



# Effects of socially responsible human resource management (SR-HRM) on innovation and reputation in entrepreneurial SMEs

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## Abstract

This work focuses on the importance of responsible human resource management, and its link to innovation and reputation, which are deemed to be relevant intangible assets for all firms, although particularly for entrepreneurial SMEs, and which are of particular interest since they have remained relatively unexplored despite their key role in the business fabric. Specifically, we present an explanatory model comprising three variables; the latent independent variable is socially responsible human resource management (SR-HRM), and the corresponding endogenous variables are reputation and innovation. In order to empirically validate the conceptual model developed, we design a survey which has been answered by a representative sample of entrepreneurs of their own firms. Using partial least squares (PLS), we analyse both the measuring model as well as the structural model. Results prove satisfactory and allow us to confirm the direct positive and significant relation between socially responsible human resource management and reputation, as well as the causal relation when innovation acts as a mediating variable.

**Keywords** SR-HRM · Entrepreneurial · Innovation · Reputation · SMEs

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## Introduction

Over the last few decades, society at large, and firms in particular, have displayed growing interest in social responsibility (Husted and Allen 2006; Aguilera et al. 2007). Social responsibility (SR) refers to firms' desire to respond to their stakeholders' demands, in terms of their various interests and needs (Vos 2003), and which is reflected in the firm's commitment to all persons, institutions as well as society as a whole. Many decades ago, Carroll (1979) was the first to consider all of the financial, legal, ethical and discretionary expectations which stakeholders place on firms, and which today remain at the forefront.

In its early days, SR literature focused on how to enhance performance, competitiveness or efficiency (Sarbutts 2003; Luken and Stares 2005; Murillo and Lozano 2006; Jenkins 2009; Moore and Manring 2009; Tomomi 2010), while other studies sought to verify this empirically (Chavan 2005; Marín and Rubio 2008; Niehm et al. 2008; Herrera et al. 2013). Hammann et al. (2009) reported that certain practices inherent in socially responsible management towards employees, clients and, to a lesser degree, society as a whole, ultimately had a positive impact on financial performance.

Specifically, human resource management policies associated with talent attraction and selection, training and development, performance management, reward systems, employee engagement and empowerment, create cultures, climates and capabilities necessary for positive outcomes (Renwick et al. 2011).

Gallardo-Vázquez et al. (2019) highlight the importance of adopting SR strategies in SMEs in order to enhance their innovation, competitive success, performance, and reputation. They cite these as the strategic variables that may be deemed key to the success and survival of SMEs which, due to their nature, find it difficult to survive in the corresponding markets.

Research into SR innovation and corporate social responsibility has tended to focus on large firms (Melé et al. 2006; Jamali and Mirshak 2006; Hemingway and Maclagan 2004) even though SMEs carry enormous weight in nearly all economies, providing over half of all employment. In the case of the European Union, SMEs account for 99% of all firms, and are responsible for creating two thirds of all jobs in the private sector as well as over half the total added value produced by companies (Fact Sheets on the European Union 2018). They thereby generate economic value, since they are both clients and suppliers for major companies. For its part, the European Commission has also highlighted the importance of adopting a different approach for SMEs to that used for large firms (CEC 2002, 2005, 2006).

The number of SR studies into SMEs has increased over the last decade given the latter's importance (Martínez-Conesa et al. 2017; Rubio-Andrés et al. 2020). Socially responsible SMEs also encourage other companies to participate in CSR (Biong and Silkoset 2017). Marín and Rubio (2008) feel that SR in SMEs should not be confined to exploring its impact on the financial sphere but should also be approached from a wider perspective such as, for example, reputation, customer satisfaction, employee wellbeing, quality and innovation (Pelham 2000; Camisón 1999; Cagliano et al. 2001; Paige and Littrell 2002).

Pellegrini et al. (2018) confirm a growth in the literature on the important role of sustainable human resource management in contributing to corporate sustainability, although it is noted that empirical research is limited. Few empirical studies have

directly addressed the extent that different human resource practices translate into sustainability issues in the workplace context.

In the bibliometric study carried out by Santana et al. (2020) they systematically review the development of CSR literature and its link with human resources management. They note how in recent years the literature on SR-HRM has grown significantly. During the period from 2017 to 2019, the link between CSR and human resource management, green HRM and sustainable HRM, stand out as well-developed and relevant topics for the structure of the research field.

The authors define SR-HRM as a basic and important item, although not developed. Specifically, during the period 2013–19, 52 articles were published on the SR-HRM theme (Santana et al. 2019, 2020). Despite the importance of HR in SR-HRM, there is still a gap in the specific academic literature.

However, far from having reached a consensus, there are currently different ways to determining which HR practices can be called socially responsible. We believe that SR-HRM, which sees employees as the central nucleus, forms a dynamic part of SR, and proves particularly important for SMEs since they are one of the key stakeholders.

The purpose of this study is, therefore, to theorize and empirically prove the relationship between socially responsible-HRM and positive reputation building in business, as well as its relationship to business innovation. We study the mediating role of innovation between SR-HRM and reputation for its relevance today. In particular, we answer the following research questions (1) to what extent reputation is explained by SR-HRM policies (2) how innovation affects business reputation and (3) how innovation mediates between SR-HRM and reputation.

The question is therefore whether good human resource practices implemented by socially responsible enterprises have an impact on the reputation of SMEs and whether this effect is more important when innovation is involved as a mediating variable. To answer the research questions, we developed a structural equation model that links the three variables, that is, socially responsible human resource management, innovation and reputation.

The work is structured in the subsequent sections. Following on from the introduction, an explanation is provided of the relevance of SR-HRM, reputation and innovation based on the literature and reality of SMEs. A description is then given of the proposed model as well as the hypotheses showing the causal relations between the variables, applying the structural equations technique. The main methodological aspects are then defined, focusing particular attention on the items chosen, together with the principal aspects of the quantitative study carried out. A specific section is then devoted to commenting on the results obtained. The final section puts forward the most significant conclusions and proposes future lines of research.

## Literature review

The growing importance of SR might be linked to its potential to impact employees, clients and organisations alike (Latif and Sajjad 2018). At an internal level, employees are a key asset to the company. A range of different approaches are required to manage people successfully, and SR needs to be incorporated into human resource policies if responsible employee management is to be achieved. If SR forms an intrinsic part of an

organisation's vision and mission, then social and sustainable objectives will be explicitly established, and human resources will be managed in a socially responsible way. HRM plays a proactive role in jointly defining the CSR strategy, mission and objectives that best leverage the company's unique competencies and capabilities while ensuring alignment with business results and objectives (Jamali et al. 2015). Entrepreneurs and managers are becoming increasingly aware of the responsibilities which SMEs must assume towards both employees and clients (Brown and King 1982; Chrisman and Archer 1984; Thompson and Smith 1991). In their study, Hammann et al. (2009) confirm that creating economic value is linked to the personal values of entrepreneurs and managers of SMEs.

Lis (2012) highlighted the importance of CSR for sustainable human resource management and indicated that CSR has an impact on organizational attractiveness. Lu et al. (2019) empirically tested the connection between CSR specifically aimed at employees.

In this regard, Orlitzky et al. (2006) and Shen and Zhu (2011) go one step further and refer to an innovative notion concerning social responsibility policies and strategies aimed at employees, and which is known as socially responsible human resource management (SR-HRM). They embrace a social dimension in the management of employees, since it takes into consideration human resource practices and policies as well as RS strategies (Barrena-Martínez et al. 2017). Through SR-HRM, firms go beyond what is strictly required by legislation and invest both time and resources in an effort to meet employees' needs through the latter's involvement in management. This makes it possible to cater to the interests of employees and external stakeholders in order to achieve both efficiency and sustainability (Shen and Benson 2016).

In fact, SR-HRM represents a basic or transversal theme of the link between CSR and HRM. According to Santana et al. (2020) there are relevant studies that link SR-HRM to the variables of organisational citizenship behaviour (OCB) and perceptions (Newman et al. 2016), employee performance (Shao et al. 2019). Shen and Benson (2016) highlighted the mediating role that employee engagement plays between SR-HRM and task performance. Paillé et al. (2014) examine how human resource practices can have a sustainable influence on the employee behaviour.

Martín-Alcázar et al. (2005) explain the relevance of introducing socially responsible orientation in human resource management and state how SR-HRM involves implementing efficient human resource policies and practices, regardless of the context, the country or size of the firm Martín-Alcázar et al. (2008).

Contributing to this debate, Jamali et al. (2015) argue that the human resource management (HRM) function can provide strategic support to CSR.

Barrena-Martínez et al. (2017) feel that SR-HRM aims to add a fresh social nuance to managing people, with these policies needing to fit in with the firm's CSR, HRM and overall strategy. Furthermore, the socially responsible orientation must go beyond legality and traditional economic objectives and should seek to achieve not only greater performance at the individual employee level, but also to balance workers' personal and professional expectations, improve their welfare and their commitment to the company.

Wright and McMahan (1992) consider that SHRM involves the planned design of human resource activities that enable organizations to achieve their objectives.

Therefore, human resource management must be part of the strategic objectives and the organizational context. Human resource managers face complex challenges that involve, for example, reducing salary costs to meet financial objectives and at the same time promoting a work-life balance and work commitment programme that improves the work climate.

Distinct from the high-performance work system (HPWS), which mainly pursues business performance, SR-HRM not only cares about organizational outcomes but is also concerned with broader social welfare. SRHRM achieves its goal by engaging employees in the process of CSR implementation. For example, it cultivates employees' knowledge, skills and abilities, and fosters employees' motivation to participate in CSR activities by providing training and attractive rewards (Shao et al. 2019).

In addition to introducing human resource management initiatives which enhance welfare and address employees' concerns, Dupont et al. (2013) found that when SR merges with human resource management (SR-HRM), it has an impact on employees, particularly in terms of investment in human capital to attract and retain qualified workers. SR-HRM, which focuses on satisfying employees' needs, applies social responsibility to policies related to hiring, training, promotion, professional career, fair pay and employee involvement in management (Shen and Zhu 2011). Barrena-Martínez et al. (2017) state that socially responsible human resource practices undoubtedly attract and retain employees, training and continuous development, employee relationship management, communication, transparency and social dialogue, diversity and equal opportunities, fair remuneration and social benefits, prevention, occupational health and safety at work and work-life balance. (see Fig. 1).

On the other hand, the intangible resources are proving ever-more relevant to long-term company success. Key aspects include employee motivation (Cochran 2007; Valentine and Fleischman 2008; Montgomery and Ramus 2011), the organisation's ability to innovate (Bocquet et al. 2013), reputation and image (Hillebrand and Money 2007; Bebbington et al. 2008; Du et al. 2010; Pérez-Ruiz and Rodríguez-del-Bosque 2012; Olmedo-Cifuentes et al. 2012). Surroca et al. (2010) point out that intangibles such as innovation, human resources, culture or reputation are clearly linked to superior business performance. Villafaña (2004), Gürel (2014) and Park et al. (2014) posit a possible link between reputation and SR, ethics, human resources and corporate governance as intangibles.

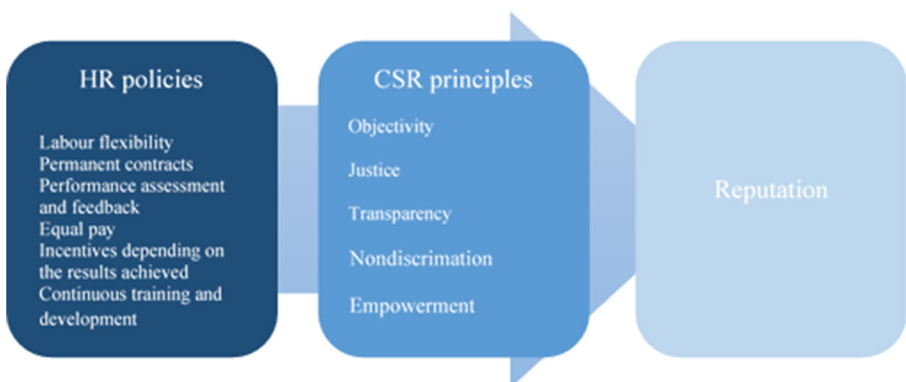


Fig. 1 SR-HRM model. Source: Based on Díaz Carrión (2018) and Jamali (2015)

For Varadarajan (2017), larger companies have more pressure from stakeholders, such as customers, suppliers and employees, than smaller companies to drive sustainable innovations. Large companies have more resources, more expertise and greater reputational risk if they do not demonstrate a commitment to sustainability.

In recent years, corporate reputation has acquired enormous importance in the academic, business and professional sphere. Reputation is the result of a process whose origin lies in the firm's behaviour towards its stakeholders and its ability to satisfy their expectations, both in terms of behaviour and information transparency (De Quevedo et al. 2005). Furthermore, reputation is a fundamental factor for the future continuity of the company (Martariza et al. 2017).

Chun (2006) considers that reputation management depends on the capacity of companies to promote corporate values such as commitment, honesty, trust, and fair behaviour, among others, which are reflected in a corporate culture in which employees are directly involved. In this sense, Davies and Miles (1998) confirmed that most companies promote fundamental values as a central element of reputation management, including reliability, innovation, trust, social responsibility, honesty and integrity.

Following Mattera and Baena (2015), SR is a key driver of business reputation in terms of employee relations and diversity, society and the environment (Melo and Garrido-Morgado 2012).

Organisations are implementing a growing number of SR initiatives in an effort to create legitimacy, enhance their reputation and improve their long-term performance (Orlitzky et al. 2003; Aguilera et al. 2007; Porter and Kramer 2006).

Branco and Rodrigues (2006) find that the perspective based on resources, explains why companies get involved in CSR activities, especially for their contribution to the company's reputation. Specifically, the good practices applied by socially responsible firms have an impact on SMEs' reputation (Nejati et al. 2017).

To improve the positive perceptions of the company (reputation), it is necessary to better understand the fundamentals of SR (Morgeson et al. 2013), to achieve a higher quality work climate and in turn meet the expectations of stakeholders (Morsing and Perrini 2009; McWilliams and Siegel 2011, Orlitzky et al. 2011).

The quest for innovation has often been identified as a key cornerstone for firms who wish to succeed. Generally speaking, innovation is the introduction of new or significantly improved products, processes, means of marketing or modes of organisation, trade practices, workplace organisation, or exterior relations (OECD 2005: 17, 46). It should be stressed that innovations need to be successfully disseminated in the market or put into practice if they are to have the desired economic impact; in other words, to go beyond inventions (OECD 2005: 17).

Social responsibility and sustainability are innovative and potentially transformative forces that generate new products and processes that challenge existing practice (Blum-Kusterer and Hussain 2001). Wang (2019) studied a model that to achieve sustainable human resource management, innovation capacity, work performance and knowledge sharing, are necessary.

Recent literature highlights the importance of the link between SR and innovation to achieve competitive advantage (Husted and Allen 2007). Most research on innovation and SR is carried out at large companies Bos-Brouwers (2010). The innovation process for SMEs is different, having disadvantages in resources available for innovation (Halme and Korpeda 2014). Several authors argue that traditional innovation

indicators, such as R&D expenditure or the number of patents, are not applicable to SMEs (Acs and Audretsch 1988; Kleinknecht 1989; Tether 1998). While studies conclude that small firms can keep pace with large firms in the field of innovation and show no difference in the quality and importance of the innovations produced (Van Dijk et al. 1997), the role of the entrepreneur is crucial for the innovation process in SMEs (Docter et al. 1989; Hartman et al. 1994).

There are different forms of innovation in organisations, in marketing (Lin and Chen 2007); in organisational structure or in administrative processes (Ravichandran 2000); in staff training and development (Basterretxea and Martínez 2012); in management, with particular focus on quality or environmental certification (Zahra et al. 2000). Klewitz and Hansen (2014) distinguish between radical and incremental innovations, with the latter being the more common in the case of SMEs. Innovations go beyond merely developing products and ongoing improvements, since SMEs' sustainable competitive advantage is not based solely on products and services as they are too easy to replicate. Entrepreneurs in innovative firms seek the right management of human resources as well as efficient management of risk and change (Staniewski et al. 2016).

Investment in innovation can thus lead to both CSR-related processes and product innovations which, in turn, are valued by consumers and contribute to business competitiveness as measured by reputation (Marín et al. 2017).

For Santana et al. (2020), researchers should develop studies related to SR and its connection with human resource management, explaining the moderating and mediating role that other variables can play in the models created. In our case, we use reputation as the final variable, and innovation as the variable that plays a mediating role.

Therefore, we propose a model where social responsibility achieves responsible human resources practices, improving innovation and reputation.

## Formulation of the model

### SR-HRM and reputation

When firms embrace responsibility in their business model, they achieve a better image for their principal stakeholders; in other words, their employees (Ramos-González et al. 2017). Reputation will depend on the information the latter receive concerning the firm's social commitment through its SR actions (Marín and Rubio 2008; Greening and Turban 2000, Luce et al. 2001). SMEs should be aware that a lack of SR entails a high cost for their image and market position. SMEs need to communicate their CSR activities in order to improve their corporate image and competitiveness (Bikefe et al. 2020). Murillo and Lozano (2006) and Jenkins (2009) feel that SMEs still have a long way to go in terms of learning how to promote and disseminate their best sustainable practices. How firms manage their reputation and image will prove crucial vis-à-vis the strategic incorporation of SR into organisational processes, particularly in those which directly impact competitiveness (Vilanova et al. 2009).

There is empirical evidence to suggest that SR is positively linked to enhanced corporate reputation (Shen and Zhu 2011). Organisations which include SR initiatives in their chain of value are gradually able to forge a good company reputation (Turban and Greening 1997; Fombrun 2005), thus staying ahead of legal sanctions (Parker

2002), achieving customer loyalty (Bhattacharya and Sen 2003, 2004) and employee retention (Hickman et al. 1999). For Cochran (2007), social responsibility is directly related to corporate reputation due to greater levels of stakeholder satisfaction and enhanced performance in the medium and long term. Baldarelli and Gigli (2014) approach reputation from a social responsibility perspective and reach the conclusion that the means used to measure and manage reputation are closely linked to the elements that make up SR. The empirical analysis carried out by Gallardo-Vázquez et al. (2019) confirmed that SMEs are favourably inclined toward CSR, and have the capacity to be socially responsible as well as being motivated to work on expanding and improving their reputation. Thus, considering the SR-HRM approach, responsible human resource management has a direct impact on firms' corporate reputation, enhancing their prestige and good name (Fombrun and Rindova 1996; Villafaña 2004). This leads us to posit the first hypothesis in the research:

H1. *SR-HRM significantly and positively affects reputation in SMEs.*

## **Innovation and reputation**

Innovation has also been analysed for its impact on variables such as performance (Yeh-Yun Lin and Yi-Ching Chen 2007) and business growth (Christensen et al. 2003; Piperopoulos and Scase 2009); Vaccaro et al. 2010; Börjesson and Löfsten 2012; Szczygielski et al. 2017). The work of Jaruzelski et al. (2011) contends that firms which have cultures closely aligned with innovation grow in value by up to 30% compared to their rivals. Innovation is also an important means of achieving reputation. The study by Hormiga and Garcia-Almeida (2016) examines how to create reputation through innovation strategies and prior knowledge and confirms how these two variables play a key role in developing reputation in the early years of the firm's life.

Sridhar and Mehta (2018) find a positive relation between service innovation and corporate reputation, and how these have an impact on customer purchase intention. They empirically demonstrate that corporate reputation acts as a moderating variable between service innovation and purchase intention. Burdon et al. (2017) show that organisations which achieve a sound reputation thanks to innovation prove attractive to other firms when it comes to establishing alliances thanks to the competitive advantage obtained. Moreover, in addition to external image, innovation can lead to significant improvements in performance and a competitive position in the market. Castilla-Polo et al. (2017) design a reputation model for cooperatives and confirm in their findings that SR has a direct impact on their reputation, as well as an indirect impact through innovation, thereby enhancing its effect.

Halme and Korpeda (2014) propose a study analyzing the resources needed by SMEs for responsible innovation. They develop a model in which reputation is one of the most relevant factors for SMEs. Likewise, Bae et al. (2014) also carried out research along the same lines, and the results show that corporate reputation is considered a fundamental resource for SMEs to be innovative companies.

As a result of the main relations found in prior literature, we posit the study's second hypothesis:

H2. *Innovation has a significant and positive influence on reputation in SMEs.*

## SR-practices and innovation

The link between CSR and innovation has been studied and defined as positive in several reviewed articles (McWilliams and Siegel 2001; López-Pérez et al. 2007, Padgett and Galán 2010; Wagner 2010), and indirectly through competitive success (Sánchez-Hernández et al. 2019). What is more, there is a two-way link between the two variables (MacGregor & Fontrodona 2008; Gallego-Alvarez et al. 2011; Bocquet et al. 2013; González-Ramos et al. 2014). Surroca et al. (2010) define this as a virtuous circle, while some authors determine what kind of SR strategy most positively favours innovation (Sharma and Vredenburg 1998; Ferauge 2012; Torugsa et al. 2012; Bocquet et al. 2013). Rexhepi et al. (2013), found that innovation is stimulated by companies' overall commitment to CSR.

Gregory et al. (2009) show that organizational culture and work climate significantly affect employee attitudes and organizational effectiveness towards innovation, because employees recognize innovation as an essential value for the organization and, consequently, there is greater employee involvement (Dulaimi and Hartmann 2006). Social responsibility promotes sustainable innovation not only in large companies but also in SMEs since it is considered part of innovative organizational behavior, aimed at replacing unilateral approaches that cause business crises (Zlatanović & Mulej 2015), as occurs when the SME is concerned only with the search for profits exclusively for the owners of the company.

Chun (2006) confirms in her study that both innovations and SR are factors that maintain a positive influence on business reputation. In this sense, she highlights the birth of a hybrid term, corporate social innovation or sustainable innovation.

Shapiro (1983) and Kirchoff (2000) evidenced the relation between the performance derived from SR and innovation. In a similar vein, and looking beyond technological innovations, Turban and Greening (1997) explored organisational innovations in depth, specifically those which affected employees. The work of Wagner (2010) sets out in detail how engaging in SR yields a number of benefits, which determine business innovations.

Battaglia et al. (2014) explore how SR in SMEs can lead to innovation by creating new work methods, products, services, innovative processes and fresh market opportunities. Their analysis highlights the fact that innovation is the most direct and effective competitive implication to come out of SR initiatives. Gallardo-Vázquez et al. (2019) underscores the mediating effect of innovation in the SR sphere, and concludes that innovation bolsters its effect in microfirms. This in itself can be seen as an innovation (Nieto-Antolín and Fernández-Gago 2004), although it also posits the notion that firms who engage in SR action are more inclined to innovate. The study by Valdez-Juárez et al. (2018) evidences that SMEs who develop social and sustainable practices increase their level of innovation, and improve their image, reputation and financial profitability. Thanks to its empirical findings in SMEs, the study by Martínez-Conesa et al. (2017) confirms the link between SR practices and particularly that of SR-HRM to innovation. As a result, for these authors, innovation represents an indispensable tool for implementing CSR.

The commitment of companies with the development of human capital, drives employee training and is fundamental to successful product and process innovations (Kleinknecht et al. 2002; Freel 2005).

For these reasons, we set out hypothesis three as follows:

- H3. *There is a significant and positive relation between SR-practices in SMEs and innovation.*

Based on the above literature review, a causal relationship model was constructed, as shown in Figure 2. In our case, the proposed model is recursive. All relationships between latent variables are unidirectional and are defined from left to right; in other words, they contain no circular or reciprocal effects.

There is only one independent latent variable (SR-HRM) in the model, such that there is no need to specify the existence of covariance between the independent latent variables. The direct effect occurs between the latent variable and its corresponding indicators or between the latent variables themselves. In the proposed model, there is a direct effect between the latent variables SR-HRM, innovation and reputation.

A second direct effect we study occurs between innovation and reputation.

The indirect effect is mediated by one or by several variables, (Baron and Kenny 1986). SR-HRM would also have an indirect effect on reputation mediated by the latent variable innovation, which represents the improvements related to management at the level of purchases and sales, organisational structure, renewal of equipment and progress in the commercial field (Gallardo-Vázquez and Sánchez-Hernández 2013).

## Methodology

### Population and sample

The population of firms to be researched corresponds to mercantile companies employing between six and 249 workers in the manufacturing, construction, retail and service industries in the region of Madrid, Spain. The distribution of companies in the population was estimated based on the Central Companies Directory published by the National Institute of Statistics (DIRCE, 2017). The selection framework was the SABI database from the firm INFORMA. Sampling was performed through stratification of the population. Stratification criteria were established in accordance with the aims of the study and the

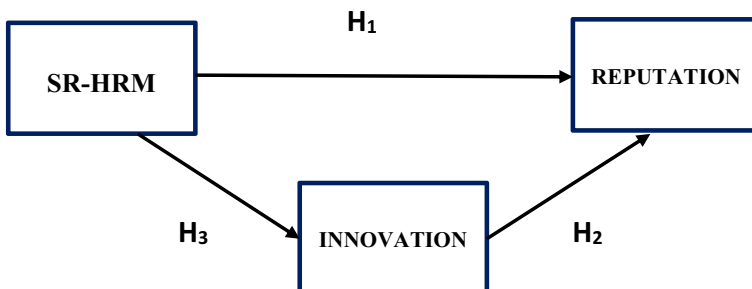


Fig. 2 Graphic Representation of the Conceptual Model of the Causal Relations Posited in the Model Source: own

information available concerning the population structure. Specifically, the following strata were established: sector (industry, construction, retail, and services) and size (micro-enterprise, from six to nine workers; small, 10 to 49 workers; and medium, 50 to 249 workers).

The initial criterion to determine the size of the sample was set out such that the maximum error (assuming the greatest uncertainty  $p = q = 0.5$ ) when estimating a proportion for the whole population was below five percentage points at a confidence level of 95%. (Table 1).

### Measuring instrument

The questionnaire was designed specifically for the present study by selecting indicators, variables and the links between them, following the relevant literature.

The questions refer to the assessment of socially responsible practices in human resources, such as training and development, professional career, performance assessment, work flexibility, permanent contracts, equity in remuneration, etc., how is the innovation in SMEs like, in terms of processes, products and social aspects, and the assessment of the image and reputation achieved by the company, transparent performance with regard to the different stakeholders and presence in social networks.

The questionnaire follows a 5-point Likert scale where SME entrepreneurs of their own firms rate the importance of the degree to which the indicators have been met in their organisation.

### Data processing

For the analysis model, we use partial least squares structural equation modeling (PLS-SEM)<sup>1</sup> which enables us to estimate the chains of causal relations defined between the latent variables that are not observable using statistical methods (Williams et al. 2009). The latent variables are reflected by the manifest variables or measurable variables from which the information is taken so that they can be estimated.

In SMEs, a deductive procedure is used, such that the researcher proposes a priori the indicators that will form each construct, before subsequently ruling out those which fail to meet certain internal consistency properties: reliability, convergent validity, and discriminant validity. In the basic model, we propose 30 observed variables or indicators, three latent variables and three parameters for these to be estimated, such that if we subtract them from the 465 known parameters we are left with 459 degrees of freedom. The greater the number of degrees of freedom, the better the data fit, which will enable us to show that the associations between the latent variables and the indicators are more important.

SR-HRM, exogenous latent variable indicating how SMEs manage their human resources responsibly, using eleven indicators.

<sup>1</sup> SmartPLS 3 version was used (2015).

**Table 1** Sample of SMEs in the region of Madrid (Spain)

SECTOR	Micro SME	Small	Medium	Total
Retail	19	19	5	43
Construction	17	24	3	44
Industry	17	25	5	47
Services	42	62	23	127
<b>Total</b>	<b>95</b>	<b>130</b>	<b>36</b>	<b>261</b>

Source: own

The innovation, considered as an endogenous latent variable, reflecting the incorporation of new technologies and innovative processes in SMEs, we use thirteen indicators for their measurement.

Reputation, endogenous latent variable, which is measured through six indicators, reflects the positive image of the company, its transparent performance and the creation of shared value.

### Creation and measurement of variables

The present study uses reflective variables since these meet the aims of the research (Hair et al. 2019). Indicators and observable variables are a reflection or expression of the constructs, such that these were not observed directly but were linked to the selected indicators (Gallardo-Vázquez et al. 2019, Wetzels et al. 2009). (Table 2).

## Results

### Measurement model evaluation

Reliability aims to test the absence of error in the model, and specifically to determine how accurate the measuring instrument is, such that if the instrument is reliable, the value of the various measures repeated on the same object will be the same. Reliability is taken into account at the indicator level and at the construct level.

The individual reliability of each indicator or manifest variable is tested by examining the weights obtained by PLS ( $\lambda$ ) or simple correlations of the manifest variables with their specific construct. An initial iteration was carried out of the algorithm using SmartPLS. Indicators with standardised weights below 0.4 (Churchill Jr. 1979, cited in Henseler et al. 2009) were removed, and the model was reformulated.

The Cronbach alphas obtained in the present research were also considered satisfactory because the values are over 0.70 (Hair et al. 2006) (between 0.691 and 0.960), which confirms the constructs' high reliability, except for reputation, which is nevertheless extremely close to the 0.70 limit. For Fornell and Larcker (1981), composite reliability is a more recommendable criterion and would reach an appropriate value (0.745). For Henseler et al. (2009), only values below 0.60 indicate a lack of reliability.

**Table 2** Description of the variables, indicators and authors

VARIABLE	INDICATOR	DEFINITION	LITERATURE
SR-HRM	SR_1	Labour flexibility (*)	Martín-Alcázar et al. (2005); Orliizky et al. (2006); Swanson (2006); Shen and Zhu (2011); Dupont et al. (2013); Shen and Benson, (2016); Barrena-Martínez et al. (2017); Lechuga-Sancho (2018), Shao et al. (2019)
	SR_2	Permanent contracts (*)	
	SR_3	Human resources satisfaction and motivation	
	SR_4	Code of conduct available to employees (*)	
	SR_5	Employee knowledge of digitisation (*)	
	SR_6	Performance assessment and feedback	
	SR_7	Equal pay	
	SR_8	Incentives depending on the results achieved	
	SR_9	Professional career development	
	SR_10	Investment in training in time and money	
	SR_11	Continuous training programmes	
INNOVATION	IN_1	E-commerce platform (*)	De los Ríos et al. (2012); Gallardo -Vázquez et al. (2013); Battaglia et al. (2014), Martínez -Conesa et al. (2017); Sridhar and Mehta (2018)
	IN_2	Office software (*)	
	IN_3	Use of the cloud (*)	
	IN_4	Organisational changes implemented	
	IN_5	Changes implemented depending on purchases	
	IN_6	CRM programmes (*)	
	IN_7	ERP applications (*)	
	IN_8	Changes implemented in the commercial sphere	
	IN_9	Changes or improvements in existing products or services (*)	

Table 2 (continued)

VARIABLE	INDICATOR	DEFINITION	LITERATURE
	IN_10	The acquisition of new capital goods is important(*)	
	IN_11	Significant improvements in management	
	IN_12	Significant improvements in procurement	
	IN_13	Significant improvements in marketing	
REPUTATION	RP_1	Involves achieving social value as well as economic value	Barney (1986); Weigel and Camerer (1988); Fombrun and Shanley (1990); de Hall (1992); Brown (1998); Kroll et al. (1999); Ferguson et al. (2000); Carmeli and Tishler (2004); Cochran, 2007); Martínez-León and Olmedo-Cifuentes (2009); López-López and Iglesias-Antelo (2010); Herrera et al. (2013)
	RP_2	Enhanced customer experience (*)	
	RP_3	Positive perception of enhanced image and reputation	
	RP_4	Perception of greater transparency with clients and suppliers in recent years	
	RP_5	Opportunities to become involved in decision making	
	RP_6 (*)	Active presence in social networks	

Note. (\*) indicators removed as a result of failing to pass the reliability test

Source: own

Convergent validity in the measurement model gauges the capacity of the latent variable to explain its indicators. We measure it through the average variance extracted (AVE). The criterion establishes AVE values of at least 0.5 for values of the latent variables, which represents the construct's capacity to explain, on average, over half of the variance of its indicators (Fornell and Larcker 1981, cited in Henseler et al. 2009). The latent variables in the model reach said value, with the exception of reputation, which comes very close (0.491). In fact, innovation even exceeds the cited value by some distance (0.834). (Table 3).

To check if we can apply the factorial analysis of the variables studied, we have calculated the KMO value and Bartlett test of sphericity. The first one is very close to 0.7, so the relationship between the variables is medium. The Bartlett test of sphericity confirms that the model carried out is significant, so we can apply factorial analysis. (Table 4).

### Discriminant validity

The factor loading matrix and the cross-loadings show that the load of an indicator in its corresponding latent variable is greater than its loads crossed with the rest of the latent variables. The results obtained when testing the discriminant validity of the constructs

**Table 3** Discriminant and convergent validity of constructs

INDICATORS	Loads ( $\lambda$ )	CA	CR	AVE
<b>INNOVATION</b>		<b>0.960</b>	<b>0.968</b>	<b>0.834</b>
IN_4	<b>0.888</b>			
IN_5	<b>0.929</b>			
IN_8	<b>0.922</b>			
IN_11	<b>0.889</b>			
IN_12	<b>0.930</b>			
IN_13	<b>0.922</b>			
<b>REPUTATION</b>		0.691	<b>0.779</b>	0.491
RP_1	0.663			
RP_3	0.648			
RP_4	0.651			
RP_5	<b>0.775</b>			
<b>SR-HRM</b>		<b>0.856</b>	<b>0.892</b>	<b>0.546</b>
SR_3	0.508			
SR_6	<b>0.776</b>			
SR_7	<b>0.805</b>			
SR_8	<b>0.710</b>			
SR_9	<b>0.812</b>			
SR_10	<b>0.788</b>			
SR_11	<b>0.727</b>			

CA = Cronbach's alpha; CR = composite reliability. AVE = Average variance extracted

Source: own based on SmartPLS

**Table 4** KMO value and Bartlett's test

KMO value and Bartlett's test		
Kaiser-Meyer-Olkin Measurement of Sampling Adequacy		0.696
Bartlett's Test of Sphericity	Approx. Chi-Square	9500.782
	df	136
	Sig.	0.000

Source: own based on SPSS

applying the Fornell–Larcker criterion (Fornell and Larcker 1981) are shown in Table 5. The discriminant validity implies that each construct must be significantly different from the rest of the constructs with which it is not related.

Moreover, in the cross-loading matrix, we observe the loads between the indicators of all the latent variables and see how an indicator's load in its associated construct is much greater than its load in the other constructs (Table 6).

Henseler et al. (2016) showed that lack of validity is best detected through the heterotrait–monotrait ratio indicator. We found that the heterotrait–monotrait ratio is below one. Gold et al. (2001) even consider a value of 0.90. In line with the criteria established, the proposed constructs are fully complied with, as can be seen in Table 7.

We examined the residual matrix of correlations and found there were no significant residual values that would indicate a substantial prediction error for the indicators or manifest variables that make up each of the constructs in the model.

## Structural model evaluation

### Variance inflation factor

The assessment of the structural model comprises various evaluations (Hair et al. 2014; Henseler et al. 2009). We studied multicollinearity in the structural model through tolerance evaluation, in other words below 0.20, and the variance inflation factor, with values below 5.

The following table shows the results obtained, where we see that they are all below below 3 (following the authors are ideal data). As a result, the model constructs are valid (Table 8).

Table 9 shows the results for the beta ( $\beta$ ) coefficient, degree of significance, and importance of the value distribution using Student's *t* test. To test the

**Table 5** Fornell-Larcker Criterion

	INNOVATION	REPUTATION	SR-HRM
INNOVATION	0.913		
REPUTATION	0.181	0.686	
SR-HRM	0.159	0.679	0.739

Source: own based on SmartPLS

**Table 6** Cross Loadings

	INNOVATION	REPUTATION	SR-HRM
IN_4	<b>0.888</b>	0.150	0.157
IN_5	<b>0.929</b>	0.164	0.141
IN_8	<b>0.922</b>	0.178	0.136
IN_11	<b>0.889</b>	0.153	0.159
IN_12	<b>0.930</b>	0.167	0.143
IN_13	<b>0.922</b>	0.180	0.138
RP_1	0.085	<b>0.663</b>	0.321
RP_3	0.160	<b>0.648</b>	0.276
RP_4	0.144	<b>0.651</b>	0.273
RP_5	0.128	<b>0.775</b>	0.717
SR_3	0.178	0.505	<b>0.508</b>
SR_6	0.146	0.534	<b>0.776</b>
SR_7	0.091	0.557	<b>0.805</b>
SR_8	0.099	0.424	<b>0.710</b>
SR_9	0.120	0.510	<b>0.812</b>
SR_10	0.084	0.502	<b>0.788</b>
SR_11	0.091	0.422	<b>0.727</b>

Source: own based on SmartPLS

hypotheses, a bootstrapping procedure with 5000 subsamples was used, as recommended by Chin (1998).

The results provide empirical support for the hypotheses used to structure the research model. The results for H1 confirm the variables' positive and significant effects ( $p < 0.001$ ). In the case of H1, the effects are also positive and significant ( $p < 0.05$ ). Finally, the results for H2 indicate that innovation has a less intense, albeit still positive and significant influence on SME reputation, with a value of 0.075. There is also a slight indirect effect between the constructs SR-HRM and Reputation through the mediating construct Innovation (0.0119), which gives a total effect of 0.6789.

### Predictive relevance of the model

The proposed model's capacity to explain the dependent variables it is composed of is shown through the coefficient of determination ( $R^2$ ; Chin et al. 2003; Falk and Miller

**Table 7** Heterotrait-Monotrait Ratio (HTMT)

	INNOVATION	REPUTATION	SR-HRM
<b>INNOVATION</b>			
<b>REPUTATION</b>	<b>0.220</b>		
<b>SR-HRM</b>	<b>0.174</b>	<b>0.709</b>	

Source: own based on SmartPLS

**Table 8** VIF Values

	INNOVATION	REPUTATION	SR-HRM
INNOVATION		1.026	
REPUTATION			
SR-HRM	1.000	1.026	

1992; Leal and Roldán 2001). According to the R2 results obtained, the predictive power of reputation is moderate. Specifically, for reputation, 46.7% of the variability is explained by the latent variables SR-HRM and innovation.

As a complement to consider predictive relevance, the Q2 criterion of Stone (1974) and Geisser (1975) is used. There is predictive relevance in the dependent construct considered, when the Q2 is positive, and the higher its value, the greater the relevance (Henseler et al. 2009; Pinto-Jiménez et al. 2006). In accordance with the results obtained, the predictive relevance of the model is ensured in this research, given that a positive value is reached for each endogenous variable. (Table 10).

## Discussion of result

One prominent feature in the model is that the direct effect of SR-HRM on reputation in SMEs (H1) is the most significant, in light of the results obtained.

The validation of this hypothesis is very relevant because we encourage SME entrepreneurs to bet on the responsible management of human resources, since if they do so they will obtain positive results in terms of business reputation.

We empirically confirm the statement of Valdez-Juárez et al. (2018) on how small and medium enterprises engaged in socially responsible practices can improve their reputation.

There is also a positive relationship between SR-HRM and business innovation (H3), so that those SMEs that employ good practices in people management achieve more innovative processes.

We confirm that companies implementing socially responsible strategies are more inclined to innovate (Bocquet et al. 2013). The synergy between CSR and innovation is manifested by both being strategic elements of competitiveness (Gallardo-Vázquez 2019).

**Table 9** Hypotheses contrast

	Hypotheses	$\beta$ Coefficients	t-values	Supported
H1	SR-HRM ->REPUTATION	0.667***	20.878	Yes
H2	INNOVATION ->REPUTATION	0.075*	1.664	Yes
H3	SR-HRM ->INNOVATION	0.159**	2.937	Yes

\* $p < 0.1$  \*\* $p < 0.01$  \*\*\* $p < 0.001$

**Table 10** Construct Cross-validated Redundancy

	Q <sup>2</sup>
<b>INNOVATION</b>	0.020
<b>REPUTATION</b>	0.167

Source: own based on SmartPLS

The H2 relating to the positive influence of innovation on reputation is confirmed. According to Chun's study (2006), innovation is one of the key criteria for assessing the reputation of companies.

Nevertheless, the indirect effect which occurs when the variable innovation acts as a mediator proves to be less important. The capability of Small and Medium Enterprises (SMEs) to drive and shape markets is one path to competitive advantage. Firms that drive markets do so by leveraging radical and disruptive innovation to shape the needs of current and future customers, thereby altering market structure (Zortea-Johnston et al. 2012). The characteristics of SMEs also lead to differences in innovation capacity with respect to large companies, although they show no difference in the quality and importance of the innovations produced Bos-Brouwers (2010). In our empirical study on Spanish entrepreneurial SMEs, we find that they only undertake process-related innovations, which might explain why said relation emerges as less significant.

As regards the indicators measuring the latent independent variable SR-HRM, we highlight those which address employee training, specifically SR\_6, which examines the evaluation of performance and feedback, SR\_9, which measures professional career development, SR\_10 and SR\_11, which consider investment in training in money and time and continuous training, respectively. In line with the literature review, training as well as professional development and performance evaluation are seen as some of the principal components of SR-HRM (Shen and Zhu 2011). Du Pont et al. (2013) highlight employee training and career promotion as being key to SR.

Finally, reputation is measured through four indicators, where RP\_1 indicates that social and economic benefit are both achieved (Meyer et al. 2017; Schmidt et al. 2018; Yeo and Carter 2018), and that CSR is a channel through which businesses, including SMEs, contribute to societal goals. RP\_3 measures the existence of a positive perception of image and reputation, and RP\_4 points to transparency with regard to clients and suppliers, and although they fail to reach the recommended value for  $\lambda \geq 0.7$ , they do come very close. We provide support for the work of López-López and Iglesias-Antelo (2010) regarding the importance of stakeholder opinion for the firm, reflected in the above-mentioned RP\_4. The last significant indicator RP\_5, measures the opportunities that employees have to participate in decision making (Cochran 2007).

SMEs have the opportunity in the market to make a decided commitment to innovation beyond what are merely their internal processes, and thereby to enhance their reputation through entrepreneurial orientation. In this regard, as can be seen in our study, SR-HRM plays a key role for both innovation and reputation.

In addition, innovation displays a mediating effect which might be seen as moderate between SR-HRM and reputation, even though certain recent studies confirm

innovation's mediation between CSR and reputation (Valdez-Juárez, et al. 2018; Gallardo-Vázquez et al. 2019). This difference might be due the fact that SR-HRM remains a relatively unexplored variable and because SMEs evidence different degrees of innovation as a result of their strategies (Hansen and Klewitz 2012; Noci and Verganti 1999; Sharma and Sharma 2011).

## Conclusions

Policies geared towards human resource management involving SR are currently acquiring enormous importance, and which has been recognised in the literature reviewed as socially responsible human resource management (SR-HRM) (Orlitzky et al. 2006; Shen et al. 2014; Shen and Zhang 2019; Barrena-Martínez et al. 2017). In conclusion, SR-HRM it is a tool to implement CSR (Shao et al. 2019) and building reputation.

## Theoretical implication

First, this study contributes to the SR-HRM literature by creating a model and using explanatory indicators, also contributing to the areas of sustainable development, innovation and business success.

SR-HRM includes those policies and practices which help to improve employees' performance at work as well as their quality of life (Dupont et al. 2013), such as hiring, involving and rewarding employee participation in SR initiatives aimed at stakeholders (Shen and Zhu 2011).

Prominent amongst such policies are those involving, employee participation and training (Shen and Zhu 2011). According to these authors, SR-HRM has positive effects on employees, but the issue should be studied further. For this reason, the effects of social responsibility and human resource management on employee attitudes and behaviours remain a legitimate quest for research in human resource management. Our article advances along these lines.

Second, Marín et al. (2017) shows that innovation is the key way to move from CSR policies to competitiveness, which can be measured by the company's image. For the authors, it is not clear which key activities are affected by this innovation, while in our study applied to SMEs we can say that process innovation would be the most appropriate way to improve the reputation of SMEs.

Third, the results of our research take an important step towards understanding the importance of responsible human resource management, because of the benefits it brings to SMEs. It has long been asserted that participating in CSR produces positive results for both society and organisations. However, our research finds that involving employees in CSR initiatives with human resource management practices could generate innovation and business reputation.

## Practical implications

We believe that our study has important practical implications for SMEs in the current business world.

Our study seeks to provide empirical support for the link between SR-HRM, innovation and its impact on SME reputation, in such a way that we demonstrate that good practices in human resource management carried out by socially responsible companies have an impact on reputation and innovation, with innovation also playing a mediating role between the two.

In this way, we have considered the recommendation of Santana et al. (2020) on the need to develop work that studies the link between SR and HR management, or what is the same, SR-HRM, looking for the mediating role that other variables can play. In our case, we have designed a model with 3 variables, where the final variable is reputation, and the mediating variable is innovation.

We consider a breakthrough in our research to demonstrate the empirical relationship of the variables used in the model, so that we can consequently advise SME entrepreneurs on the importance of responsible human resource management, in particular through training, career development and performance evaluation, which involves improving the company's reputation and boosting the generation of process innovations.

### Further research and limitations

Due to the importance of HR in managing the social responsibility of SMEs, it is necessary to continue researching the concept of SR-HRM as a basic and important subject, to be developed, as explained by Santana (2020).

We have empirically proven that reputation improves when Corporate Social Responsibility is merged with human resource management practices. In future research, other resulting variables such as legitimacy building or long-term organizational performance can be used. The mediating role of innovation can also be the subject of future empirical research, to see if the results obtained in terms of the importance of process innovations in SMEs are confirmed.

As a limitation, in some instances, we use the generic dimension of SR rather than SR-HRM due to a lack of empirical literature, given that it is a new and appealing concept which has thus far been dealt with in only a handful of recent publications, but which evidences its impact on innovation and reputation. One prominent work to have emerged is that of Lechuga-Sancho et al. (2018) who link SH-HRM to competitive performance in Spanish SMEs. Shen and Zhu (2011) believe that SR-HRM exerts a positive impact on employees. For this reason, the effects of social responsibility on human resource management provide an appealing topic for future research.

Other limitation of the study that should be highlighted concerns the fact that it has been carried out for the region of Madrid (Spain). In an effort to secure an even wider sample, it would be interesting to expand the analysis to a national and even European scale given the importance of SMEs throughout Europe. This information could even be supplemented by the opinions of other interested parties, such as consumers or employees themselves.

A further limitation concerns the use of questionnaires for self-diagnosis, based on the opinion of entrepreneurs of their own firms, such that the information they provide might be deemed subjective. Nevertheless, in the bibliometric study conducted by Bikefe et al. (2020) of articles reviewed between 2010 and 2019, most were found to use surveys as a means of obtaining empirical information.

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