

MEDIATION OF PSYCHOLOGICAL CAPITAL ON HUMAN RESOURCE MANAGEMENT PRACTICES AND FIRM FINANCIAL PERFORMANCE

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ABSTRACT

The purpose of the study is to examine the mediating effect of psychological capital on the relationship between human resource management practices and financial performance in small businesses in South Africa. A cross-sectional survey design was utilised to collect data from a sample of 401 small businesses operating within the Eastern Cape Province of South Africa. The findings show that human resource management practices, psychological capital and financial performance are positively correlated to one another. Moreover, through hierarchical regression analyses, psychological capital was found to partially mediate the relationship between human resource management practices and financial performance. Based on the findings of the research, small business owners/managers can use the study results to develop strategies and interventions that can enable their firms to thrive.

Keywords: Psychological capital, human resource management practices, financial performance, small business, South Africa.

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1. INTRODUCTION

Small businesses are becoming an increasingly influential factor behind economic growth across the world (Conradie & Lamprecht, 2018) and this is also noted in South Africa (Chimucheka et al., 2019). The potential and intent are for these small businesses to become global companies, hence the need to both develop and support this sector (Meyer & Peng, 2016; Pereira & Malik, 2017). Bearing this in mind, countries on the African continent such as South Africa have even dedicated the establishment of a government ministry to small business development. Further, there is acknowledgement of the important role that small business development can play in addressing socio-economic challenges such as the high unemployment and poverty (Statistics South Africa, 2019). Despite such noted efforts, small businesses still face a myriad of challenges. Govender (2020) has noted that potentially 50% of small businesses in South Africa fail within 24 months of their establishment. This raises questions around how small business growth and sustainability especially in emerging economies like South Africa (Shava & Chinyamurindi, 2022).

There is noted calls within emerging economies like South Africa for the need to pay attention to the development of small businesses (Bushe, 2019). In South Africa using the National Small Business Act of 2003 and 2004 the definition of a small business is proposed. Table 1 illustrates this classification.

Table 1: SMEs Definitions According to the National Small Business Act (2003)

Enterprise Size	Number of Employees	Annual Turnover (Rand)	Gross Assets, Excluding, Fixed Property
Small	Fewer than 50.	Less than R2 Million to R25 Million depending on the industry.	Less than R2 Million to R4.5 Million depending on the industry.
Medium	Fewer than 100 to 200 depending on the industry.	Less than R4 Million to R50 Million depending on the industry.	Less than R2 Million to R18 Million depending on the industry.
Very small	Fewer than 10 to 20 depending on the industry.	Less than R200 000 to R500 000 depending on the industry.	Less than R150 000 to R500 000 depending on the industry.
Micro	Fewer than 5.	Less than R150 000.	Less than R100 000.

Source: National Small Business Act (2003).

Small businesses in South Africa are positioned as important job creators especially in a country with a high unemployment rate (Nieuwenhuizen, 2019). Despite the noted importance of small businesses in countries like South Africa as part of the transformation agenda (Maziriri & Chivandi, 2020), there is noted concern around their poor performance (Bvuma & Marnewick, 2020; Mtshali & Chinyamurindi, 2021). This has led to calls to understand not only how to make small businesses perform better (Jevwegaga et al., 2018) but also be sustainable (Bag et al., 2018).

This positions, as suggested by the literature, the need to pay attention to the role of a range of factors. First, micro-level factors and their emphasis both on influencing management practices (Mohammad Mosadeghrad, 2014; Stewart & Hitt, 2012) and on the achievement of business excellence and success (Georgiev & Ohtaki, 2019). Second, there is also need to consider the role of meso-dynamics, manifest through the range of business functions available to a firm and argued to be important towards firm success including competitiveness (Duarte, 2017; Elhaddad et al.,

2018). This sets an important agenda especially given the importance of entrepreneurial pursuits in emerging economies like South Africa (Napwanya & Chinyamurindi, 2021).

2. LITERATURE REVIEW

Our study, interdisciplinary as it is, tends to consider two main theoretical postulations informed by the constructs under study. First, considering psychological capital, we are informed by the branch of psychology referred to as positive psychology. This is the “science of positive subjective experience, positive individual traits and positive institutions” (Seligman & Csikszentmihalyi, 2000, p.5). Within the field of organisational behaviour, the concept of positive psychology is viewed as crucial in enhancing understanding of those human resource factors that exist as strengths (Bouzari & Karatepe, 2018) in the formation of psychological capacities for effective improvement (Luthans, 2002). In essence, this can be useful in understanding those factors that assist individuals and organisations to flourish (Cameron & Caza, 2004). Further, given the quest to develop entrepreneurial careers (Ndovela & Chinyamurindi, 2021), the link to psychological capital may provide useful insights.

Second, given the focus on the activity of human resource management practice, we give focus to the resource-based view (RBV) of the firm (Wernerfelt, 1984). A critical aim that enterprises strive for is around optimum performance (Roxas et al., 2017) and this is a subject of continued inquiry (Hashim et al., 2018). How this is done concerns not only the existence but also utilisation of both physical and non-physical resources in the attainment of organisational goals. One such important resource concerns the human resources of the firm (Barney & Clark, 2007) and their potential for attaining not only competitive advantage for the firm but also economic rent (Cassia et al., 2012).

Our study magnifies the focus on these presented calls within the literature. First, we give focus to psychological capital as important for individuals and within organisations. Psychological capital as argued by Chen and Lim (2012) reflects optimistic attitude towards work and life. This becomes a psychological resource that can be used and a basis for continued motivation for the individual and also the organisation (Zhong, 2007). Further, Luthans and Youssef-Morgan (2017) framed psychological capital as consisting of four dimensions: a) self-efficacy – the confidence to undertake challenging tasks; b) hope – the desire to continue on a sustained path or goal; c) optimism – the positive emotions or motivations associated with good outcomes, and d) resilience – referring to positive changes in view of conflict and failure. There is a view that the need for psychological capital is actuated by the need to develop and promote capital for individual and organisational success (Jafri, 2012; Gupta & Singh, 2014; Ziyae et al., 2015).

Psychological capital has emerged within the literature and in multiple contexts an important construct with theoretical ramifications for firms and practical relevance (Luthans & Youssef-Morgan, 2017). Despite these laudable efforts, calls exist for further interrogation of constructs such as psychological capital (Chen et al., 2019), especially in an often neglected context of the enterprise (Mishra et al., 2019; Moradi et al., 2017). Despite attempts to examine the factors that predict financial performance and human resource management practices (Zoogah, 2018), there is noted limited research that has explored aspects such as those of mediation or moderation effects and positioning the importance of psychological resources (Zhao et al., 2019). This becomes

important given the need to also explore the potential links that may exist between the development of psychological capital and efforts of enhancing how strategic a firm can be (Nolzen, 2018).

Second, we give focus to the role of human resource management practices as an important organisational capability enroute to firms achieving success. These practices consist of a set of internal and consistent policies and services aimed at improving the human capital component of a firm enroute to achieve objectives and goals (Bartram et al., 2015) and firm performance (Cascio, 2018). Human resource management practices consist of activities such as a) performance management, b) reward systems, c) human resource policies and procedures, d) training and development, and e) motivation (Krog & Govender, 2015). These activities have been linked to outcomes such as retention (Razzaq et al., 2017), commitment (Fihla & Chinyamurindi, 2018), job satisfaction (Steyn et al., 2017) and employee performance (Hou et al., 2017). We note with concern the link between human resource management practices and performance has mostly been framed with the outcome being employees focused instead of a broader organisation-wide focus.

Given the noted challenges around small business failure in South Africa (Govender, 2020), the role of enhancing managerial capability is being advocated for as a way to remedy these challenges (Govuzela & Mafini, 2019). Given the innovation-driven context in which firms operate (Zhao et al., 2018), informed by quests for seeking for competitive advantage (Khan & Khan, 2019), there is need to continually position human resource management practices at the centre of this. Potentially, human capital can be useful in the process of value creation (Brix, 2017) albeit complexity that accompanies this and any other functional capability (Peronard & Brix, 2019). There is need to further interrogate how activities such as human resource management practices can potentially relate with other people-related constructs (such as psychological capital in our case) for business performance (Curado, 2018; Seeck & Diehl, 2017). The small business context becomes an interesting fertile ground to ascertain this, considering the scant focus given to it (Muff et al., 2017) but also the wighty undertones placed on it especially within emerging nations such as South Africa (Govuzela & Mafini, 2019; Kanonuhwa et al., 2018).

2.1. The Link Between Human Resource Management Practices and Firm Performance

Studies have started to emerge showing support for the relationship between human resource management practices and a range of organisational outcomes. In South Africa, Fihla and Chinyamurindi (2018) using a sample of public service employees found human resource management practices to be linked to employee commitment. Within a small business context, Machmud and Ahman (2019) also found a link between human resource management factors with how a business performs. Based on the presented literature, Thus it can be expected that:

H1: Human resource management practices are positively associated with the financial performance of the participating small businesses.

2.2. The Link Between Human Resource Management Practices and Psychological Capital

According to Chen and Lim (2012), psychological capital reflects an optimistic attitude towards work and life. The concept of psychological capital has appeared in fields of economics, investment, and sociology to underline individual positive psychological resources and motivational tendency (Luthans et al, 2007). In economics, the concept of psychological capital

stresses the relatively stable psychological characteristics that individuals develop in their early years of life (Diette et al., 2018). Within the discipline of organisational behaviour, the concept of psychological capital emphasises the characteristic of positive psychological capital (PsyCap) as a measurable that can be developed continuously and managed (Zhong, 2007). The academic community has not reached an agreement on what constitutes the dimensions of PsyCap, with the most widely acceptable structure being proposed by Luthans and Youssef-Morgan (2007) to include four dimensions: 1) self-efficacy means having confidence to undertake challenging tasks and try to complete them; 2) hope is composed of conceptual foundations like cravings, pathways and goals; 3) optimism refers to positive emotions or motivations associated with good outcomes; and 4) resilience refers to seeking positive changes in setbacks such as conflicts and failures.

From the positive organisational behaviour framework, psychological capital is open to change and development, because it's considered to be a 'state-like' variable, rather than 'trait-like' (Luthans & Youssef-Morgan, 2017; Youssef et al., 2007). Therefore, psychological capital can be modified through interventions, training programmes, and on-the-job activities. Indeed, interventions to increase psychological capital have been tested in several studies (Dello et al., 2015; Hodges, 2010; Luthans et al., 2008). This makes human resource management practices important in enhancing psychological capital. However, interventions to increase psychological capital may further enhance other outcomes, as it is acknowledged that human resources investments may generate competitive advantages in the organisational realm (Luthans & Youssef-Morgan, 2017). Thus, it can be expected that:

H2: Human resource management practices are positively associated with the PsyCap of the participating small businesses.

2.3. The link between Psychological Capital and Firm Performance

Through a meta-analysis, it was found that psychological capital shows positive links with outcomes such as job satisfaction, attitude, performance, organisational citizenship behaviour and negative links with undesirable behaviours (Kong et al., 2018). From the positive organisational behaviour framework, psychological capital is open to change and development, because it's considered to be a 'state-like' variable, rather than 'trait-like' (Luthans & Youssef-Morgan, 2017). Therefore, psychological capital can be modified through interventions, training programmes, and on-the-job activities. Interventions to increase psychological capital have been tested in several studies (Dello et al., 2015; Hodges, 2010). This makes human resource management practices important in enhancing psychological capital. However, interventions to increase psychological capital may further enhance other outcomes, as it is acknowledged that human resources investments may generate competitive advantages in the organisational realm (Luthans & Youssef-Morgan, 2017). Thus, it can be expected that:

H3: Psychological capital is positively associated with the financial performance of the participating small businesses.

2.4. The Mediation Effect of Psychological Capital on the Relationship Between HRMP and Performance

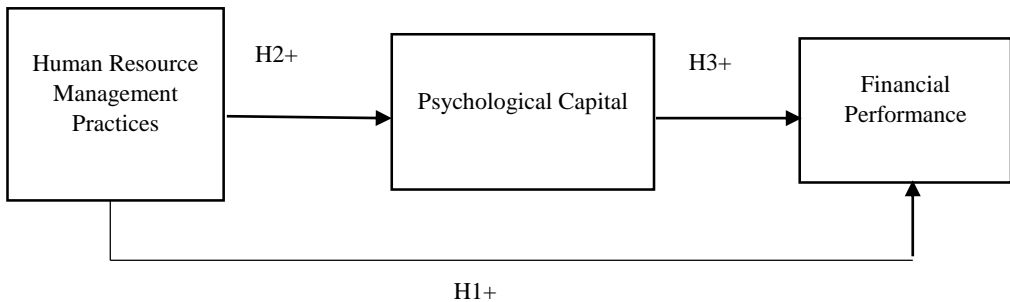
Organisations provide human resources management practice (HRMP) activities that refer to “all those activities associated with the management of people in firms, such as regular training, development programs and participation in decision-making” (Veth et al., 2019). HRMP systems are designed to attract, develop, motivate and retain employees to ensure that an organisation’s human capital contributes to the achievement of organisation objectives (Tan & Nasurdin, 2011). It has been demonstrated that family firms (i.e. SMEs) that adopt progressive HRM practices seem to have better performance (Stewart & Hitt, 2012).

Through HRMPs, organisations attract and train desired skills and abilities, which are motivated through performance evaluation, pay and incentives to participate in decision making through flexible assignments, information sharing, autonomy or teamwork. The development of non-personalised ‘evaluation and incentive compensation’ or the use of an extensive formal selection process (Sanchez-Marin et al., 2017), pay on performance, training and involvement HRM practices (Tsao et al., 2009) have a higher impact on enhancing performance in family firms. The HRMPs create confidence (self-efficacy), which is a component of PsyCap. The benefits of psychological capital seem so important to the success of entrepreneurs as a more traditional form of capital. Results of the study by Machmud and Ahman (2019) indicate that entrepreneurial psychological capital has a positive and significant influence on the performance of SME catering. Based on the presented literature, it can be expected that:

H4: Psychological capital mediates the relationship between human resource management practices and financial performance of participating small businesses.

Based on the presented literature including hypotheses, figure 1 presents the conceptual model.

Figure 1: The Conceptual Model



Source: The authors.

3. METHODOLOGY

3.1. Sample and Procedure

The sample size calculation was informed by the conditions on the ground. We relied on a database provided by a local economic development agency of small businesses. These small businesses were mainly operating within the Buffalo City Metropolitan Municipality. A total of 1843 small businesses were flagged to be registered through the directory of the local economic development agency. Using the Rasoft calculator (Raosoft Incorporated, 2004) on a 5% margin of error, a 95% confidence level and a 50% response distribution – the recommended sample size was 319. Based on the collected data, 461 questionnaires were returned. From this, 401 questionnaires were deemed usable and qualifying for data analysis. A total of 60 questionnaires were not used as these had missing data. The study relied on owners-managers of the small business as respondents to the study. In essence, a total of 401 owner-managers representing their small businesses took part in the study.

The participating small businesses come from various industry categories as shown in Table 2, with construction and agriculture being the most popular. In terms of the overall economic outlay of the Eastern Cape Province of South Africa, construction and agriculture are often popular economic activities as also established in previous research (Gwena & Chinyamurindi, 2018; Gomera et al., 2018). In terms of the age of the small business, the majority of the small businesses (46.4%) had been in operation for 10 years or more at the time of the study. In terms of the firm's capital by the local currency of the Rand, the majority of the firms (36.7%) indicated a capital size of more than R100 000. Concerning employment numbers, the majority of firms indicated employing more than 16 employees (35.9%).

Table 2: Descriptive Statistics of the Sample

Variable	Categories	Frequency	%	Cumulative %
Age of the firm	1-3	32	8.0	8.0
	4-6	74	18.5	26.4
	7-9	109	27.2	53.6
	10 or more years	186	46.4	100.0
	Total	401	100.0	
Firm's capital size by Rand	Less than R9999	48	12.0	12.0
	R10000-R50000	103	25.7	37.7
	R51000-R99000	103	25.7	63.3
	More than 100000	147	36.7	100.0
	Total	401	100.0	
Number of employees	1-5	23	5.7	5.7
	6-10	102	25.4	31.2
	11-15	132	32.9	64.1
	More than 16	144	35.9	100.0
	Total	401	100.0	
The person or unit that develops strategic plans in your firm	The chief Executive officer (CEO)/ Owner	69	17.2	17.2
	A strategic planning committee made up of all	98	24.4	41.6

	or selected members of top management			
	A centralised planning department	112	27.9	69.6
	Top management	105	26.2	95.8
	Different managerial levels participate in firm strategic planning	17	4.2	100.0
	Total	401	100.0	
The appropriate space concerning the time period covered by these strategic plans	Less than one year	65	16.2	16.2
	1-3 years	199	49.6	65.8
	4 or more years	137	34.2	100.0
	Total	401	100.0	
The industry category that best describes your firm	Manufacturing	35	8.7	8.7
	Wholesaling	58	14.5	23.2
	Construction	112	27.9	51.1
	Agriculture	133	33.2	84.3
	Service	63	15.7	100.0
	Total	401	100.0	

Source: Author's calculation from primary data.

Note: n = 401.

3.2. Measures

The mediating variable utilised in this study was psychological capital measured through a 12-item scale (Lorenz et al., 2016). An example item for the psychological capital was "I feel confident in contributing to the discussions about organisational strategy." The independent variable which was human resource management practices was measured in line with previous studies especially in a South African context (Fihla & Chinyamurindi, 2018; Steyn et al., 2017).

An example item for the human resource management practices scale was "we use an extensive screening system to select candidates for open positions." Both the psychological capital scale and the human resources management scale were measured on a five-point Likert scale ranging from strongly disagree 1 to strongly agree 5. Concerning the dependent variable, a measure of financial performance was utilised (Green & Medlin, 2003), adopted from previous studies (Gomera et al., 2018). Indicators of financial performance included objective measures of financial performance, for example revenue measured on a five-point Likert scale ranging between "weaker" 1 and "stronger" 5.

Control variables accounted for included age of the firm measured in the number of years in operation, the firm's capital size measured in amount of Rands in capital, and firm size measured in number of employees. The purpose of the control variables was to measure whether they have a confounding effect on the dependent variable.

The Statistical Package for Social Sciences (SPSS) version 20 was used to perform the statistical analysis. We aimed for both descriptive and inferential statistics and relied on four levels of analysis. First, descriptive analysis was conducted generally, especially against demographic information provided by the respondents. Second, Cronbach alphas were calculated to analyse

issues of reliability amongst the constructs. Third, Pearson product-moment correlations were calculated to determine relationships amongst variables. Finally, and following suggestions from Baron and Kenny (1986), hierarchical regression utilising a causal step approach was applied to analyse a mediating effect.

To have a mediating effect, the independent variable, also called the predictor (human resource management practices), has to be related to the dependent variable (financial performance). Furthermore, the independent variable has to be related to the mediating variable, psychological capital, and the mediating variable must also be related to the dependent variable. Full mediation is given if the impact of the independent variable is not significant when controlling for the mediating variable. Partial mediation is given if the impact of the independent variable is significant, but weaker when controlling for the mediator, than without the mediator (Baron & Kenny, 1986).

A concern regarding cross-sectional, self-reported data is bias because of the common-method variance, which implies that correlations are inflated, owing to the assessment of different constructs at the same time (Lindell & Whitney, 2001). Harman's one-factor test was conducted in order to test for bias (Malhotra et al., 2006). All items were entered into an exploratory factor analysis. The un-rotated factor solution was then analysed regarding a single factor that explains the majority of the variance in the data. No one single factor emerged to account for common method variance, which may be attributed to the method used (Podsakoff & Organ, 1986).

3.3. *Measurement Fit, Validity and Reliability Analyses*

Tests for reliability and validity were conducted. As a generally accepted rule to consider a measure reliable, a Cronbach alpha of 0.70 and higher is generally accepted (Nunnally, 1978). All measures revealed very high reliability with psychological capital (PsyCap) having a Cronbach's alpha of $\alpha = .87$, psychological capital-efficacy (PsyE), showing a Cronbach's alpha of $.76$, psychological capital-hope (PsyH) $\alpha = .71$, psychological capital-resilience (PsyCapR) showing a Cronbach's alpha $= .69$, and psychological capital-optimism (PscO) expressing a Cronbach's alpha of $.65$. The subscales of human resource management practices (HRMP); human resource networking ($\alpha = 0.84$), and human resource acquisition ($\alpha = 0.84$), human resource development ($\alpha = 0.85$), human resource commitment ($\alpha = 0.78$), were shown to be reliable. Cronbach's alpha of psychological capital subscale could be substantially increased by removing items 2, and 5. These scores are considered reliable and for this reason items 2 and 5 were removed from further analyses, which increased Cronbach's alpha for the entire psychological capital scale to 0.87.

4. RESULTS

Table 3: Correlations for the Variables and Their Constructs (n = 401)

Variable	Mean	StdD	HRC	HRA	HRN	HRD	HRP	RE	HP	OP	EF	PsyCap	FP
HRC	3.20	0.85	1										
HRA	4.80	1.18	.351**	1									
HRN	3.30	0.81	.241**	.125*	1								
HRD	2.94	0.95	.187**	.178**	.070	1							
HRP	3.21	0.81	.682**	.727**	.513**	.574**	1						
RE	3.03	0.82	.047	.046	.114*	.136**	.132**	1					
HP	3.08	0.94	.116*	.103*	.045	.485**	.300**	.204**	1				
OP	2.91	0.93	-.009	.064	.073	.047	.071	.183**	.034	1			
EF	3.22	0.58	.334**	.231**	.069	.166**	.321**	.109*	.198**	.013	1		
PsyCap	3.20	0.85	.219**	.196**	.126*	.370**	.363**	.613**	.643**	.489**	.592**	1	
FP	4.80	1.18	.267**	.308**	.444**	.260**	.499**	.172**	.201**	.077	.367**	.357**	1

Notes: ** Correlation is significant at the 0.01 level (2-tailed); * Correlation is significant at the 0.05 level (2-tailed).

HRC – Human Resource Commitment, HRA – Human Resource Acquisition, HRN – Human Resource Network, HRD – Human Resource Development, HRP – Human Resource Practices, RE – Resilience, OP – Optimism, EF – Efficacy, PsyCap – Psychological Capital, FP – Financial Performance, SID – Standard Deviation.

Source: Primary data.

The mean score ($M = 3.20$, $SD = 0.85$) for psychological capital scale and HRP ($M = 3.21$, $SD = 0.81$) are just moderate since the scores are at the midpoint of the scale. The respondents' level of financial performance is high ($M = 4.80$, $SD = 1.18$). The results in Table 3 above indicate that HRMP aspects are positively associated with the financial performance of small businesses in South Africa. Aspects positively associated are HR acquisition $r = .308^{**}$, $p < 0.01$, HR commitment; $r = .267^{**}$, $p < 0.01$, HR network $r = .444^{**}$, $p < 0.01$, and HR development $r = .260^{**}$, $p < 0.01$. HRPs are positively associated to financial performance of SMMEs in South Africa ($r = .499^{**}$, $p < 0.01$). Therefore, hypothesis 1 was accepted.

Concerning hypothesis 2 testing the relationship between human resource management practices with psychological capital, Table 3 provides evidence to this. HRMP aspects are significantly and positively related to PsyCap. HR acquisition; $r = .196^{**}$, HR commitment; $r = .219^{**}$, $p < 0.01$, HR network; $r = .126^{*}$, $p < 0.05$, and HR development; $r = .370^{**}$, $p < 0.01$. Table 3 further indicates that HRP is positively related to PsyCap ($r = .363^{**}$, $p < 0.01$). Thus, hypothesis 2 was accepted.

Further, Table 3 shows that psychological capital is significant and positively related with the financial performance of small businesses in South Africa ($r = .357^{**}$, $p < 0.01$). The psychological capital aspects are positively and significantly related with financial performance; efficacy ($r = .367^{**}$, $p < 0.01$), hope ($r = .201^{**}$, $p < 0.01$), resilience ($r = .172^{**}$, $p < 0.01$), except optimism ($r = .077$, $p > 0.05$). Therefore, hypothesis 3 was accepted.

The aim of the correlation analysis was to assess whether linear relationships exist between the predictor variable, human resource management practices, the mediating variable, psychological capital, and the criterion variable, financial performance. The correlation results mean that an improvement in psychological capital is associated with improved financial performance. Thus, psychological capital is important for the improvement in the financial performance of small businesses in South Africa. Since we observed a positive statistically significant relationship between HRP and financial performance, it implies that an improvement in the human resource management practices is associated with improved financial performance. Thus, human resource management practices play a crucial role in the improvement of financial performance in small businesses in South Africa. Furthermore, an improvement of human resource management practices is associated with higher psychological capital.

A hierarchical regression was conducted to test for the predictive power of the model and to verify Baron and Kenny's (1986) condition for mediation. To test whether the independent and the mediating variables are related to the dependent variable, a hierarchical regression was conducted. The hierarchical regression is presented in Table 4.

Table 4: The Hierarchical Regression of Financial Performance on Human Resource Practices and Psychological Capital

	Model	Model	Model	Collinearity			
	1	2	3	T	Sig	Tolerance	VIF
Constant				4.203	.000		
Age of the firm	.183	.159	.152	3.641	.000	.995	1.005
Firm's Capital size	.130	-.058	-.087	-1.925	.055	.847	1.181
No of Employees	-.039	-.017	-.020	-.489	.625	.998	1.002
Human Resource Practices		.511**	.446**	9.468	.000	.782	1.278
Psychological Capital			.209*	4.619	.000	.850	1.176
R	.231 ^a	.527	.561 ^c				
R²	.053	.277	.314				
Adjusted R	.046	.270	.306				
ΔR² change	.053	.224	.037				
ΔF change	7.437	122.879	21.338				
Sig. F change	.000	.000	.000				
F statistics	7.437	38.01	36.237				
Sig.	.000 ^b	.000 ^c	.000 ^d				
Durbin Watson			1.628				

Notes: *p < 0.05; ** p < 0.01.

Source: Author's calculation.

The explanatory power of the variables can be tested using regression analysis, in particular the hierarchical regression analysis that determines the contribution of each predictor variable in the regression. Moreover, the use of the hierarchical regression method helps in (1) testing the theoretical assumptions, and (2) examining the influence of several predictor variables in a chronological way. By doing so, the relative importance of a predictor is assessed on the basis of how much it adds to the prediction of a criterion variable.

In the first step, all demographic factors were entered into the regression equation as control variables and they account for 5.3% ($R^2 = .053$) of the variance explained in financial performance. The demographic factors of a firm's capital size ($\beta = .130$, $p > .05$) and number of employees ($\beta = -.039$, $p > .05$) were not significant predictors of financial performance except age of the firm ($\beta = .183$, $p < .05$). In the second step, HRP as a predictor of financial performance was added to the regression equation and it was found to be a significant predictor of financial performance ($\beta = .511$, $p < .05$) accounting for 22.4% (ΔR^2 change = .224) of the variance explained in financial performance. When Psychological Capital was added in the third step, it was able to explain an additional 3.7% (ΔR^2 change = .037) of the variance in financial performance and it is a significant predictor of financial performance ($\beta = .209$, $p < .05$). These results show that Baron and Kenny's (1986) condition regarding the reduction in the beta coefficient of the relationship between HRP and financial performance when psychological capital is introduced as a mediator. The reduction was from .511, $p < .05$ to .446, $p < .05$ which shows a partial mediation.

The overall predictive or explanatory power of all variables in the Model 3 is 31.4% ($R^2 = .314$). However, the results indicate that HRP and PsyCap when combined explain up to 26.1% of the variance in the financial performance of SMEs in South Africa. However, the order in importance of these variables in explaining the variance in objective performance (based on their standardised beta values) is as follows. It begins with HRP, then PsyCap and the demographic factors. All three models have a significant contribution in Model 3.

Table 5 shows decision made based on the tested models to the proposed hypotheses.

Table 5: Summary of the Results

	Hypotheses	Decision
H1	Human resource management practices are positively associated with the financial performance of the participating small businesses.	Supported
H2	Human resource management practices are positively associated with the PsyCap of the participating small businesses.	Supported
H3	Psychological capital is positively associated with the financial performance of the participating small businesses.	Supported
H4	Psychological capital mediates the relationship between human resource management practices and financial performance of participating small businesses.	Supported

5. DISCUSSION

The present study provides support to the importance of psychological capital and human resource management practices in influencing how small businesses perform financially. The findings of the research support tenets of the RBV and position human resources as an important capability with regard to firm performance. The study gives cadence to a range of human resource management practices and links this with firm performance. This positions not only the importance of small businesses striving for performance (Roxas et al., 2017) but also the role placed on both human resource management practices (Hashim et al., 2018) and psychological factors such as psychological capital.

The focus here could be on the interaction between a set of individual factors specific to the owners/managers and how human resource management practices as an organisational capability can be used for better performance. Based on the findings and discussion of this study, it is recommended that owners/managers must give attention to human resource management practices such as: a) *human resource acquisition*, b) *human resource networking*, c) *human resource development*, and d) *human resource commitment* as these can have a potential leverage in not only how they operate but in turn how they perform. The thinking here could be that through these practices, small businesses have at their disposal some potential rent generating capabilities.

Psychological capital can be thought as a useful outlet through owners'/managers' use of their efficacy, hope resilience and optimism to drive the human resource management practices for better performance. The four elements of psychological capital can also be thought of as psychological resource reservoirs that can potentially influence how human resource interaction and functionality occur within the small business. Collectively, these four components reflect a full continuum of psychological resources, bearing in mind the individual and organisational ability to

overcome and advance through hardship and challenges. This can be done by adopting a positive perspective and learning from new experiences. Therefore, owners/managers of small businesses can indeed enhance employee outcomes through not only the offering but also prioritising of psychological capital and targeted human resource management practice activities.

5.1 Implications for Practice

Based on the findings some implications can be drawn. First, concerning the small business sector, the findings of the study point to some areas of development. There could be a need for small business owner-managers to pay attention to aspects related to their psychological capital development. The findings of this study point to these as important in not only the management of the small business but also for firm performance. This can be done through small business owner-manager training on this important aspect of their personal being. This becomes important especially given that running a small business potentially has its challenges. The development of psychological capital competencies through training can assist small business owner-managers deal with these challenges.

Second, the study makes some practical implications especially for policy-makers. Given the South African government's focus in encouraging small business development, the study magnifies the importance of such efforts. This is done by showing an important resource that must exist in the form of psychological capital in not only the management but also performance of small businesses. Given the noted investment in financial resources in assisting small business performance, we also argue for support in the form of resources that develop psychological capital. The findings of the study merely imprint the importance of the non-financial resource in the form of psychological capital.

Finally, the study and its findings also make not only theoretical contribution but also emphasize makes implications for the work of researchers. The notable issues are two-fold here. For starters the study aids understanding to the issue of HRM practices especially within a small business context. This has been something that researchers have encouraged globally (Hamadamin & Atan, 2019; Harney & Alkhalaf, 2020; Mutumba et al., 2021) and especially within a developing nation context such as South Africa (Chinyamurindi et al., 2021). Further, using the findings of the study, the link between HRM practices, psychological capital and firm performance is established. Given the argument of the need to pay attention to small businesses as the big businesses of tomorrow (Gherghina et al., 2020). The study and its findings gives focus to the issues around the performance of small businesses. The role of HRM practices and psychological capital as found in this study being important to this.

5.2 Limitations and Future Research

We note some limitations and also propose some suggestions for future research. First, we note that the sample used in the research is not representative of all the small businesses operating in South Africa. This limitation presents the challenge of generalisability and we therefore suggest caution when interpreting the results, given this limitation. Second, we note the challenge of a skewed sample. For instance, most of the respondents to our study were confined to the construction and agriculture sectors. Despite these being popular sectors of functioning based on the geographic region where the data was collected (Gwena & Chinyamurindi, 2018; Gomera et

al., 2018), the skewed sample is a notable limitation of the research. Third, our study relied mostly on responses from small business owners/managers. Future research could attempt to make a distinction between an owner of a small business and a manager. This distinction may be needed. In our case, we relied on those who could access our survey instrument due to convenience.

Future research can also take a qualitative exploration of what aspects related to psychological capital and human resource management practices are being implemented in the small business. This can also include trying to understand the ensuing complexity that accompanies such efforts enroute to chasing performance goals. Finally, we also advocate for longitudinal studies of this nature or even the collection of data at multiple points. Such efforts, despite giving methodological rigour, can potentially assist in understanding better the constructs under study (and even others) such as human resource management practices, psychological capital and financial performance. Finally, the synergistic effect of the four components working together has been found to be stronger than the total effect of each component separately (Luthans & Youssef-Morgan, 2017). Such a focus on the collective effects of psychological capital produces relatively little understanding of the boundary conditions that may prefer one component over others (i.e. the nature of customers, the location of service encounters, service employees' personality traits, etc.). This opens up an interesting avenue for future research.

6. CONCLUSION

In conclusion, the study extends on work seeking to focus on issues not only related to human resource management processes in small businesses but also how psychological variables such as psychological capital can feature in all of this. The link to performance becomes critical as small businesses, albeit challenges internally and externally, need to be performing at their optimum. Through this work, the role of psychological capital and human resource management practices is argued to not only be critical but also needing some form of prioritisation. The findings bear testimony to this especially advancing an illustration of all this within a developing nation context, where empirical focus on the issues given attention to in this study have at best been under-researched.

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