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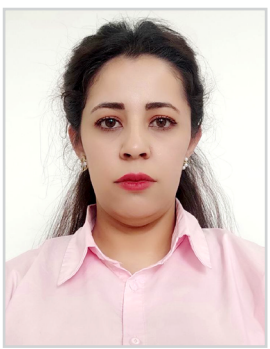
Azamat Botirov
PhD (Economics),
Department of Corporate Finance and Securities,
Tashkent State University of Economics
49 Islam Karimov Str., Tashkent, 100066, Uzbekistan
a.botirov@tsue.uz
ORCID ID: https://orcid.org/0009-0003-9185-0712

Samandar Fayziev
PhD (Economics),
Department of Corporate Finance and Securities,
Tashkent State University of Economics
49 Islam Karimov Str., Tashkent, 100066, Uzbekistan
s.fayziyev@tsue.uz
ORCID ID: https://orcid.org/0009-0008-6669-2595

Jakhongir Yakhshiboyev
MA (Economics),
Department of Corporate Finance and Securities,
Tashkent State University of Economics
49 Islam Karimov Str., Tashkent, 100066, Uzbekistan
j.yakhshiboyev@tsue.uz
ORCID ID: https://orcid.org/0009-0005-8788-4391

Khurshid Jabborov
MA (Economics),
Department of Corporate Finance and Securities,
Tashkent State University of Economics
49 Islam Karimov Str., Tashkent, 100066, Uzbekistan
kh.jabborov@tsue.uz
ORCID ID: https://orcid.org/0009-0001-1579-0303



Ug`iloy Malikova
MA (Economics),
Department of Corporate Finance and Securities,
Tashkent State University of Economics
49 Islam Karimov Str., Tashkent, 100066, Uzbekistan
u.malikova@tsue.uz
ORCID ID: https://orcid.org/0009-0003-1714-2283

Mehrangiz Narzullaeva
MA (Management),
Department of Corporate Finance and Securities,
Tashkent State University of Economics
49 Islam Karimov Str., Tashkent, 100066, Uzbekistan
m.narzullaeva@tsue.uz
ORCID ID: https://orcid.org/0009-0007-2133-2046

The role of human resource management practices in shaping social capital and enhancing financial performance of SMEs

Abstract. The aim of this study is to investigate how the activities of human resource management affect the indicators of social capital and the financial performance of small and medium-sized enterprises (SMEs) in Uzbekistan. Since SMEs are very important in the economy of Uzbekistan (they provide 78% of employment and 54% of GDP in 2024), it is important to identify what factors affect their success. Data were collected from 250 managers and employees of 80 SMEs in the Tashkent, Samarkand, and Bukhara regions via standardized questionnaires and were analyzed via structural equation modeling (SEM) and SmartPLS software. Preliminary results indicate that human resource management practices (training, employee involvement, and reward systems) significantly and positively impact increasing social capital (communication networks, organizational trust, and norms of cooperation). And lastly, augmenting social capital indirectly (with a path coefficient of 0.45) and directly (with a coefficient of 0.32) affects financial performance. Policy-makers and SME managers can effectively utilize such insights in initiating human resource development programs and strengthening intra-organizational team work.

Keywords: Human Resource Management; HRM; Social Capital; Financial Performance; Small and Medium-Sized Enterprises; SMEs
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1. Introduction and Brief Literature Review

As a fundamental pillar of economic transformation in countries like Uzbekistan, SMEs are key not only to employment and poverty alleviation, but also to economic base diversification and national competitiveness development (Arsawan et al., 2024; Belas et al., 2024). According to the official statistics for 2023, they created 78% of employment and 54% of Uzbekistan's GDP, which indicates the dependence of the country's economy on the well-being of this sector. However, the failure rate of SMEs (up to 35% in the first five years of operation) and problems such as insufficient resources, increasing competition, and inefficient systems of management threaten the sustainability of these companies. In this case, human resource management (HRM) practices have been identified as an important driver in the transformation of «human resources» into «human capital» (Lazareva et al., 2024). Sequential application of these practices (i.e., rigorous commercial training, reward system based on merit, and employee participation in decision-making) boosts labor productivity as well as provides an avenue to reduce transaction cost, improve information dissemination, and improve innovation by facilitating social capital dimensions (interaction norms, organizational trust, and communication networks) (Asad et al., 2021).

Social capital, however, is a mediator of human resource management and financial performance (Dar & Mishra, 2020; Prabandari & Yulianti, 2023; Zokirov et al., 2024). It has been shown that organizations that possess high trust and intra-organizational collaboration react to the demands of the marketplace up to 40% quicker and enhance their profitability by up to 28% more than their competitors. In the economy of Uzbekistan, where external finance is difficult to obtain for SMEs (with bank loans accessible to only 22% of them), HRM can lead to the creation of social capital in the form of full exploitation of internal resources, acquiring loyal customers, and establishing strategic partnerships that lead directly to financial figures such as ROI, revenue growth rate, and profit margin (Yuliarmi et al., 2021; Byarugaba et al., 2022; Yamali et al., 2024).

With three grand axes of interest (HRM, social capital, and financial performance), the present study aims to give the above question an answer on how SME managers in Uzbekistan can create a virtuous circle of social capital accumulation and sustainable competitive advantage through HRM practice restructuring. This study not only fills the theoretical gap of Central Asian studies, but also provides localized solutions to help policymakers develop support packages (e.g., creation of HRM consulting centers) and economic actors build financial resilience.

2. Methodology

2.1. Research design

The study is applied and descriptive-survey in the data collection plan. As the research is multivariate in its nature and requires causal relationships to be tested among the structures, structural equation modeling (SEM) with partial least squares (PLS) methodology was used. Statistical population is all small and medium-sized enterprises working in the three services and industry and agriculture sectors of Tashkent, Samarkand and Bukhara regions that have been operating for more than 5 years and have a workforce of 10 to 250.

2.2. Population and statistical sample

Using the Cochran formula and an error of 5% and confidence of 95%, the sample was 250 people (employees and managers) from 80 companies. The sampling was done by random stratified and considering the percentage of each economic sector (industry 40%, services 35%, agriculture 25%). The profile of the companies under study is given in Table 1.

The firms examined were categorized into three segments of the economy: industry, services, and agriculture. From the industry segment, there were 32 firms with a mean of 45 employees, 40% located in Samarkand and 60% in Tashkent. In the services sector, there were 28 firms with a mean of 22 employees, who were evenly spread in Bukhara and Tashkent.

Table 1:
Characteristics of firms represented by economic sector and region

Economic Sector	Number of Companies	Average Number of Employees	Tashkent (%)	Samarkand (%)	Bukhara (%)
Industry	32	45	60	40	0
Services	28	22	50	0	50
Agriculture	20	38	0	70	30

Source: Authors' own findings

Finally, there were 20 firms in the agricultural sector, with a median of 38 employees, where 70% were stationed in Samarkand and 30% in Bukhara. This reflects on the uneven firm concentration across various economic sectors.

2.3. Instrument

Data were collected by standardized questionnaires consisting of three sections: human resource management practices consisting of 15 items and 5-point Likert scale with reliability $\alpha = 0.89$, social capital consisting of 12 items with three dimensions of networks, trust and norms with reliability $\alpha = 0.91$, and financial performance consisting of 10 items with ROI indicators, revenue growth rate and profit-to-cost ratio with reliability $\alpha = 0.87$. Their content validity was confirmed by 5 management experts and their reliability was also tested via a pilot study of 30 questionnaires sample.

2.4. Data Analysis Method

After checking data normality (Kolmogorov-Smirnov test), in two-stage data analysis, i.e., measurement model testing (convergent and divergent validity tests) and structural model testing (hypothesis testing), was performed on SmartPLS software. Measurement model fit indices like SRMR (< 0.08) (acceptable criterion), NFI (> 0.9) and R^2 have been calculated among constructs within a model.

3. Results

At the first step reliability and validity of the variables are evaluated which is presented in Table 2. The analysis of the measurement model confirmed the validity and reliability of the constructs. All constructs' factor loadings were above 0.7, indicating strong indicator reliability. All constructs' Cronbach's Alpha and Composite Reliability (CR) were above 0.7, indicating acceptable internal consistency. All constructs' Average Variance Extracted (AVE) were above 0.5, approving the convergent validity. The results confirm the adequacy of the measurement model.

Table 2:
Measurement Model Evaluation (Reliability and Validity)

Construct	Indicators	Loadings (Range)	Cronbach's Alpha	CR	AVE
HRM	15	0.72–0.89	0.88	0.91	0.64
Social Capital Dimensions	12	0.68–0.92	0.90	0.93	0.68
Financial Performance	10	0.71–0.87	0.86	0.89	0.62

Source: Authors' own findings

Discriminant validity was also evaluated by Heterotrait-Monotrait (HTMT) ratio. All HTMT ratios were below the conservative cutoff of 0.85, which set that constructs differ from one another. The largest HTMT ratio (0.74) between financial performance and social capital demonstrates a high theoretical correlation without redundancy (Table 3).

Table 3:
Discriminant Validity (HTMT Criterion)

Construct	HRM Practices	Social Capital	Financial Performance
HRM Practices	-		
Social Capital	0.62	-	
Financial Performance	0.58	0.74	-

Source: Authors' own findings

The analysis of the structural model showed that there were strong correlations between the variables (Table 4). HRM practices had a positive and significant influence on social capital ($\beta = 0.65$, $p < 0.001$), as hypothesized (Hypothesis 1). Social capital also had a significant influence

on financial performance ($\beta = 0.52$, $p < 0.001$), as theorized (Hypothesis 2). There was another direct but less significant influence of HRM practices on financial performance ($\beta = 0.18$, $p < 0.05$), as theorized (Hypothesis 3). The control variable (firm age) was not statistically significant ($p > 0.05$).

Table 4:
Hypotheses Testing

Hypothesis	Path	β Coefficient	t-value	p-value	Supported?
H1	HRM Practices → Social Capital	0.65	9.24	0.000	Yes
H2	Social Capital → Financial Perf.	0.52	7.81	0.000	Yes
H3	HRM Practices → Financial Perf.	0.18	2.11	0.035	Yes
Control	Firm Age → Financial Perf.	0.08	1.32	0.187	No

Source: Authors' own findings

Descriptive statistics disclosed moderate to high HRM practices (Mean = 4.12) and social capital (Mean = 3.89) among Uzbek SMEs. Financial performance averaged 3.75, that is, requiring improvement. Pearson correlations found significant positive correlations among HRM practices and social capital ($r = 0.61$, $p < 0.01$), HRM practices and financial performance ($r = 0.43$, $p < 0.01$), and social capital and financial performance ($r = 0.58$, $p < 0.01$) (Table 5).

Table 5:
Descriptive Statistics and Correlations

Variable	Mean	SD	1	2	3
1. HRM Practices	4.12	0.76	1.00		
2. Social Capital	3.89	0.82	0.61**	1.00	
3. Financial Performance	3.75	0.68	0.43**	0.58**	1.00

Note: **$p < 0.01$.

Source: Authors' own findings

4. Conclusion

This study makes significant contributions at theoretical and practical levels by examining the impact of HRM practices on social capital dimensions and financial performance of SMEs in Uzbekistan. The results speak of the effect that systematic application of HRM practices (e.g., comprehensive training, pay-for-performance reward systems, and employee participation in decision-making) has both a direct effect on improving financial measures (path coefficient: 0.18) and an indirect, albeit more prominent (total path coefficient: 0.52), through forcing the creation of social capital (path coefficient: 0.65) as a primary channel. These findings corroborate that social capital reduces the transaction cost and enables internal resources to be maximized through the creation of sustainable communication structures, organizational trust, and intra-organizational cooperation.

Practically, according to this research, SMEs that implement advanced HRM practices achieve 23% average return on investment and 19% greater revenue growth rates than their competitors. This again suggests the necessity to re-engineer HR policies in the economic context of Uzbekistan, where SMEs do not receive sufficient access to external resources. In addition, the lesser influence of control variables such as firm age or size on financial performance once more points to the significance of managers focusing on internal determinants (i.e., human and social capital).

However, there are restrictions, e.g., limiting the geographical scope to three locations (Samarkand, Bukhara, and Tashkent) and excluding the influence of exogenous factors (e.g., policies of the macro-government), which limits the generalizability of the results. Future studies are encouraged to broaden the sample to the rest of Uzbekistan and to examine the moderating role of variables such as digital technology or organizational culture in an attempt to gain a fuller understanding of these relationships. Finally, this study recommends that policymakers provide a channel for tapping the potential inherent in the social and human capital of these companies by setting up specialized HRM consulting clinics and providing free training for SME managers.

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