improves SME performance, since this work found that those SMEs that make good use of a system of HR practices reach a higher level of performance. Finally, in the field of EI, and taking into account the previously mentioned findings, our research confirms the importance of emotional competences in firms, in particular in SMEs, due to their positive effect on the generation of valuable HR and financial outcomes for the firm.

2. Theoretical framework

2.1 Emotional intelligence, human resources practices and firm performance: general concepts

Goleman (1999) considers EI as the ability to recognise our emotions and the emotions of others, motivate ourselves, and handle our relationships with others and with ourselves. McClelland (1973) describes the emotional competences deriving from EI as the traits or habits of individuals – e.g. empathy and self-discipline – that lead them to superior performance at work. In this respect, people are born with a general EI that determines their potential to learn specific emotional competences (Goleman, 1999).

Different conceptions of EI have resulted in two types of theoretical models: the ability model and the mixed or trait models (Mayer *et al.*, 2000). The ability model treats EI as a form of pure intelligence (Salovey and Mayer, 1997) or cognitive ability based on a subject's real potential to recognise, process and use emotionally charged information (Ferrando, 2006). The mixed, or trait, models integrate dimensions related to personality (e.g. optimism, assertiveness and empathy) with cognitive factors (e.g. perception, assimilation, understanding and management of emotions) (Bar-On, 1997; Goleman, 1999; Petrides *et al.*, 2007). These can be considered as models of emotional self-efficacy, because they relate the individual's EI with self-perceived behaviours and abilities (Petrides and Furnham, 2001). Mixed-based EI is an empirically stronger predictor of job performance than is ability-based

EI (Joseph and Newman, 2010). The ability model and the mixed models coincide in allowing for the development of emotional competences through training and the accumulation of experience (Goleman, 1999; Salovey and Mayer, 1997).

HR are a valuable resource because they are a source of competitive advantage for the firm (Barney, 1991), hence the need to use systems of HR practices that contribute towards increasing this competitive advantage. The literature has paid particular attention to high-performance work systems (HPWSs), which improve firm performance by contributing to employee development (Den Hartog *et al.*, 2013). These sets of mutually reinforcing and synergistic practices (Wright and Kehoe, 2008) guarantee the right combination of qualities in human capital (Wright and Snell, 1998), leading to superior firm performance (Den Hartog *et al.*, 2013; Jiang *et al.*, 2013).

Specifically, HR practices lead to business outcomes at different levels: individual, organisational, financial or market (Dyer and Reeves, 1995). In particular, individual outcomes – which have to do with the employee – are important because the employee can become a valuable resource for competing, hence the challenge for the firm to develop its human capital and achieve the affective and behavioural reactions in the employees – e.g. improved satisfaction and reduced absenteeism, respectively – that will allow it to generate a competitive advantage. With regard to the financial outcomes, the research shows that using HPWSs help organisations to improve their financial performance, hence the importance of measuring the effect of such practices on financial performance to assess whether managers' decisions are appropriate or not (Huselid, 1995; Kehoe and Wright, 2013).

2.2 Human resources decision-makers' emotional intelligence, human resources practices and firm performance in the context of small and medium-sized enterprises

SMEs have been characterised for their lack of resources when we compare them to large firms. Thus, to deal with potential liabilities of size, they must try to look for alternative sources of competitive advantage. For example, the lower number of employees in SMEs makes each individual especially relevant for firms' operations and prospects of growth, which, in turn, makes the role of managers who make decisions about HRM more relevant in terms of achieving competitive advantages based on HR. In this context, the managers' EI could be of great interest to SMEs. We will discuss this in more detail below.

SMEs have some specific characteristics that cause their managers to acquire a high level of relevance, as well as the effect of these managers' decisions on firm performance to be more noticeable. Specifically, the management of SMEs is often exercised by a single person who centralises decision-making and makes many decisions of hugely varying types and degrees of importance, among them those related to HR (Kotey and Slade, 2005). In addition, as HR specialist advisers are often too expensive for SMEs (Matlay, 1999), the manager must invest time in formulating the HR management system, being directly responsible for selecting and developing the workforce. Consequently, they can be very influential in the application of HR practices (Cassell *et al.*, 2002; Matlay, 1999).

Thus, compared to their counterparts in the large organisations, managers in SMEs are major players in the decision-making process (Seyal *et al.*, 2012), as well as in the implementation of the decisions made. This is significant because authors such as Mintzberg (1978) or Liedtka (1998) consider strategic thinking as an individual activity from which emerges a cohesive vision of the firm that leads to suitable strategic practices and increased performance. Going beyond this, Juma *et al.* (2016) specified that the influence of strategic thinking on firm performance does not only rely on managers' decisions, but also on firms and employees' conditions. Thus, strategic thinking requires managers to pay attention to the needs of employees and provide opportunities for them to increase their

abilities, motivation and opportunities – as the AMO model states (Appelbaum *et al.*, 2000) – to reach better performance (Juma *et al.*, 2016). Coherently, previous research into SMEs has found a dominant role of top managers in determining both the strategic approach to the organisation and approaches to HRM (Krishnan and Scullion, 2017). Thus, with it being the individuals (rather than organisations) who think strategically (Liedtka, 1998), and it being the role of owners/managers in SMEs that is outstanding (Seyal *et al.*, 2012), the managers' qualities, among them EI, are of higher relevance for these firms (Chin, Anantharaman and Tong, 2011). From a HR perspective, Alatailat *et al.* (2019) studied how strategic thinking influences organisational performance and how high-performance HR practices may strengthen this relationship. On the basis of Alatailat *et al.*'s (2019) work, we can assert that in the context of SMEs, managers with high EI will be in a better position to think strategically and to adopt and implement a set of high-performance HR practices that lead to better performance.

Concerning the adoption of HPWSs, and because of the size and lack of resources of SMEs, some debate has arisen regarding the factual possibility of these firms using them. However, small business employers' associations have proclaimed that their members do (Wu *et al.*, 2014), and some authors have found evidence of it. For example, Kroon *et al.* (2013) found HPWSs in SMEs, and although being smaller in terms of the number of practices adopted when compared to large firms, such systems encompassed coherent bundles of practices. Thus, while it is generally accepted that the uptake of HPWSs is somewhat limited (Wilkinson, 1999), they are not completely absent within small businesses (Bacon *et al.*, 1996). Moreover, research has found no association between the presence of a HR specialist and the adoption of HPWS (Guest and Bryson, 2009; Wu *et al.*, 2014), which is especially relevant in the context of SMEs where the owner/manager makes decisions on HR management.

However, it is widely recognised that HR management in SMEs differs from that in large firms. For example, in SMEs, HR management is often more informal, intuitive and simple in its application, and does not necessarily apply to all employees (Nguyen and Bryant, 2004; Wu *et al.*, 2014; Kroon *et al.*, 2013). Nevertheless, this high degree of informality both in their general approach to HRM and in relation to specific HR practices (Dundon *et al.*, 2009) has been identified as a source of competitive advantage for SMEs (Bacon *et al.*, 1996; Dundon *et al.*, 2009). In this respect, Krishnan and Scullion (2017) argue that given the importance of informality and personalised management styles to the organisational culture in SMEs, owners/managers tend to prefer to develop their own distinctive model of HRM that fits with their specific context. Informality in SMEs coupled with the centralised control of HR decisions with the top managers provides a greater degree of overall control (Jack *et al.*, 2006) and allows for flexibility in the deployment of employees as the firm grows (Heneman *et al.*, 2000). Moreover, Rauch and Hatak's (2016) meta-analysis challenges some scholars' proposition about the low level of effectiveness of HR-enhancing practices in SMEs, and allows the proposal to be made that managers in SMEs should consider their firm's need to implement HR practices that focus on enhancing skills, motivation, and empowerment, so benefiting firm performance. Therefore, we can expect that the manager's role in SMEs is relevant for HR decisions, and particularly for deciding the use of HPWSs, and eventually for contributing to firms' outcomes. Thus, there may be considerable value in seeking to identify the factors of management that are associated with the use of HPWSs in small businesses (Wu *et al.*, 2014) and their effect on SMEs' performances.

In relation to SMEs' performances, it is argued that the impact of HRM should be greater on the proximal outcomes (the development of human capital) than on the distal ones (financial performance) because the first can be more strongly linked to HR policies and

practices than the latter (Guest and Conway, 2011). However, in this paper, we will explore the impact of HPWS – built on managers EI – on both proximal and distal outcomes. Figure 1 illustrates the proposed research model and below we state the specific hypotheses of this research.

2.3 Hypotheses

The HR decision-maker's EI and the system of HR practices. It is management's responsibility to provide a working environment that generates and maintains employee engagement (Brunetto *et al.*, 2012), that is, a work situation where employees find work meaningful and, consequently, they want to – and can – invest in their work to achieve personal and career benefits (Kahn, 1990). Engagement is likely to be influenced more by management practices, the work environment and climate than by the demographic – e.g. age or gender – and personality characteristics of employees (Richman, 2006). In SMEs, the manager – who often coincides with the owner (Lattimore *et al.*, 1997) – usually makes the firm's decisions and must invest time in formulating the most suitable HR management system (he/she commonly plays the role of HR decision-maker). Consequently, he/she can be very influential in the application of HR practices, playing a key role in the employment relationship.

Building on the literature on management and leadership, we can find a theoretical foundation for our thesis about the emotional competences of managers as a determinant of their work effectiveness. Researchers argue that EI is essential for leadership (Antonakis *et al.*, 2009; Azouzi and Jarboui, 2013; Chopra and Kanji, 2010; Côté *et al.*, 2010; Rosete and Ciarrochi, 2005) and effective management (Azouzi and Jarboui, 2013; Jamali *et al.*, 2008) because it helps to develop an emotion-laden relationship with employees (Lindebaum and Cartwright, 2010).

Leaders must have the ability and flexibility to adapt to an ever-changing workforce, and the emotional intellect to become successful (Alston *et al.*, 2010). Emotionally intelligent managers may gain considerable knowledge of employees' attitudes and interests, which should allow them to influence employees by identifying and addressing their unstated needs (George, 2000) and by creating goals that they might accept. Moreover, by developing their EI, managers can contribute towards improving their teams' effectiveness through managing their relationship skills effectively and efficiently (Caruso and Salovey, 2004; Lindebaum and Cartwright, 2010). Those managers may also process information deeply, so making decisions that improve the performance of their groups (Côté *et al.*, 2010). Moreover, research shows that when team leaders possess self-control against criticism and are more empathetic, employees are more creative in improving team innovativeness (Sadri, 2012). By contrast, managers who are poor at perceiving emotions may unknowingly miss important emotional signals from their team members. Similarly, managers who are poor at managing their own emotions may allow emotions to interfere with effective action (Zampetakis and Moustakis, 2011).

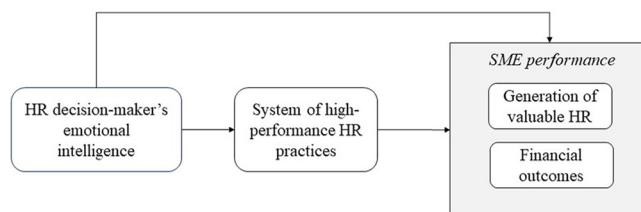


Figure 1. Research model: HR decision-makers' EI, HPWS and SME performance

According to this discussion on management effectiveness and EI, we can state that emotions will enable HR decision-makers to be responsive and visionary (Sayegh *et al.*, 2004) when making decisions about capturing, developing and motivating talent. At the same time, and according to Sayegh *et al.* (2004), emotions can facilitate the intuitive decision-making process. This is particularly important in SMEs, where the HRM tends to be informal and intuitive (Mayson and Barrett, 2006; Nguyen and Bryant, 2004). However, HR decision-making in SMEs is also a demanding and complex process, so requiring a set of competences for the manager to deal with it. According to Salovey and Mayer (1997), individuals with a high level of EI are successful in tasks involving complex decisions. That is because emotional abilities help managers to analyse situations with an open mind, and to generate more suitable solutions (Mayer and Salovey, 1995). Thus, it is necessary to look at the emotional competences – e.g. communication, teamwork (Goleman, 1995) – of the HR decision-maker because they may play an important role by conditioning the use of an HR management system conducive to capturing, developing and motivating talent. These emotional competences influence organisational effectiveness in employee recruitment and retention, hiring, promotion, teamwork or training efforts, which are important challenges that organisations face (Cherniss, 2000; Goleman, 2000). Moreover, inspiring and empowering employees may prove difficult when a HR decision-maker is not emotionally intelligent (Caruso and Salovey, 2004). Therefore, we consider that emotionally intelligent HR decision-makers are more likely able to adopt management practices that contribute to the progress of the workforce. They will try to guarantee fair and satisfactory employment conditions for employees and will be very conscious of the importance of the capture and development of HR, as well as of their contribution to the firm. Through providing employee assistance programmes, individual development plans and the various benefits an organisation has to offer, HR decision-makers will contribute towards safeguarding employee well-being by dealing with their own emotions and those of employees (Santos *et al.*, 2015).

Accordingly, we can state:

H1. The HR decision-maker's EI has a positive effect on the use of a system of high-performance HR practices in the SME.

2.3.1 The human resources decision-maker's emotional intelligence and firm performance. Given their resource limitations, SMEs have fewer options than their larger counterparts do for improving performance. The literature shows that managers' EI affects different kinds of firm performance (Carmeli, 2003; Sy *et al.*, 2006). EI will affect not only individual performance, but also team and organisational performance in SMEs (Côté, 2017; Farnia and Nafukho, 2016; Koman and Wolff, 2008). Managers with higher emotional abilities are effective leaders (Azouzi and Jarboui, 2013; Jamali *et al.*, 2008) that use EI in their interactions with others, thereby benefiting the organisations they manage in such a way that they achieve greater outcomes (Alston *et al.*, 2010; Mayer *et al.*, 2004), even in term of profits (Côté, 2017). First, managers with high EI can enhance proximal outcomes such as valuable HR. This can be expected because they encourage positive working attitudes (Carmeli, 2003), employee commitment (Cherniss, 2000), increased willingness to cooperate, organisational citizenship behaviours (Sy *et al.*, 2006), and improved integration and engagement in the workplace (Shuck and Herd, 2012). The HR decision-maker makes decisions that affect the health of the organisation and its employees, and when they have high EI, they tend to focus on the long-term interest of employees (Fernández-Berrocal *et al.*, 2014), favouring in turn organisational success (Humphrey *et al.*, 2015). All these benefits may occur even when the employees themselves lack EI and such interactions are

challenging for them (Sy *et al.*, 2006). The manager's ability to regulate the emotions of their employees will also boost their confidence to be flexible and creative and encourage their talent to flourish (Zhou and George, 2003), contributing to the generation of valuable HR (Cherniss, 2000). By contrast, managers lacking some emotional competences are unable to create motivating working conditions or offer employees opportunities to develop. They may consequently fail to capture and retain valuable HR, generating negative attitudes that lead to outcomes such as absenteeism and high employee turnover (Kehoe and Wright, 2013). Effective leaders are also able to manage their own emotions, with the result that employees feel good about working with them. In short, leaders whose employees stay are leaders who manage with EI (Cherniss, 2000). According to Hennig-Thurau *et al.* (2006), it is important for HR professionals to effectively generate emotions that create a positive climate that contributes to employee satisfaction and support through the generation and maintenance of enthusiasm and confidence (Miao *et al.*, 2016).

At the same time, the decision-makers' EI may be critical for improving distal outcomes such as financial performance. The firm's productivity and profitability may be enhanced because the decision-makers' EI contributes towards improved performance in the workplace (Boyatzis, 2006; Farnia and Nafukho, 2016; Koman and Wolff, 2008; Sy *et al.*, 2006). This superior performance will generate a sustainable competitive advantage, hence making it possible to predict the firm's financial performance by looking at its managers' emotional competences (Carmeli, 2003; Boyatzis, 2006). This is particularly true in SMEs, where the decision-maker and the employees establish a direct relationship. Thus, we postulate:

- H2. The HR decision-maker's EI has a positive effect on SME performance in terms of the generation of valuable HR (H2a) and financial outcomes (H2b).

2.3.2 The mediator effect of high-performance human resources practices on the relationship between emotional intelligence and firm performance. The relationships discussed above may be better described through a mediation model. The HR decision-makers' EI could have both a direct and an indirect effect on firm performance. The indirect effect would be due to the influence of the HR decision-makers' EI on the decision to adopt a system of high-performance HR practices, which creates a particular working climate that nurtures employees and encourages them to give their best, thereby improving business performance (Goleman, 2000). To establish the hypothesis of mediation we first need to look at the relationship between the use of a system of high-performance HR practices and firm performance.

Scholars have suggested that using certain HRM practices can improve SME performance and sustain competitiveness (Patel and Cardon, 2010; Razouk, 2011; Sheehan, 2014). Specifically, HPWSs have been found to raise labour productivity in SMEs and reduce voluntary turnover (Faems *et al.*, 2005; Sels *et al.*, 2006), and have been associated with financial performance and profitability (Huselid, 1995; Sels *et al.*, 2006; Mazzei *et al.*, 2016).

A substantial amount of literature explores how a system of high-performance HR practices affects this performance (Den Hartog *et al.*, 2013; Kehoe and Wright, 2013; Liu *et al.*, 2007). Specifically, high-performance practices are found to build a highly skilled, engaged, and committed workforce (Tregaskis *et al.*, 2013). Therefore, the influence of the HR practices on firm performance exists because, at the individual level, such practices improve employees' ability to carry out their functions in the firm and their motivation to make an effort, while also giving them the opportunity to express their talent in the workplace (Ogbonnaya and Valzade, 2018). This is the AMO framework (Appelbaum *et al.*, 2000).

As stated above, models that explore the link between HRM and performance (Becker *et al.*, 1997; Guest, 1997; Appelbaum *et al.*, 2000) distinguish between proximal outcomes such as employee attitudes and behaviour, and employee turnover and absence levels, and distal outcomes such as sales and financial performance (Guest and Conway, 2011). In terms of the proximal outcomes of HRM, there is a growing recognition of the need to consider employee outcomes (e.g. satisfaction with working conditions, employee behaviour) linked to HR practices (Kehoe and Wright, 2013). Research states that high-performance HR practices foster valuable and unique contributions from workers (Guthrie, 2001), leading to a fall in absenteeism rates and employee turnover (Jensen, Patel and Messersmith, 2013) because this system of practices stimulates their level of work engagement (Ogbonnaya and Valizade, 2018; Bal *et al.*, 2013). That is so because employees tend to be more satisfied with their jobs when HPWSs are available (Bashir *et al.*, 2011; Ogbonnaya and Valizade, 2018; Topcic *et al.*, 2016). This system of HR practices will create conditions that encourage employees to share common goals and to direct their effort towards achieving these goals. Thus, high-performance HR practices provide discretionary benefits to employees in the form of, for example, the opportunity to develop new skills, or the autonomy to have an influence over their own work. Employees reciprocate by engaging in discretionary efforts beyond the confines of a narrow job description (Tregaskis *et al.*, 2013) because they can perceive how much the organisation is concerned with their welfare (Ogbonnaya and Valizade, 2018). In the long term, future employees of the firm could be self-selected because they might be attracted by the enhanced employer image in terms of HRM. This self-selection will lead to a greater degree of matching between the job environment of the firm and employees' preferences in terms of continued training, or flexibility at work (Topcic *et al.*, 2016), so showing attitudes and behaviours that strengthen individual, firm, and organisational performance.

Focusing on distal outcomes, previous literature has shown that the use of ability-enhancing practices, such as formal selection process and comprehensive training programmes, can lead to enhanced financial performance and employee productivity (Huselid, 1995; Singh, 2004). In addition, motivation-enhancing practices are more likely to lead to enhanced productivity (Huselid, 1995) and financial performance (Singh, 2004). Finally, opportunity-enhancing practices, such as employee participatory programmes and extensive communication and feedback activities, are found to enhance performance (Huselid, 1995). These patterns are confirmed in an important meta-analysis (Jiang, Hu and Baer, 2012) and lead us to conclude that HPWSs conceptualised through the AMO framework will have a very important influence on firm performance in term of financial outcomes (Obeidat *et al.*, 2016). Thus, HPWSs foster a 'win-win' situation in which both employees and the organisation are beneficiaries (Ogbonnaya and Valizade, 2018). The positive influence of HPWSs on organisational performance indicates that organisational investment in HR practices to acquire, maintain and develop highly qualified employees has the potential to generate financial gains. These findings clearly show the role of HPWSs in enhancing company benefits (Obeidat *et al.*, 2016). When the firm employs and retains individuals with competitively valuable qualities who are oriented towards strategic objectives (Kehoe and Wright, 2013; Wright and Snell, 1998), its performance improves, including its financial performance (Dyer and Reeves, 1995; Kehoe and Wright, 2013). This expected high level of performance leads HR decision-makers to have more confidence in focussing on policies and practices that develop employees' AMO when considering HR development (Obeidat *et al.*, 2016).

So, we state:

- H3.* The use of a system of high-performance HR practices has a positive effect on SME performance in terms of the generation of valuable HR (*H3a*) and financial outcomes (*H3b*).

Considering the relationships discussed above, the HR decision-maker's EI may have also an indirect effect on firm performance (generation of valuable HR and financial outcomes) by determining the use of a system of high-performance HR practices that has been shown to be a key determinant of organisational success and performance. Cherniss (2001) states that managers' EI influences organisational effectiveness in HR aspects such as employee recruitment and retention, development of talent, and teamwork, among other things. In other words, EI-based staffing, training or performance management can add economic value (Spencer, 2001). The development of human capital is crucial for economic survival and the intelligent use of emotions "creates an environment that enables the opportunity for social capital to develop, thus enhancing organisational performance" (Brooks and Nafukho, 2006, p. 125; in Farnia and Nafukho, 2016). As the low number of employees in SMEs makes each individual especially relevant for firms' daily operations and prospects of growth, managers with high EI will understand that the adoption of such HR practices may bestow upon the firm employees with superior abilities to perform, with desire (or motivation) to perform, and with opportunities to do so. Therefore, these HR practices constitute a main channel through which leaders influence the skills, attitudes and behaviour of their employees in their work and hence achieve the objectives – economic or otherwise – of the firm. Thus, for example, owners/managers with high achievement orientation and initiative as indicators of their EI will be interested in innovation, proactivity and growth of the SME, and will consider the adoption of HR enhancing-ability practices as a way of reaching skilled human capital that contributes to the growth and success of the firm. Similarly, with the aim of getting a higher level of commitment from employees to the SME's objectives, which in turn leads to superior firm performance, managers with high levels of competence in relationship management will support the inclusion of opportunity practices as part of the high-performance HR practices in the SME. Therefore, our last hypothesis posits:

- H4.* The use of a system of high-performance HR practices is a mediator variable in the relationship between the HR decision-maker's EI and SME performance in terms of the generation of valuable HR (*H4a*) and financial outcomes (*H4b*).

3. Methodology

3.1 Population and sample

The population in this study includes managers of SMEs responsible for decision-making in the HR area, and so for the system of HR practices being used in the firm at the time of the study. We considered SMEs located in Spain (Canary Islands) that operate in different industrial and service sectors from the Spanish business classification (CNAE), but excluding public administration, education, agriculture, fishing and hunting. For the purposes of the research, we follow the European Commission (2003) and define SMEs as companies with 10 to 249 employees, so using only the criterion of number of employees, as have other authors (Wu *et al.*, 2014). We left out microenterprises. SMEs were identified from the Iberian Balance Sheet Analysis System (SABI) database, which is published by Bureau van Dijk. According to SABI database, the population was 5,538 active SMEs. Due to the

financial limitations of the study, we stated as an objective a sample error of 5.0 per cent, thus accepting a confidence level of 95.5 per cent; the defined sample size was 193 firms.

The firms were contacted by phone to identify and ask for the collaboration of decision-makers in the HR area. If the person agreed to participate in the study, and according to participants' preferences, researchers visited the SMEs and interviewed the decision-makers in their office (61.9 per cent), by phone (25.6 per cent), or sent the questionnaire by email (12.5 per cent). We got a valid sample of 157 HR decision-makers. Accordingly, the real sample error was eventually 5.56 per cent.

The sample includes firms that are small (46.5 per cent) and medium-sized (53.5 per cent), on average between 16 and 25 years old, and with 75 per cent or more of their workforce on permanent contracts. It includes industrial and services SMEs, and the proportion of SMEs by sector in total population is similar to that in the sample: industry 16.6 per cent (11.29 per cent in total population); building 18.4 per cent (19.18 per cent in total population); services 23.6 per cent (27.30 per cent in total population); trade 33.1 per cent (30.55 per cent in total population); hotel and catering 8.3 per cent (11.68 per cent in total population).

Concerning the socio-demographic profile of the respondents, the majority were male (61.1 per cent), between 31 and 50 years old, and with a university education (54 per cent), particularly in business administration (24.8 per cent). A small proportion had a Master's in HR (4.5 per cent).

3.2 Data collection: measures

The measures of the variables included in the self-administered questionnaire that allowed us to gather the information for this research are defined as follows:

3.2.1 Emotional intelligence. We used the People Index measurement instrument and the self-report method of evaluation, suited to mixed models (Harms and Credé, 2010) and used in HR research (Kim and Liu, 2017). The People Index is designed to analyse managers' emotional competences, has a suitable size (74 items) and is easy to understand. It offers a global framework including 17 theoretical competences distributed across three dimensions: personal behaviour, interpersonal relationships, and communication (Nowack, 2005). In our research, those competences were measured on a 7-point Likert scale and showed a global reliability of 0.944 according to the Cronbach Alpha. To obtain a global measure of the HR decision-makers' EI, we carried out a non-hierarchical cluster analysis with the k-means algorithm. The pseudo-F statistic (Calinski and Harabasz, 1974), which identifies the optimal number of groups, confirms that the solution that is most parsimonious and that offers the greatest explanatory power is obtained with two groups (pseudo-F = 34.95). This allows us to differentiate between individuals with a low EI (48 individuals; 34 per cent of the sample) and with a high EI (91 individuals; 66 per cent). This method allowed us to work in line with McClelland (1998), who found that firms whose leaders have a critical mass of strengths in EI competences outperformed yearly revenue targets by a margin of 15 to 20 per cent (Goleman, 2001). With respect to what are the core EI competences of a manager, the ones that have received the most extensive validation refer to how managers identify their own emotions, the emotions that other people – subordinates, for example – feel or express, and the reasons why they or their subordinates feel the emotions that they feel (Côté, 2017). These competences are properly included along the 17 theoretical competences of the People Index instrument. Therefore, the cluster of participants in our study with a high EI will probably also be high on these three core macro-emotional competences proposed by the literature.

3.2.2 High-performance human resources practices. Considering important scales in the field (Arthur, 1994; Delery and Doty, 1996; Rogg et al., 2001; Sels et al., 2006), we selected different items to measure a system of 10 high-performance HR practices in the SME that

reflect the three dimensions of the AMO model (ability-enhancing practices, motivation-enhancing practices and opportunity-enhancing practices). This scale was pre-tested by three SME managers and four HRM experts, which confirmed its content validity. The final 7-point Likert scale, integrated by 32 items, has a high level of reliability (Cronbach alpha = 0.932). We carried out a cluster analysis to obtain a global measure of the level of use of the high-performance HR practices. The pseudo-F value for two groups (43.72) allow us to differentiate between firms with a low level of use of those HR practices (65 firms; 46 per cent) and firms with a high level (77 firms; 54 per cent).

3.2.3 Small and medium-sized enterprises performance. We considered the generation of valuable HR and the financial results (ROA) as proximal and distal indicators of performance, respectively. Below we explain how they were measured in this study.

3.2.4 Generation of valuable human resources. We used a new seven-point Likert scale with 8 items, 7 measuring the proper use of employee talent – e.g. training currently offered improves employee performance, evaluation gives the employees a stimulus, and guidelines for performing better in the workplace – and one behavioural item measuring absenteeism.

Among the approaches to the construction of a new scale, [Friedenberg \(1995\)](#) identified the following: logical content (or rational), theoretical, and empirical. The empirical approach is considered the more rigorous one because it uses statistical analyses of item responses – factor analysis methods – as the basis for item selection instead of the scale developer's judgments ([Worthington and Whittaker, 2006](#)). Therefore, in this research, we have chosen this empirical approach. Research recommends a sequence of steps to be taken prior to using factor-analytic techniques. We have followed [DeVellis \(2003\)](#) proposal of steps in constructing new instruments:

- determine clearly what you want to measure;
- generate an item pool;
- determine the format of the measure;
- have experts review the initial item pool;
- consider inclusion of validation items;
- administer items to a sample;
- evaluate the items; and
- optimise scale length.

This proposal has been recently tested by [Carpenter \(2018\)](#).

First, as shown in the theoretical section of this paper, we have provided a conceptual foundation of the proximal outcomes of an organisation in terms of the generation of valuable HR by going through an exhaustive theoretical and empirical literature review on the topic. Secondly, we have generated a pool of items that clearly represent the construct related to valuable HR following the recommendations of the literature, which advises researchers to write items so that they are clear, concise, readable, distinct and reflect the scale's purpose. To generate these items, we referred to seminal literature about proximal outcomes from HRM. Thus, results derived from HR practices in terms of attracting and retaining more suitable employees, generating positive attitudes of engagement, or obtaining employee commitment, cooperation and a better quality of decision-making and performance were chosen based on relevant research that emphasises the satisfaction of employees managed by a high-performance HR system ([Carmeli, 2003](#); [Cherniss, 2000](#); [Sy et al., 2006](#)). More recent findings in this field, such as those of [Bashir et al. \(2011\)](#), [Jensen et al. \(2013\)](#), [Tregaskis et al. \(2013\)](#), [Obeidat et al. \(2016\)](#) or [Ogbonnaya and Valizade](#)

(2018), continue to confirm the convenience of measuring the generation of valuable HR through items related to commitment, satisfaction, engagement, and reduced absenteeism and turnover of employees as a result of the adoption of high-performance HR practices.

Thirdly, we determined the most convenient format for measuring this construct by choosing a 7-point Likert scale to know the HR decision-makers' opinions about the generation of valuable HR in their firms. We decided to include these subjective indicators of proximal outcomes for the firm because although there has been some debate about the validity of these indicators of firm performance (Guest and Conway, 2011), relevant research such as Wall *et al.*'s (2004) or Delaney and Huselid's (1996) argued that they have moderate-to-high validity because they are rating potentially objective and verifiable information. Forth and McNabb (2008), based on careful analysis of a large sample of workplaces, offered qualified support for the view that both types of performance measure – objective and subjective – produce similar results when the determinants of workplace performance are analysed. Fourthly, we asked for an expert review from three SME managers and four HRM experts. Their feedback was considered in the formulation of the final research instrument since they gave their opinion about the extent to which the items reflected the content domain – content validity – and about their clarity, conciseness, grammar, readability, or redundancy.

Fifthly, once the items were administered to the sample, an initial validation of the instrument was carried out involving an empirical appraisal of the underlying factor structure that, in the end, also allowed us to optimise scale length. First, construct validity was verified through the convergent validity of the scale and by analysing the components loadings. To be precise, although, according to literature on social science, items that have a factor loading of about 0.5 on a particular factor may be considered valid (Hair *et al.*, 2009) and so should be taken into account when trying to name the factor (Norris *et al.*, 2014), we only accepted items with factor loads higher than 0.6. Specifically, a principal components factor analysis with varimax rotation confirms the homogeneity of the scale (KMO = 0.732; $\chi^2 = 382.829^{***}$; variance explained = 68.8 per cent). We identify three components: development and use of employee talent for decision-making (variance explained = 31.6 per cent), development and use of employee talent for job performance (variance explained = 23.0 per cent), and employee attitude and behaviour (variance explained = 14.3 per cent). All the components loadings show scores that range from 0.613 (i.e. Teamwork has helped to improve the way work is done in Factor 1) to 0.900 (i.e. Absenteeism rate – number of hours of absence due to unjustified illnesses, etc., in relation to the number of working hours – in Factor 3). Thus, the construct validity is made clear, given that the principal component factor analysis made it possible to summarise and synthesise the observed phenomenon. Second, discriminant validity is corroborated as the correlation between each pair of factors obtained in this analysis has a correlation of 0.000, guaranteeing concepts of variance. Finally, to assess the internal reliability of items in this scale, the Cronbach's alpha coefficient was calculated. The overall reliability of items is satisfactory ($\alpha = 0.736$), as are the individual reliabilities of the factors, since their Cronbach alphas range from 0.657 to 0.813.

After checking validity and reliability of the Generation of valuable HR scale, and to obtain a global measure of this proximal result, we carried out a cluster analysis. The solution with the greatest explanatory power, according to the pseudo-F (53.70), allows us to differentiate between firms with a low level of generation of valuable HR according to items in the three identified factors (69 firms, 44 per cent of the sample) and firms with a high level of this result (87, 56 per cent).

3.2.5 Financial performance. To measure financial performance, we chose an objective measure: return on assets (ROA). This indicator is more stable over time than other financial

measures (Hill *et al.*, 1992) and is well accepted in the management literature (Brown *et al.*, 2003; Delery and Doty, 1996). We used the SABI database (2010), which holds accounting data on Spanish firms, extracting the ROA corresponding to the end of fiscal year 2008.

3.2.6 Control variables. We chose variables relating to the HR decision-maker – age (Carmeli, 2003) – and to the firm – firm age (Geary, 1999) and sector (Dummy: 1 = industry; 0 = services) (Hunter, 2000) – because of their potential effect on the use of HR practices and on SME performance. Little support has been found about the influence of the proprietary control on the use of HPWSs in SMEs (Ram and Edwards, 2003; Wu *et al.*, 2014). Thus, it was not considered as a control variable in this research.

The fieldwork was carried out in 2008, so potential influences of Spain's financial and economic crisis on the results of this study can be disregarded.

3.3 Data analysis

With the aim of testing our hypotheses, in the estimation of the binary dependent variables – i.e. low/high level of use of high-performance HR practices, low/high generation of valuable HR –, we used binomial logistic regression. For the quantitative dependent variable – ROA –, we used multiple linear regression analysis. The analyses were performed using IBM SPSS Statistics version 22.0.

4. Results

Table I reports the correlations between the variables in this study. Tables II to IV report the results of the binary logistic regressions and the multiple regressions carried out. All the goodness-of-fit indicators of the binary logistic and linear models confirm the robustness of the estimations.

To test the first hypothesis, we took the variable that distinguishes between HR decision-makers with low or high EI and tested the influence of this variable on the use of high-performance HR practices in the SME (**Table II**, Model 1). Results show that EI exerts a significant, positive effect on the use of a system of high-performance HR practices. This result provides support for *H1*.

To test the second hypothesis, we carried out two regressions. The binary logistic analysis tested the influence of the HR decision-maker's EI on the firm's performance in terms of the generation of valuable HR (**Table II**, Model 2). Results show that this effect is significant and positive. In turn, the linear regression confirms that the HR decision-maker's EI also has a significant, positive effect on the firm's financial performance (**Table II**, Model 3). Thus, *H2a* and *H2b* are supported.

The third hypothesis concerns the influence of the system of high-performance HR practices on firm performance. Results indicate that this influence is significant and positive

	1	2	3	4	5	6	7
1. HR decision-maker's EI	1						
2. System of high-performance HR	0.359***	1					
3. Generation of valuable HR	0.283**	0.788***	1				
4. ROA	0.076	0.079	0.083	1			
5. Decision-maker's age	-0.141 [†]	-0.090	-0.127	-0.069	1		
6. Firm age	-0.115	-0.256**	-0.197*	-0.090	0.175*	1	
7. Sector	0.025	-0.005	-0.033	-0.043	-0.006	0.316***	1

Notes: [†] $p < 0.1$; * $p < 0.05$; ** $p < 0.01$; *** $p < 0.001$

Table I.
Analysis of correlations

Table II.
Effect of HR
decision-maker's EI
on the use of high-
performance HR
system and firm
performance

Antecedent variables	Model 1 High-performance HR system		Model 2 Generation of valuable HR		Model 3 Financial performance (ROA)	
	β	Wald	β	Wald	β	VIF
Constant	-0.623	0.218	-0.409	0.115	—	—
<i>Control variables</i>						
Decision-maker's age	0.007	0.700	-0.003	0.117	0.131	1.049
Firm age	-0.538**	8.434	-0.321 [†]	3.853	-0.146 [†]	1.162
Sector	0.407	0.430	-0.333	0.004	0.200*	1.119
<i>Main effect</i>						
HR decision-maker's EI	1.578***	14.038	1.162**	9.238	0.144 [†]	1.027
Valid observations	<i>N</i>	127	<i>N</i>	138	<i>N</i>	157
Variance explained	<i>Nagelkerke R²</i>	24.8%	<i>Nagelkerke R²</i>	14.5%	<i>Adjusted R²</i>	5.0%
Goodness-of-fit indicators	<i>X²</i>	25.551***	<i>X²</i>	15.751**	<i>F</i>	3.072*
	Hosmer-Lemeshow test (sig.)	0.412	Hosmer-Lemeshow test (sig.)	0.669	<i>Condition index</i>	16.420
	Global predictive efficacy	71.7%	Global predictive efficacy	65.9%		
	Sensitivity	86.1%	Sensitivity	80.2%		

Notes: [†] $p < 0.1$; * $p < 0.05$; ** $p < 0.01$; *** $p < 0.001$

when considering the generation of valuable HR (Table III, Model 4) and the firm's financial performance (Table III, Model 5). Thus, *H3a* and *H3b* are supported.

H4 postulates that the HR decision-maker's EI influences the firm's performance via the use of a system of high-performance HR practices. With regard to the generation of valuable HR (*H4a*), results show that the system of HR practices has a significant, positive effect on this proximal performance, while the HR decision-maker's EI loses its significant, positive effect on this variable in the presence of the system of high-performance HR practices (Table IV, Model 6). Therefore, the HR decision-maker's EI does not have a direct effect on the generation of valuable HR, but an indirect effect by the use of a system of high-performance HR practices. We conclude the same about the effect of the HR decision-maker's EI on the firm's financial performance (Table IV, Model 7) because the direct effect of the HR decision-maker's EI on ROA disappears in the presence of the system of high-performance HR practices. These results provide support for *H4a* and *H4b*.

5. Discussion and conclusions

This research has shown the effect of the HR decision-maker's EI on firm performance in terms of the generation of valuable HR and financial outcomes – that is, on both proximal and distal outcomes. Within this influence, the use of a system of high-performance HR practices is the channel through which the HR decision-maker's EI translates into superior firm performance. These results are in line with Côté's (2017) review which suggests that managers with emotional capabilities might develop better relationships with their employees, influence them more effectively, and have better performing employees and teams that will likely lead to superior financial performance.

5.1 Theoretical implications

The results confirm that the workplace is not exclusively managed on a cognitive basis: emotions are important and play a key role in the life of the organisation (Anand and Udayasuriyan, 2010). EI skills are essential for managers. Managers need to learn how to lead employees effectively and efficiently. Failing to do so causes an

Antecedent variables	Model 4 Generation of valuable HR		Model 5 Financial performance (ROA)	
	β	Wald	β	VIF
Constant	-4.079**	5.464		
<i>Control variables</i>				
Decision-maker's age	-0.094**	6.079	0.123	1.037
Firm age	0.103	0.164	-0.100	1.227
Sector	-0.120	0.018	0.190*	1.124
<i>Main effect</i>				
System of high-performance HR	4.855***	45.817	0.228**	1.073
Valid observations	<i>N</i>	142	<i>N</i>	157
Variance explained	<i>Nagelkerke R²</i>	71.0%	<i>Adjusted R²</i>	7.9%
	<i>X²</i>	107.281***	<i>F</i>	4.335**
	Hosmer-Lemeshow test (sig.)	0.324		
	Global predictive efficacy	89.4%		
Goodness of fit of model	Sensitivity	94.9%	<i>Condition index</i>	16.076

Notes: * $p < 0.05$; ** $p < 0.01$; *** $p < 0.001$

Table III.
Effect of high-performance HR system on firm performance

Table IV.
Effect of HR decision-maker's EI and high-performance HR system on firm performance

Antecedent variables	Model 6 Generation of valuable HR		Model 7 Financial performance (ROA)	
	β	Wald	β	VIF
Constant	-4.575*	5.051		
<i>Control variables</i>				
Decision-maker's age	-0.070 [†]	3.060	0.132 [†]	1.049
Firm age	0.089	0.108	-0.099	1.227
Sector	-0.212	0.054	0.187*	1.124
<i>Mediator effect</i>				
HR decision-maker's EI	-0.001	0.000	0.084	1.132
System of high-performance HR	4.650***	39.083	0.201*	1.183
Valid observations	<i>N</i>	127	<i>N</i>	157
Variance explained	<i>Nagelkerke R²</i>	69.5%	<i>Adjusted R²</i>	8.0%
	<i>X²</i>	92.354***	<i>F</i>	3.699**
Goodness of fit of model	Hosmer-Lemeshow test (sig.)	0.641	<i>Condition index</i>	19.207
	Global predictive efficacy	89.8%		
	Sensitivity	94.6%		

Notes: [†] $p < 0.1$; * $p < 0.05$; ** $p < 0.01$; *** $p < 0.001$

organisation's image and financial performance to suffer (Al-Bahrani, 2017). Therefore, this work suggests that firms should pay close attention to EI as an important competence of managers for favouring superior firm performance. According to our findings, firms can achieve this superior performance by using a system of high-performance HR practices, and managers with a high EI are more likely to use such a system, as Tregaskis *et al.* (2013) also suggest. This occurs because, as suggested by Fernández-Berrocal *et al.* (2014), an HR decision-maker with high EI will tend to focus on the long-term interest of employees. For example, they may be willing to create motivating working conditions or offer employees opportunities to develop. Consequently, HR decision-makers with high EI are responsive and visionary when making decisions conducive to capturing, developing and motivating talent in their firms (Sayegh *et al.*, 2004). However, some academics defend the idea that beyond the higher level of productivity resulting from a HPWSs (Huselid, 1995), a detrimental impact on workers exists because of the intensification of work (Ramsay *et al.*, 2000) – this might generate anxiety, role overload, burnout, and, in turn, higher turnover intentions (Jensen *et al.*, 2013; Kroon *et al.*, 2009). In opposition to such a perspective, we maintain that when HPWSs are built on managers' EI, this dark side of the HPWSs is mitigated and positive individual outcomes are obtained.

SMEs are an important part of the business fabric in the majority of developed economies, so the theoretical implications of this study are significant, offering a new framework from which to boost sustainable competitive advantage, so helping SMEs to survive and to create value in the territories where they operate. Firstly, this study contributes towards clearing up doubts in relation to the adoption of high-performance HR practices in SMEs, showing that SMEs are a heterogeneous group in terms of HRM. Secondly, the adoption of those practices is shown to be more likely when the owner/manager of the SME is more emotionally intelligent. Finally, these results corroborate the

assertion that the EI of the HR decision-maker in SMEs contributes to their success (measured by the generation of both valuable HR and of financial returns). These theoretical findings have practical implications that are discussed below.

5.2 Managerial and practical implications

Considering the theoretical findings exposed above, the HR decision-maker's EI and the system of high-performance HR practices are variables that should be considered if a firm is to achieve superior performance. They contribute towards creating value but they are not available to all organisations: 34 per cent of the HR decision-makers in our sample have a significant low level of EI and 46 per cent of the SMEs make a significantly low level of use of high-performance HR practices. This helps to account for the reported heterogeneity of HRM in these firms (Kroon *et al.*, 2013). Thus, SMEs and HR professionals should pay close attention to these variables if they want to generate a sustainable competitive advantage. For example, when hiring HR managers, organisations would need to implement selection methods that are able to identify individuals with high EI, as these HR professionals are required to deal with substantial amounts of emotion-laden work (Santos *et al.*, 2015) to generate valuable HR in the SMEs and increase financial outcomes. In this respect, the use of measurement tools that allow the SME to test the EI of candidates for the job becomes suitable. Moreover, they could encourage HR decision-makers to enrol in training programmes for EI development – techniques for improving individual and organisational EI – as a core competence for seeking competitive advantage in highly competitive environments (Alston *et al.*, 2010; Chrusciel, 2006). We believe that firms adopting programmes to develop EI will observe improvements in employee and firm performance. Moreover, at the educational level, it would be recommendable to complete education and training programmes with contents aimed at boosting EI.

HR professionals could benefit from these findings that confirm the importance of the HRM for the competitiveness and success of SMEs and the relevance of their EI in boosting SMEs' success through HRM. When HR decision-makers are viewed as strategic partners, they will be given the opportunity to perform their roles in a manner that allows reasonable latitude for expressing emotion and positive discretionary behaviours (Santos *et al.*, 2015). In this way, it must be ensured that HR decision-makers are given the discretion or autonomy they need to reduce emotional dissonance at work by exceeding organisational requirements and acting in a manner that conforms to their own experienced emotions (Abraham, 1998).

These findings are likely to be well received by decision-makers in SMEs since they are seeking new information about HRM and its effectiveness (Heneman, *et al.*, 2000). These results provide evidence to managers about the importance of the early adoption of HR-enhancing practices as a decisive instrument that allows the SME to generate both valuable HR and financial returns.

5.3 Limitations and future research

This research suffers from a number of limitations that prevent some generalisations but, if considered, may give rise to further studies. First, the geographical context of study is Spain, which limits the extrapolation of the results to other populations of SMEs. We would therefore recommend replicating the model in other countries. Second, and with regard to the methodology, we measure EI using the self-report method. It would be interesting to triangulate data by using methods of 360° or 180° evaluation. Moreover, and regarding the measurement of HR practices, we would urge researchers to investigate the employees' perceptions of the practices applied to them. Third, this work is cross-sectional in nature, meaning we cannot make inferences about how firm performance will progress over time if the

HR decision-maker with a high/low EI stays in their post, or their EI increases over time. For example, with a high EI, does superior performance remain stable or increase? How does a change in HR manager affect firm performance? Finally, although this work does not consider large firms, the EI of managers at different levels in the hierarchy of these firms is also likely to be important. For example, the EI of middle managers may condition the management of teams and consequently affect performance at the individual, group and organisational levels. In view of this, we would encourage more research into the effect of EI on management and leadership in the context of large firms. For example, because in large firms the person who makes decisions on HR management and designs a given system of HR practices is usually different from those managers and supervisors at different levels in the hierarchy that participate in the implementation of such practices, the EI of this last line of managers can moderate the impact of the system of HR practices on the firm's performance. Therefore, future research may benefit from exploring such moderating effects.

Future research might also be carried out in line with the literature that recognises that culture influences how individuals express and regulate their emotions (Santos *et al.*, 2015; Shipper *et al.*, 2003). Previous research states that cultures high on individualism and affective autonomy are associated with less need to regulate emotions and are thus more likely to express their emotions compared to cultures high on collectivism, which tend to suppress their emotions to take time to consider socially acceptable responses before responding to situations (Matsumoto *et al.*, 2008). Therefore, HR professionals in different cultural contexts may not experience the same type and intensity of emotion-laden interactions (Santos *et al.*, 2015), even having to hide their true emotions so as not to foster disharmony in the organisation when they work in collectivistic cultures (Long and Ismail, 2011). Therefore, we recommend replicating this study in different cultural contexts – in terms of individualism/collectivism – with the aim of discovering whether EI has such an important influence on both the adoption of high-performance HR practices and firm performance.

Note

1. According to the Commission of The European Communities, the category of SMEs “is made up of enterprises which employ fewer than 250 persons and which have an annual turnover not exceeding EUR 50 million, and/or an annual balance sheet total not exceeding EUR 43 million » (Official Journal of the European Union, 20.5.2003; article 2, pp. L 124/39). In addition, and within the SME category, a microenterprise is defined as an enterprise which employs fewer than 10 persons and whose annual turnover and/or annual balance sheet total does not exceed €2 m.

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