





KEY HRDM FACTORS ENHANCING SMES' PERFORMANCE

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Abstract. The impact of human resources development (HRD) on business performance is critical for enterprises, but there's limited analysis of the specific factors affecting small and medium-sized enterprises (SMEs) in terms of human resources development management (HRDM). This paper aims to identify the key HRDM factors influencing SMEs' performance from two perspectives: individual employee development and organizational development. It also categorizes entrepreneurs based on these factors. Exploratory factor analysis (EFA) and cluster analysis using the K-means method were applied in analysis of data from SMEs. For individual development, three factors were identified: Development practices, career growth, and rewards systems. Based on these, SMEs were grouped into three clusters: career and rewards-focused SMEs, development and career-oriented SMEs, and development-focused SMEs. Career Growth was found to have the greatest impact on performance. For organizational development, three factors emerged: Training, Talent Development, and Work Systems. Analysis yielded three clusters: training and work systems-focused SMEs, talent development-focused SMEs, and work systems-focused SMEs, with training being the most influential for organizational performance. The study highlights the importance of HRDM strategies for different groups of SMEs to enhance performance and deepen the understanding of HRDM's role in SMEs, showing the complex relationships between these factors and overall firm success.

Keywords: human resource development management, factors, performance, small and medium sized enterprises, exploratory factor analysis, individual employee development, organizational development.

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1. Introduction

Human resources challenges in the constantly changing business environment are an addressed issue both by large enterprises and the small and medium-sized enterprises (SMEs) sector (Zsigmond & Mura, 2023). In today's dynamic business environment, SMEs play a key role in economic growth and job creation. However, their success is increasingly dependent on the effective use of human resources, as employees are an essential factor for sustainable competitive advantage. In this context, not only Human Resource Management (HRM), and Human Resource Development (HRD) itself but also a process known as Human Resource Development Management (HRDM) – becomes crucial.

HRM focuses on coordination, managing, and allocating human capital to achieve organizational goals. This includes empowering employees, ensuring their safety, and overseeing everything related to staffing, from finding new hires to managing their pay and growth (Kumar, 2024). Several key factors, including HR practices, training and development, employee compensation, work environment, and ethical climate, all significantly impact organizational performance (Al Qaydi & Aris, 2022). The research of Chumphong et al. (2020) showed that effective HRM, encompassing these individual development practices, is a strong predictor of organizational performance, and Mijan et al. (2020) claim that HRM can influence organizational performance. The issue of the influence of HRM on organizational performance was also dealt with by the authors Lei and Wu (2024) who found, that HRM practices, such as recruitment and selection, training and development, performance appraisal, motivation, and employee well-being and satisfaction, significantly influence organizational performance.

An integral part of HRM is HRD, which is more concerned with training and development, career planning and development, and organization development. It was found that HRD is a process that helps individuals acquire the necessary competencies, which is essential for the success of an organization in a rapidly changing environment. HRD initiatives typically fall under the categories of "training and development" and "organization development," among various other designations (Swanson, 2022). According to Hamlin and Stewart (2011), the HRD includes planned activities, processes, and interventions aimed at influencing and enhancing organizational and individual learning, developing human potential, and improving or maximizing the effectiveness and performance of an individual, team, or organizational level. Practices, which include training and development, organizational development, and career development functions (Wang & McLean, 2007) encompassed by HRD serve as crucial strategic instruments. These practices are instrumental in augmenting performance at the individual, team, and organizational levels (Armstrong, 2003). Also, Pramanik (2019) claims too, that the two key areas of HRD are training and development and organizational development. HRD practices are categorized into developmental, constructive, and collaborative types. Developmental practices focus on building the knowledge and skills of individuals, constructive practices leverage existing organizational knowledge, and collaborative practices encourage interaction and collaboration among employees (Chen et al., 2020). HRD practices also play a critical role in fostering innovation and IT capabilities among SME owners, which are essential for optimal performance in the competitive market (Budiningsih et al., 2022). For businesses aiming for growth and a competitive edge, investing in HRD is crucial (Routray & Padhi, 2020).

The literature review showed that there is a wealth of studies exploring HRM practices and their impact on organizational performance. The topic of the impact of HRD on improving business performance in recent years has been processed only in a few studies (e.g., Abu Rumman et al., 2020; Kim, 2024). Existing research that does address HRD typically concentrates on individual components like training, employee education, or career development, rather than taking a holistic view of HRD as a comprehensive management approach. Authors such as Voca and Havolli (2019) emphasize the role of training and development, career development, and employee motivation in achieving higher enterprise performance. Kareem (2019) stated that organizational effectiveness is positively influenced by talent development, training and development, organizational development, and career development, all of which are HRD practices. Training and development processes, along with employee engagement sessions, significantly influence the performance of employees and SMEs (Wuen et al., 2020; Abu Rumman et al., 2020). Specific HRD practices, including

training and development, academic career progression, teamwork, and counseling, significantly affect employee performance. Drouvelis and Paiardini (2022) found out, that also the quality of feedback plays a crucial role in driving productivity, and they indicate that average performance is considerably higher for high-quality feedback and according to Nikolić et al. (2020), providing feedback can foster positive relationships between management and employees, thereby motivating them to perform optimally. The analysis of Grmanová and Bartek (2022) demonstrates that it is significant for employers to endeavor to ensure their employees are satisfied with their roles, as the consequences of such an endeavor are reflected in the employees' decision-making processes regarding whether to remain in their roles or to leave. The findings of Uraon and Gupta (2020) indicate that HRD practices have a significant impact on market performance. However, operational performance plays a key mediating role in transferring the effects of HRD practices to market performance.

Despite the existing body of research that addresses the relationships between HRD and business performance and HRM and business performance, including the level of SMEs, a limited body of research focuses on HRDM in the context of SMEs. Moreover, only a few studies have examined the impact of HRDM on organizational performance from the point of view of individual employee development and organizational development simultaneously, focusing on practical recommendations for managers and owners of SMEs. This gap highlights the need for more comprehensive research that explores how HRDM can enhance an organization's performance, particularly in the dynamic environment of SMEs, based on individual and organizational development. Based on the work of Swanson (2022), the primary components of HRD are training and development (...for the purpose of improving performance) and organizational development (...for the purpose of improving performance), this study fills this gap by identifying the key HRDM factors affecting SMEs' performance from the stated two perspectives and providing useful recommendations for different groups of entrepreneurs.

This study was built on the Resource-Based View (RBV) theory to examine the impact of individual employee development and organizational development factors on the performance of SMEs. According to more recent models of firm performance include the RBV theory of the firm (Barney, 1991; Mashenene & Kumburu, 2023). The RBV theory emphasizes the importance of an organization's internal resource, where human resources represent a key active factor, directly align with the goals of HRDM (Barney, 1991). This perspective suggests that when properly developed and managed, human resources provide a performance for SMEs (Voca & Havolli, 2019). The study of Nolan and Garavan (2016) demonstrated that individual employee development and organizational development enhance the efficiency of processes and improve the adaptability of enterprise, ultimately contributing to overall performance. By integrating individual employee development and organizational development practices, SMEs can effectively leverage these resources to enhance performance. This study aims to identify key factors related to the HRDM that impact the performance of SMEs from the perspectives of individual employee development and organizational development. Additionally, the study provides valuable insights by identifying specific groups of entrepreneurs based on the factors identified.

The structure of the paper is as follows. The introduction provides a literature review. The next Section outlines the methodological approach and methods used in the analysis. The next two Sections (Section 2 and Section 3) present the results and in-depth discussion. Finally, the conclusions offer implications for future research are proposed.

2. Methodological approach

This study was designed to identify and explore the key factors within HRDM that influence the performance of SMEs from two distinct perspectives: individual employee development and organizational development. Additionally, the research aims to provide deeper insights by categorizing SME owners and managers based on their prioritization and implementation of identified HRDM factors. In line with the stated aim of the study, the following research questions are proposed:

RQ1: What do SMEs perceive as the most important HRDM factors for enterprise performance from the perspectives of individual employee development, and organizational development?

RQ2: Can the identified HRDM factors be used to segment SME owners/managers based on their approaches to performance?

To address these questions, a structured methodological approach was adopted, combining quantitative data collection with advanced statistical techniques.

Due to the numerous definitions of HRD, we focused on Swanson's definition (2022), which identified two primary components of HRD: training and development and organizational development which have an impact on organizational system performance. Training and development relate to the individual development of employees and organizational development relates to the whole enterprise development, both with an impact on the performance of SMEs.

To assess the perception of Slovak SME entrepreneurs of aspects related to two components defined by Swanson (2022), a questionnaire survey was created. The questionnaire consisted of three parts:

1. Basic characteristics of the respondents (2 questions).
2. The possibilities for a rating of 9 statements related to training and development (individual employee development) with the impact on SME performance (labeled as ID_HRD1, ..., ID_HRD9) concerning the performance of SMEs. The questionnaire in the 2nd part was designed and modified to collect data based on the previous research studies of Otoo and Mishra (2018), Pauli (2019), and Alnawfleh (2020).
3. The possibilities for a rating of 10 statements related to organizational development with the impact on SME performance (labeled as OD_HRD1, ..., OD_HRD10) concerning the performance of SMEs. The questionnaire in the 3rd part was designed and modified to collect data based on the previous research studies of Kareem (2019), Shayegan et al. (2022).

Respondents could indicate their agreement with the statement on a 5-point Likert scale (1 = totally disagree, 5 = totally agree). Questionnaires were then delivered to respondents in person or by email. The survey was conducted between January and March 2024. Following Gorsuch (1983), who recommended that the sample size for exploratory factor analysis (EFA) should be at least 100 or more, a total of 250 SMEs from different industries were randomly selected. Data were collected from managers or owners of SMEs, all located in Slovakia. The response rate is 40.00% (124 responses) and due to missing values or incorrect responses, the final sample includes responses from 100 SMEs. The collected data were processed, analyzed, and discussed with available literature sources.

To better understand the characteristics of the research sample, Table 1 shows the classification of SMEs by size category (SME size category according to the number of

employees (micro-enterprises: 0–9 employees, small enterprises: 10–49 employees and medium-sized enterprises: 50–249 employees), the focus of their activities (production of products and provision of services), and the role of the respondent in the SME (owner/manager).

Two exploratory factor analyses (EFA) were conducted to identify the factors affecting the performance of SMEs from the point of view of two aspects of HRD management: individual and organizational. Factors were extracted using the maximum likelihood method and rotated using Varimax rotation. The number of factors was decided considering the scree-plot and the cumulative variance was explained. To assess the internal consistency of the factors Cronbach's alpha was used. Kerlinger and Lee (2000) suggest a Cronbach's Alpha of more than 0.50 for valid internal consistency reliability and this rule is considered in this research. In the context of EFA, all items achieved communalities higher than 0.4, indicating that each item significantly contributes to the common factors – the rule of Osborne (2014), who suggested that communalities above 0.4 for EFA are acceptable. To cluster respondents into similar groups (Mura, 2012), we used the K-means method based on the identified factors from EFA, applying Ward's method and Euclidean distance.

Table 1. Characteristics of research sample (source: author's own processing, 2024)

Characteristics of enterprises		Position		Total
		owner	manager	
Size category				
micro	Count	17	6	23
	% of Total	17.0%	6.0%	23.0%
small	Count	15	19	34
	% of Total	15.0%	19.0%	34.0%
medium	Count	10	33	43
	% of Total	10.0%	33.0%	43.0%
Type of activity				
production of products	Count	13	21	34
	% of Total	13.0%	21.0%	34.0%
provision of services	Count	29	37	66
	% of Total	29.0%	37.0%	66.0%
<i>Total</i>	<i>Count</i>	<i>42</i>	<i>58</i>	<i>100</i>
	<i>% of Total</i>	<i>42.0%</i>	<i>58.0%</i>	<i>100.0%</i>

3. Results

This Section is structured into two subchapters: individual employee development and organizational development. In both, the analysis is conducted through a systematic approach, utilizing EFA to identify key HRDM factors, followed by the application of K-means clustering to group respondents based on the identified factors. This dual-method approach provides a robust framework to uncover insights into the role of HRDM with implications for SMEs' performance.

3.1. Individual employee development (ID)

Table 2 summarizes the test results of the KMO test (Kaiser & Rice, 1974) and Bartlett's test of sphericity, which clarify whether EFA is a suitable method for determining the relationship between statements and factors for the first aspect of HRDM (individual employee development). The calculated value of KMO (0.711) and a significant statistical test of Bartlett's test ($p < 0.05$) indicate that the evidence of satisfactory and sufficient to further continue with the reduction process.

Table 2. KMO and Bartlett's Test of Sphericity (individual employee development)
(source: author's own processing, 2024)

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		0.711
Bartlett's Test of Sphericity	Approx. Chi-Square	157.933
	df	36
	Sig.	0.000

The communalities of each item in Table 4 confirmed the rule of Osborne (2014).

Total variance explained is often the method used to separate objects to minimize them to a reasonable level before further analysis. In this method, components with values greater than 1.0 are extracted into separate factors (Table 3). Our results indicate that the EFA extracted 3 factors with an eigenvalue of 2.887 for factor 1, 1.204 for factor 2, and 1.088 for factor 3. The total variance explained is 57.554% (Table 3). The acceptable variance explained in factor analysis for a construct to be valid at least 50% (Hair et al., 1995). These results mean that objects are divided into three dimensions and will be considered for further study.

Table 3. KMO and Bartlett's Test of Sphericity (individual employee development)
(source: author's own processing, 2024)

Component	Initial eigenvalues			Extraction sums of squared loadings			Rotation sums of squared loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	2.887	32.079	32.079	2.887	32.079	32.079	1.914	21.272	21.272
2	1.204	13.382	45.461	1.204	13.382	45.461	1.667	18.524	39.796
3	1.088	12.093	57.554	1.088	12.093	57.554	1.598	17.758	57.554
4	0.983	10.926	68.480						

Note: Extraction method: principal component analysis.

The reliability assessment (Table 4) was carried out using Cronbach's alpha to measure the internal consistency of the constructs and they meet the rule of Kerlinger and Lee (2000).

Using EFA three factors (Table 4) were identified: F_{ID1} Development practices (3 items), F_{ID2} Career growth (3 items), and F_{ID3} Rewards system (3 items).

These results of EFA answered RQ1 in the case of individual HRDM aspects with an impact on the performance of SMEs.

Table 4. The results of EFA and reliability assessment (individual employee development) (source: author's own processing, 2024)

Item	Factor			Communalities
	F1	F2	F3	
ID_HRD3	0.804			0.659
ID_HRD2	0.687			0.533
ID_HRD6	0.604			0.460
ID_HRD1		0.750		0.568
ID_HRD7		0.645		0.531
ID_HRD4		0.617		0.422
ID_HRD8			0.839	0.750
ID_HRD9			0.688	0.713
ID_HRD5			0.599	0.544
Cronbach's alpha	0.632	0.536	0.592	–

Notes: Extraction method: principal component analysis.

Rotation method: Varimax with Kaiser normalization.

By using the extracted factors, a non-hierarchical (K-means) cluster analysis was performed to classify the sampled enterprises represented by owners/managers, into similar groups. This method provided three clusters, and we can conclude that the results of this analysis showed three types of entrepreneurs. The scores for each factor are shown in Table 5.

Table 5. Cluster centres value and distribution of respondents (individual employee development) (source: author's own processing, 2024)

Factor	Cluster			F	Sig.
	1	2	3		
F_{ID1} Development practices	-1.24	0.46	0.22	43.347	<0.05
F_{ID2} Career growth	0.27	0.60	-1.21	79.196	<0.05
F_{ID3} Rewards system	0.42	-0.06	-0.24	3.015	<0.05
Distribution of respondents	23	48	29	–	–

The clusters obtained are tested for distinctiveness using ANOVA. Three cluster solutions indicated a significant difference among the clusters of respondents according to the clustering factors. The results of ANOVA in Table 5 showed that the most important factor of HRD management for SMEs' performance is the F_{ID2} Career growth and the less important factor is F_{ID3} Reward system. These results answered the RQ2.

The results (Table 5 and Table 6) showed that each cluster is characterized by several key features.

$Cluster_{ID1}$ (Career and Rewards-Focused SMEs) is the least populated cluster (23 respondents). The SMEs in this cluster emphasize the F_{ID2} Career Development and F_{ID3} Reward System of their employees as the main factors with the impact on their performance. The F_{ID2} Development Practices are not important for them. This cluster is mainly represented by medium-sized enterprises (10.00% of total respondents), where the questionnaire was filled in by managers (17.00% of total respondents). These SMEs belonged to companies that focus on the provision of services (13% of total respondents).

Table 6. Segmentation of SMEs within clusters (training and development)
(source: author's own processing, 2024)

			Cluster			Total
			1	2	3	
Size category	micro	Count	5	7	11	23
		% of Total	5.0%	7.0%	11.0%	23.0%
	small	Count	8	14	12	34
		% of Total	8.0%	14.0%	12.0%	34.0%
	medium	Count	10	27	6	43
		% of Total	10.0%	27.0%	6.0%	43.0%
Total		Count	23	48	29	100
		% of Total	23.0%	48.0%	29.0%	100.0%
Position	owner	Count	6	21	15	42
		% of Total	6.0%	21.0%	15.0%	42.0%
	manager	Count	17	27	14	58
		% of Total	17.0%	27.0%	14.0%	58.0%
Total		Count	23	48	29	100
		% of Total	23.0%	48.0%	29.0%	100.0%
Focus	production	Count	10	15	9	34
		% of Total	10.0%	15.0%	9.0%	34.0%
	services	Count	13	33	20	66
		% of Total	13.0%	33.0%	20.0%	66.0%
Total		Count	23	48	29	100
		% of Total	23.0%	48.0%	29.0%	100.0%

Cluster_{ID}2 (Development and Career-Oriented SMEs) is the most populated cluster (48 respondents). SMEs in this cluster mainly prefer *F_{ID}2 Career Growth* and *F_{ID}1 Development Practices*. The reward system doesn't play an important role as a factor in their performance. This cluster is mainly represented by medium-sized enterprises (27.00% of total respondents), where the questionnaire was filled in by managers (27.00% of total respondents). These SMEs belonged to companies that focus on the provision of services (33.00% of total respondents). This cluster seems to reflect a long-term development approach.

The 29 SMEs in *Cluster_{ID}3 (Development-Focused Small SMEs)* consider only *F_{ID}1 Development Practices* as the main factor affecting their performance. Most respondents in this cluster belong to small enterprises (12.00% of total respondents), where the questionnaire was filled in by owners (15.00% of total respondents). These SMEs belonged to companies that focus on the provision of services (20.00% of total respondents).

The results in this part of the study identified three distinct clusters of SMEs, each characterized by different priorities in their HRDM. SMEs in the first cluster suggest an employee retention strategy based on a career and reward system. Those in the second cluster indicate a focus on employee advancement and the third cluster prioritizes development practices mainly in small enterprises. These findings could be leveraged to tailor HRD strategies to the specific needs of each type of SME.

3.2. Organizational development (OD)

Table 7 summarizes the test results of the KMO test and Bartlett's test of sphericity for the EFA of the second aspect of HRDM (organizational development) with the impact on the performance of SMEs. The calculated value of KMO (0.778) and a significant statistical test of Bartlett's test ($p < 0.05$) indicate that the evidence of satisfactory and sufficient to further continue with the reduction process.

Table 7. KMO and Bartlett's test of sphericity (organizational development) (source: author's own processing, 2024)

Kaiser-Meyer-Olkin Measure of Sampling Adequacy		0.781
Bartlett's Test of Sphericity	Approx. Chi-Square	467.837
	df	45
	Sig.	0.000

Our results indicate 3 extracted factors with an eigenvalue of 4.182 for factor 1, 1.882 for factor 2, and 1.174 for factor 3. The total variance explained is 72.376% (Table 8). These results mean that objects are divided into three dimensions and will be considered for further study.

Table 8. Total variance explained (organizational development) (source: author's own processing, 2024)

Component	Initial Eigenvalues			Extraction sums of squared loadings			Rotation sums of squared loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	4.182	41.817	41.817	4.182	41.817	41.817	2.547	25.475	25.475
2	1.882	18.815	60.632	1.882	18.815	60.632	2.521	25.210	50.684
3	1.174	11.743	72.376	1.174	11.743	72.376	2.169	21.692	72.376
4	0.677	6.768	79.144						

Note: Extraction method: principal component analysis.

Using EFA *three factors* (Table 9) were identified: F_{OD1} *Training* (3 items), F_{OD2} *Talent Development* (4 items), and F_{OD3} *Work Systems* (3 items).

Communalities of each item in Table 9 confirmed the rule of Osborne (2014), who suggested that communalities above 0.4 for EFA are acceptable. The reliability assessment was carried out using Cronbach's alpha to measure the internal consistency of the constructs (Table 9).

The results of EFA answered the RQ1 in the case of organizational HRD management aspect with impact on the performance of SMEs.

The k-means method provided three clusters of entrepreneurs, based on the results of EFA. The scores for each factor are shown in Table 10. By identifying clusters, we can conclude that the results of this analysis also showed three types of entrepreneurs.

Table 9. The results of EFA and reliability assessment (organizational development) (source: author's own processing, 2024)

Item	Factor			Communalities
	F1	F2	F3	
OD_HRD10	0.884			0.842
OD_HRD9	0.850			0.796
OD_HRD8	0.839			0.771
OD_HRD7		0.892		0.812
OD_HRD6		0.848		0.730
OD_HRD4		0.683		0.647
OD_HRD5		0.667		0.573
OD_HRD1			0.839	0.779
OD_HRD3			0.780	0.675
OD_HRD2			0.775	0.612
Cronbach's alpha	0.882	0.812	0.766	

Table 10. Cluster centres value and distribution of respondents (organizational development) (source: author's own processing, 2024)

Factor	Cluster			F	Sig.
	1	2	3		
F _{OD1} Training	0.60984	-0.22404	-2.3365	30.941	<0.001
F _{OD2} Talent development	-0.57417	0.42716	-0.98948	18.076	<0.001
F _{OD3} Work systems	0.58727	-0.45141	1.22599	21.898	<0.001
Distribution of respondents	37	59	4	–	–

The clusters obtained are tested for distinctiveness using ANOVA. Three cluster solutions indicated a significant difference among the clusters of respondents according to the clustering factors F_{OD1} Training, F_{OD2} Talent Development, and F_{OD3} Work Systems. The results of ANOVA in Table 10 show that the most important factor of HRD management for SMEs' performance from the point of view of organizational development is the F_{OD1} Training and the least important is the F_{OD2} Talent Development. These results answered the RQ2 in the case of organizational development.

The results (Table 10 and Table 11) showed several key features of each cluster. *Cluster_{OD1}* (*Training and Work Systems-Focused SMEs*) includes 37 respondents. The SMEs in this cluster consider the F_{OD1} Training and F_{OD3} Work Systems as the main factors of their performance. The F_{OD2} Talent Development is not important for them. However, it is important to consider the results of other studies that emphasize the importance of talent development. According to Shah et al. (2024), talent development has a positive and significant effect on employee satisfaction and organizational performance. Also, Agarwal et al. (2024) found out, that talent management improves organizational performance. These findings suggest that talent development can have an important impact on organizations, although it did not emerge as a key factor in Cluster_{OD1} in our research. This may be due to the business sector of the SMEs. In this cluster, SMEs belonged to companies that focus on providing services (23% of total respondents) and they were represented as well as small and medium-sized enterprises

(15.00% of total respondents in each of these categories). In this cluster of SMEs, the questionnaire was completed by managers (14.00% of total respondents).

Cluster_{OD2} (Talent Development-Focused SMEs) is the most populated cluster (59 respondents). SMEs in this cluster mainly prefer only *F_{OD2}* Talent development. This cluster is mainly represented by medium-sized enterprises (26.00% of total respondents), where the questionnaire was filled in by managers (33.00% of total respondents). These SMEs belonged to companies that focus on the provision of services (40.00% of total respondents).

Only 4 SMEs in *Cluster_{OD3} (Work Systems-Focused SMEs)* consider *F_{OD3}* Work Systems as the main factor affecting their performance. Most respondents in this cluster belong to medium enterprises (2.00% of total respondents), where the questionnaire was filled in as well as owners and managers (2.00% of total respondents for each category). These SMEs belonged to companies that focus on the provision of services (3.00% of total respondents). For SMEs in this cluster, it is essential to develop a strong entrepreneurial mindset.

Table 11. Segmentation of SMEs within clusters (organizational development) (source: author's own processing, 2024)

			Cluster			Total
			1	2	3	
Size category	micro	Count	7	15	1	23
		% of Total	7.0%	15.0%	1.0%	23.0%
	small	Count	15	18	1	34
		% of Total	15.0%	18.0%	1.0%	34.0%
	medium	Count	15	26	2	43
		% of Total	15.0%	26.0%	2.0%	43.0%
Total		Count	37	59	4	100
		% of Total	37.0%	59.0%	4.0%	100.0%
Position	owner	Count	14	26	2	42
		% of Total	14.0%	26.0%	2.0%	42.0%
	manager	Count	23	33	2	58
		% of Total	23.0%	33.0%	2.0%	58.0%
Total		Count	37	59	4	100
		% of Total	37.0%	59.0%	4.0%	100.00%
Focus	production	Count	14	19	1	34
		% of Total	14.0%	19.0%	1.0%	34.0%
	services	Count	23	40	3	66
		% of Total	23.0%	40.0%	3.0%	66.0%
Total		Count	37	59	4	100
		% of Total	37.0%	59.0%	4.0%	100.00%

The results in this part of the study offer valuable insights into how HRDM factors can be tailored to meet the specific needs of different SME groups to enhance organizational performance. The three identified clusters of SMEs each reflect distinct development strategies for organizational performance maximalization. It is important to tailor employee development programs based on specific organizational characteristics. SMEs in the first cluster may

benefit from integrating talent development initiatives to further boost employee satisfaction and performance. For SMEs in the second cluster, which is more service-oriented with more managers is essential to focus on leadership and training in soft skills. For SMEs in third clusters fostering entrepreneurial mindsets and developing managerial competencies could significantly improve organizational performance.

4. Discussion

In response to RQ1, six key factors were identified through EFA within two observed dimensions individual employee development and organizational development.

From the perspective of the *individual employee development*, three factors were identified by using EFA. F_{ID1} *Development practices*, consisting of items reflecting professional growth of employees, F_{ID2} *Career Growth*, comprising items related to career progression and provisional advancement, and F_{ID3} *Reward system* including items focusing on systems of recognition and rewards for employee contributions.

From the perspective of *organizational development*, three additional factors were identified F_{OD1} *Training*, represented by items emphasizing the importance of training activities in enhancing organizational capacities, F_{OD2} *Talent Development*, consisting of items addressing initiative for identifying and developing talent within organizations, and F_{OD3} *Work Systems*, including items related to the effective management of work process and systems.

The results of the study confirmed that the identified factors related to HRDM effectively segment SME's owners/managers based on their approaches to performance. By applying the K-means clustering method, distinct groups of respondents were identified, each characterized by their prioritization of specific HRDM factors. The ANOVA test confirmed statistically significant differences among the clusters concerning their prioritization of HRDM factors, validating the segmentation approach.

In terms of individual employee development, the identified clusters are: Cluster $_{ID}$ 1 (Career and Rewards-Focused SMEs) prioritizes career growth and rewards systems; Cluster $_{ID}$ 2 (Development and Career-Oriented SMEs) emphasizes both career growth and development practices; and Cluster $_{ID}$ 3 (Development-Focused Small SMEs) focuses primarily on development practices. For SMEs understanding these distinct priorities allows more targeted HRD intervention. SMEs in the first cluster should continue enhancing reward and career systems, while those in the second and third, might benefit from deeper investments in development programs that align with organizational goals.

In terms of organizational development, the identified clusters are: Cluster $_{OD}$ 1 (Training and Work Systems-Focused SMEs), which emphasizes education and work systems; Cluster $_{OD}$ 2 (Talent Development-Focused SMEs), prioritizing talent development; and Cluster $_{OD}$ 3 (Work Systems-Focused SMEs), which concentrates on work systems. SMEs in the first cluster may benefit from a broader mix of skill development and leadership training. In the second cluster is essential to focus on leadership and training in soft skills. In the third cluster, SMEs should focus on specialized training and setting measurable objectives and monitoring their achievement (e.g., by setting KPIs).

The clustering reveals that SMEs' owners/managers adopt varying strategies in relation to individual employee development and organizational development. Findings suggest that targeted HRDM policies and practices can be developed to address the specific needs and preferences of each cluster of respondents. These results provide the answer on RQ2.

The results of this study provide significant insight into the diverse strategies adopted by SMEs' owners/managers and findings are aligned with and contrasted with various concepts presented in the literature, highlighting the nuances of how employee development and organizational development contribute to the improvement of the SMEs' performance.

Wan Hooi and Sing Ngui (2014) argue that HRM practices centered on skill enhancement are critical for individual and organizational performance, which supports the importance of *development practices* (F_{ID1}) for enhancing the strategic contribution to organizational goals. Training and development improve individual competencies, which in turn strengthens organizational performance by fostering a more engaged and capable workforce. The results of the studies of Sharmila and Chinnathambi (2024), Hussain et al. (2016), and Dewa et al. (2024) showed that enterprises that focus on development practices and invest in employee training, mentoring, and continuous learning, improve both individual and organizational performance.

Career growth (F_{ID2}) represents the most important factor of HRDM for SMEs' performance in our study. This is partially consistent with research by authors Setyawati et al. (2022), who found, that career development affects employee performance, and with results of Hasanah and Efenti (2024) who claimed, that career development has a positive effect on employee performance. Employees who perceive a high level of career development opportunities are more likely to stay with the organization providing the opportunity (Amah & Oyetunde, 2020) and ultimately contribute to the organization's performance. Due to the fact, that career development opportunities significantly impact employee motivation and productivity (Jyoti & Rani, 2017). Our results align with studies such as those by Sellar (2022), Wau and Purwanto (2021) which highlight that career development initiatives can directly enhance employee performance by fostering job satisfaction. Small enterprises often have limited resources for financial incentives or structured career development paths. Concurrently, their constrained resources can impede access to new technologies or innovations (Ivanová, 2017). Financial risks have a significant impact on the functioning of SMEs and their sustainability in the market (Kotaskova et al., 2020). Consequently, they focus mainly on employee training and skills development to enhance performance.

Similarly, the importance of a *reward system* (F_{ID3}) is supported by literature, that suggests financial and non-financial rewards improve motivation and retention (Tang, 2023; Kumar et al., 2018). The reward system in our study emerged as the least significant factor of HRDM. These results suggest that financial benefits and specific opportunities for education and development may not be sufficient to enhance organizational performance. In contrast, a study by Prouska et al. (2016) highlights that non-financial aspects, such as a positive working environment, may exert a greater influence on organizational performance. Here we can see the difference in the findings of authors Okwuse and Ndudi (2023), which shows, that various elements of reward systems, such as compensation policies and performance recognition, significantly impact organizational performance.

Our results reveal that *training* (F_{OD1}) is an important factor affecting a firm's performance, which aligns with findings reported in a previous analysis by Garavan et al. (2021). Jyoti and Rani (2017) noted that extensive training programs enhance employees' knowledge, skills, and abilities, thereby driving organizational performance. Training and development enhance employee skills, knowledge, and core competencies, aligning them with organizational performance. The importance of training was highlighted in the study of Chakraborty and Biswas (2020), who confirmed that professional training and development are among the most significant factors influencing organizational performance by enhancing employees' knowledge and skills while increasing their contribution to organizational goals.

Talent development (F_{OD2}) is the process of changing an organization, its employees, its stakeholders, and groups of people within it, using planned and unplanned learning, to achieve and maintain a competitive advantage for the organization (Yuniati et al., 2021). SMEs in this cluster may benefit from developing soft skills, customer relations, and leadership capabilities that significantly and positively predict organizational performance (Dahleez & Abdelmunim Abdelfattah, 2022). Attracting and keeping exceptional talent has proven to be one of the common problems facing businesses (Agarwal et al., 2024)

Work systems (F_{OD3}) were identified as one of the key factors influencing organizational performance. This impact is manifested through employees' abilities, motivation, and opportunities to contribute to the organization's strategic goals, thereby enhancing overall performance and competitive advantage (Jyoti & Rani, 2017). If SMEs are to be effective, the HR bundle needs to be integrated with existing organizational policies, structures, and working systems, according to a certain organizational logic, with each component complementing and reinforcing the others (Wan Hooi & Sing Ngui, 2014).

The findings suggest that targeted HRDM policies can be developed to enhance SME performance by addressing the specific needs of each cluster of entrepreneurs (owners/managers of SMEs).

The results of our study contribute to the RBV theory, which is widely used to analyze how businesses use their internal resources to achieve competitive advantage and performance. Our study expands RBV by explicitly integrating factors of HRDM as a key mechanism through which SMEs can create and sustain competitive advantage. Specifically, the identification of targeted factors of HRDM tailored to distinct clusters of SMEs provides actionable insights into optimizing internal resources in diverse entrepreneurial contexts. In line with this theorizing, there is strong empirical evidence that HR strategies that focus HR policies on high levels of investment in employees are significantly and positively related to higher levels of firm performance through their effect on employee-based resources (Collins, 2021). From the RBV perspective, individual and organizational development practices in the HRDM context, align with the VRIO framework (valuable, rare, inimitable, and organizational) (Arraya & Porfirio, 2017), contributing to SME's performance (Andersén & Samuelsson, 2016). By addressing individual employee development factors such as development practices, career growth, and rewards alongside organizational development factors like training, talent development, and work systems, our findings demonstrate how HRDM contributes to the creation of resources that align with VRIO principles. Furthermore, our findings align with evolving interpretations of RBV by demonstrating how factors of HRDM enhance SMEs' dynamic capabilities. Empirical studies have demonstrated that organizations with robust HRD strategies see measurable improvements in firm performance (Nolan & Garavan, 2016; Alnawfleh, 2020). Our findings underscore the role of HRDM as a key driver of resource optimization and strategic alignment. By addressing the needs of individual employees through development practices, career growth and rewards, and organizational needs through systematic training, talent development, and work systems, HRDM amplifies the SMEs' resource utilization, directly aligning with RBV's emphasis on leveraging internal resources for strategic outcomes. The initiatives in the HRDM can transform employees into unique, irreplaceable assets reinforcing the RBV principle. Analyzing how the factors of individual employee development and organizational development are interconnected highlights the importance of HRDM within the RBV framework.

5. Conclusions

The research expands the theoretical contribution of HRDM factors in the context of SMEs, thereby deepening the understanding of the link between individual and organizational development and enterprise performance. The identification of three factors of individual employee development and three factors of organizational development provides a new framework for the analysis of HRDM in SMEs, which significantly enriches the existing literature. The study identifies the factors with the greatest impact on SME performance, thus providing a solid foundation for the development of theoretical models that examine the causal relationships between HRDM practices and enterprise performance, and at the same time stimulate further research into the optimization of HRD strategies.

The study offers valuable insights for owners and managers. By implementing the findings into practice, owners and managers of SMEs can refine their HRDM strategies. This will lead to measurable improvements in their enterprise's performance. Beyond its practical benefits, the study also adds to our understanding of HRD's role within SMEs. The research helps us understand the complex connections between HRDM factors and the overall performance of SMEs.

Further research in this field could investigate the impact of HRDM practices on employee retention in SMEs with constrained career advancement opportunities and limited financial incentives. A limitation of the research is the lack of long-term data, which constrains the capacity to evaluate the long-term impact of HRDM strategies on SME performance. Based on that, it would be beneficial to investigate the long-term impact of tailored HRDM strategies for the various clusters of SMEs identified in this study and to examine how these strategies can be adapted to address rapid changes in market conditions or economic disruptions.

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Author contributions

K. Havierniková and L. Hunková conceived the study and were responsible for the design and development of the data analysis, each contributing 30% to the overall work. I. Skačkauskienė and V. Navickas, each contributed 20% to the overall work. Both K. Havierniková and L. Hunková were responsible for data collection, analysis, and data interpretation, with I. Skačkauskienė and V. Navickas assisting in the interpretation of results. K. Havierniková and L. Hunková collaborated on writing the first draft of the article. I. Skačkauskienė and V. Navickas provided critical revisions and additional insights, each contributing to the refinement of the manuscript.

Disclosure statement

The authors declare that they have no conflicts of any interest.

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