

# The Impact of Performance Appraisal and Training and Development on The Financial Performance of Small and Medium-Sized Enterprises (SMEs)

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## Abstract

*This study aims to measure the influence of human resource management (HRM) practices on the financial performance of small and medium enterprises (SMEs). It notably focuses on analyzing the effects of training and development programs and performance appraisal methodologies. In order to carry out this study, a quantitative methodology was employed, which entailed the use of self-administered questionnaires. A linear regression analysis was conducted on data obtained from 130 small and medium-sized enterprises (SMEs) to examine, assess, and improve the relationship between performance appraisal, training and development, and the financial performance of SMEs. The results indicate a clear and direct association between training and development, performance appraisal systems, and the financial success of small and medium-sized enterprises (SMEs). The findings highlight the critical importance of HRM practices as strategic investments rather than just administrative tasks. These findings provide useful insights for scholars and practitioners, offering a framework for implementing training and development and performance evaluation procedures to achieve financial success in small and medium-sized enterprises (SMEs), not just in Kosovo but also in similar global contexts.*

**Keywords:** HRM, Training and Development, Performance Appraisal, Financial Performance, SME.

## INTRODUCTION

The business environment is experiencing swift and dynamic transformations, and what is presently considered market stability may soon be replaced by unpredictability (Islami, 2021a). Companies consistently seek to improve their competitive edge in order to outperform rivals and establish themselves as the dominant players and leaders in their business (Islami & Topuzovska Latkovikj, 2022). To get a competitive edge, companies should give priority to investing in human resource management (HRM) (Islami & Mulolli, 2021). Businesses recognize human resources as a unique asset that impacts a company's profitability and competitive position (Becker & Huselid, 1998). Several human resources (HR) techniques have garnered significant interest in the field of management due to their impact on organizational outcomes (Lertxundi & Landeta, 2011) and individual performance (Wood et al., 2012). HRM practice improvements involve the adoption of programs that aim to improve employee abilities and performance in order to meet expectations (Indradevi, 2010). A thorough review of the literature reveals extensive studies on the relationship between HRM practices and business performance (Van Esch et al., 2018). However, there is a lack of study about the connection between human resource management (HRM) practices and the financial performance of small and medium firms (SMEs), especially in developing countries. This study aims to fill this void by investigating the correlation in the Republic of Kosovo. The primary aim of this research is to create a framework that aids small and medium-sized enterprises (SMEs) in efficiently adopting human resource management (HRM) practices, namely in the areas of training and development and performance appraisal. We do this to ensure long-term financial viability. The objective of this study is to investigate the cause-and-effect link between training and development, performance appraisal methodologies, and the financial performance of small and medium-sized enterprises (SMEs). Is it imperative to assess the correlation between HRM practices (namely training and development and performance appraisal methodologies) and financial success in both academic and practical contexts? The study enhances comprehension of the impact of training and development, as well as performance appraisal

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systems, on the financial performance of small and medium-sized enterprises (SMEs). Researchers in the field of human resource management (HRM) contend that there is a dearth of studies investigating the impacts of training and development as well as performance appraisal systems (Philpot and Gavrilova Aguilar, 2021; Memon et al., 2020). This research is critical because it provides empirical data on how training and development, as well as performance appraisal methods, influence company performance, specifically financial performance, in small and medium-sized enterprises (SMEs).

Furthermore, nearly every nation or region respects and adores small and medium-sized enterprises (SMEs) for their significant impact on the growth and advancement of various economies (Awoniyi, 2010). Neagu (2016) widely acknowledges the significance of small and medium-sized enterprises (SMEs) in the advancement of the economy. According to Behrends (2007), small and medium-sized enterprises (SMEs) rely heavily on dedicated, driven, and skilled personnel due to their restricted material and financial assets. The current study makes a substantial contribution to the advancement of small and medium-sized enterprises (SMEs). This study aims to examine the direct correlation between training and development, performance appraisal methodologies, and the financial performance of small and medium-sized enterprises (SMEs). Our goal is to analyze this relationship in the context of small and medium-sized enterprises (SMEs) to improve academic comprehension and offer practical advice for firms looking to strategically execute human resource management (HRM) efforts. Our objective is to enhance the financial performance of small and medium-sized enterprises (SMEs) and support their success in a dynamic market context.

## **Development Of the Theoretical Framework and Hypothesis**

The primary objective of human resource management (HRM) is to optimize the performance and overall success of a firm through efficient management of its people (Islami, 2021b). Kadiresan et al. (2015) assert that a company can gain a competitive advantage through HR development. Authors frequently promote the adoption of several HRM methods in enterprises, arguing that this can result in synergy as a result of the complementary advantages of different practices (Islami & Mulolli, 2021). According to Lee et al. (2010), HRM is defined as a set of seven distinct practices, which include HR planning, teamwork, employment security, training and development, performance appraisal, and compensation and incentives. These techniques are believed to exert a beneficial impact on the product's quality, the company's performance, the production's flexibility, the product's delivery, and the production's cost. The research conducted by Allen et al. (2013) established a definitive correlation between the implementation of high-commitment human resources strategies and perceived financial performance. Otoo (2019) outlines five essential HRM activities: recruitment and selection, training and development, employee engagement, career planning, and performance evaluation. The study additionally examines the impact of employee skills on the relationship between various HRM practices and firm performance. This study examines the alignment between HRM practices and other variables. Specifically, it focuses on two techniques in human resource management: performance appraisal and training and development. Human resources scholars argue that there is a lack of studies investigating the consequences of training and development (Philpot & Gavrilova Aguilar, 2021) and performance appraisal (Memon et al., 2020). This study is significant because it provides empirical evidence on the impact of training and development, as well as performance appraisal, on business performance, particularly financial performance in small and medium-sized firms (SMEs). Financial performance assesses the fiscal elements of an organization's growth and progress (Islami & Topuzovska Latkovikj, 2022). Financial performance primarily emphasizes quantitative measures that directly reflect the monetary value of an entity, rather than non-financial achievements. Non-financial performance, on the other hand, focuses on non-monetary factors that contribute to gaining a competitive advantage. The citation originates from the 2009 publication by Spencer et al. This study employs five monetary indicators to assess financial performance, specifically: an increase in return on investment; an increase in sales of products and services; an increase in return on sales (ROS); an increase in our company's profit; and a reduction in manufacturing costs.

## The Impact of Training and Development, As Well As Performance Appraisal, On Financial Performance.

Training and development, as defined by Lee et al. (2010), refers to the level of organized training provided to employees. Organizations can improve the competence of their existing workforce by providing comprehensive training and development opportunities (Singh, 2004). Furthermore, effective training and development protocols foster the creation of learning companies and ensure that personnel have the requisite skills to carry out their responsibilities with proficiency. Consequently, this enables the organization to acquire a competitive advantage and results in a general enhancement in organizational performance (Niazi, 2011; Mulolli et al., 2020; Rashid et al., 2023). According to Kadiresan et al. (2015), training and development are crucial for providing personnel with the necessary skills and competences to improve the competitiveness, productivity, and performance of a business. Training has a dual effect on performance. Firstly, it improves essential talents and abilities. Additionally, it enhances employees' satisfaction with their current employment and work environment (Harel and Tzafir, 1999). According to Chatterjee (2016), training and development practices may be categorized as investments in human capital that positively impact the strategic benefits and returns of the organization. Strategic human resource management widely acknowledges employee training and development as crucial elements (Dhamodharan et al., 2010). Small and medium-sized enterprises (SMEs) can improve their employees' capacity to respond to changing market needs, embrace new technology, and raise overall productivity by adopting thorough training and development initiatives. Moreover, by dedicating money to training efforts, organizations can enhance employee morale, happiness, and retention. Showcasing a strong commitment to acknowledging and nurturing individuals' professional development achieves this. However, Hill and Stewart (1999) contended that many small and medium-sized enterprises (SMEs) do not have a propensity for providing training. Even when they participate in training, it is usually a response to a crisis and lacks organization, resulting in immediate results that only focus on solving work-related issues rather than personal development. Kotey and Folker (2007) suggest a correlation between informal training and the immediate strategic priorities of a company. In contrast, Jayawarna et al. (2007) found that formal training has a stronger influence on corporate performance than informal training. Felstead et al. (2009) provide empirical evidence that clearly shows how formal training has a significant and advantageous impact on the performance of the organizations analyzed in their study. Several empirical studies have investigated the correlation between training and development and the performance of small and medium-sized organizations (SMEs). Various research studies have consistently demonstrated that training and development initiatives have a beneficial impact on operational performance (Pinto et al., 2020; Prihandarini & Murni, 2018) as well as on the performance of small and medium-sized enterprises (SMEs) (Singh, 2004; Mulolli et al., 2015). Moreover, these studies have specifically highlighted the positive influence of training and development on financial performance, which is the primary focus of the present study (Barrett & Mayson, 2007; Birdi et al., 2008; Mulolli & Boskowska, 2020). Based on the completed literature review, the current study proposes the following hypothesis:

***H1: There is a good correlation between training and development and the financial success of small and medium-sized enterprises (SMEs).***

Performance appraisal is a widely acknowledged and efficient technique employed by organizations to facilitate the development, incentivization, and evaluation of their personnel (Islami et al., 2018). Performance evaluation is a methodical process that entails assessing and conveying an employee's job performance with the aim of devising a strategy to improve their performance (Byars & Rue, 2004; Giwanatara & Hendrawan, 2021). Effectively implementing performance appraisal and aligning it with relevant objectives promotes job satisfaction, employee contentment, and employee engagement, thus improving the overall quality of work life (Islami & Islami, 2019). Performance appraisal is a crucial method for motivating skilled personnel to be satisfied with the organization (Joarder & Ashraf, 2012). Performance evaluation is a crucial component of an organizational performance management system that aims to attain targeted outcomes for both individuals and the organization (Gozukara et al., 2017; Tantivitayatan, 2018). Ismail and Gali (2017) argue that the main purpose of a performance appraisal system is to inspire employees, enhance their performance by identifying their strengths and weaknesses, cultivate their skills, and establish a connection between high performance and

rewards through the distribution of compensation, bonuses, or promotion opportunities (p. 2). Performance evaluation encompasses a variety of measures that organizations employ to assess individuals, enhance their abilities, optimize their performance, and distribute rewards (Fletcher, 2001, p. 473). Performance appraisal is an indisputable technique for incentivizing talented workers to experience satisfaction with the organization (Joarder et al., 2012; Selamat et al., 2018). Evidence has shown that performance appraisal is a complex procedure, and it is essential for managers to create it in a way that produces advantageous results for the organization (Bayo-Moriones et al., 2020). Previous research investigations have consistently shown a strong association between performance appraisals and organizational performance. Singh et al. (2017) found that formal performance appraisal showed the strongest correlation with company performance compared to other human resource management techniques. In addition, owners of small and medium-sized enterprises often use formal performance appraisals to successfully manage their key employees. Islami and Mustafa (2023) did more research and discovered a direct relationship between performance appraisal and operational performance, as well as teamwork and involvement. In their 2002 study, Chang and Chen identified a significant association between performance appraisal and the financial performance of Chinese SMEs, Taiwanese high-tech businesses, and multinational enterprises in Singapore. Based on the completed literature review, the present study formulates the following hypothesis:

**H<sub>2</sub>:** There is a direct correlation between performance appraisals and the financial performance of small and medium-sized enterprises (SMEs).

## METHODOLOGY

The study was conducted using a combination of primary and secondary sources of data. The study hypothesis was developed by assessing secondary data obtained through a comprehensive evaluation of existing literature. This survey incorporated scholarly papers and publications disseminated by reputable publishers such as Taylor & Francis, the Academy of Management, Emerald, Springer, Elsevier, and other notable entities. The process of gathering primary data entails distributing self-administered questionnaires to a specific group of small and medium-sized enterprises (SMEs) that are currently operating inside the Republic of Kosovo. The participants were chosen using a process of random selection. The data utilized in the present study were examined utilizing the robust IBM SPSS v.26 Statistics software, in accordance with its functionalities. The data was gathered using an online survey, and small and medium-sized enterprises (SMEs) were encouraged to participate through mail, phone, or online platforms. In order to improve the rate at which responses were received, emails were augmented with telephone messages and calls, as suggested by Frohlich (2002) and Islami (2021a). This comprehensive evaluation included a variety of statistical procedures to investigate different facets of the data and assess the research hypotheses. The analysis utilized a variety of statistical tests, such as descriptive analysis, convergent and discriminant validity, t-test, ANOVA, correlation matrix, and linear regression. Table 1 displays the main characteristics of the sample companies. The results suggest that over 44.6 percent of the organizations examined had more than 20 years of professional experience, while over 64.6 percent had a staff of less than 49 workers.

**Table 1: Attributes of the sample small and medium-sized enterprises (N = 130)**

Characteristics	Number	Percent (%)
<b>Industry sector</b>		
a) Food	27	20.8 %
b) Textile	10	7.7 %
c) Construction	36	27.7 %
d) Chemical	3	2.3 %
e) Other	54	41.5 %
<b>Number of employees</b>		
10–49	84	64.6%
50–249	46	35.4 %
<b>Firm age</b>		
≤10	31	23.8 %
11–20	41	31.5 %
>20	58	44.6 %

Source: author

### Measurement

The HRM practices items were collected from a range of studies. The investigations undertaken by Otoo (2019), Lee et al. (2010), Singh (2004), and Islami (2021a, b) have identified five specific measuring items for training and development. We selected the performance rating measurement items from the studies conducted by Lee et al. (2010), Singh (2004), and Islami (2021a, b). We selected a total of five items. The financial performance assessment utilized measuring items derived from the studies completed by Flynn et al. (2010), Islami (2021a, b), and Huo et al. (2014). We requested the survey participants, who held positions as either high-level or intermediate managers, to indicate their performance on these particular items. Participants expressed their responses using a five-point Likert-type scale, ranging from 1 (indicating "not at all") to 5 (indicating "to a significant extent").

### Construct Validation

The current inquiry into data analysis and findings has undergone a series of procedural processes. A factor analysis was undertaken to investigate whether the scale is unidimensional and to establish the research constructs. We utilized a main component factor analysis with varimax rotation to discover the fundamental dimensions. Table 2 displays loadings that are above the threshold of 0.50, as established by Hair et al. (2019), for the purpose of easy reference. The initial factor analysis results indicated that all items had substantial loadings on their corresponding factors. The results indicate that all the items had loadings on their respective variables that were above the recommended threshold of 0.50. Moreover, none of the components had cross-loadings in any other aspect. The adequacy of the data was confirmed by conducting the KMO and Bartlett tests, as indicated by the results presented in Table 2.

**Table 2: Tools for education and growth, performance evaluation, and financial success assessment**

<b>Training and development</b>	
<i>(KMO test =0.802; Bartlett test: Approx. <math>\chi^2 =234.522</math>, <math>df =10</math>, <math>Sig. =.000</math>)<sup>a</sup></i>	
<b>Factor loadings<sup>b</sup></b>	
"Training and development_1"	.873
"Training and development_2"	.808
"Training and development_3"	.789
"Training and development_4"	.689
"Training and development_5"	.538
<b>Performance appraisal</b>	
<i>(KMO test =0.826; Bartlett test: Approx. <math>\chi^2 =250.864</math>, <math>df =10</math>, <math>Sig. =.000</math>)</i>	
<b>Factor loadings</b>	
Performance appraisal_1	.786
Performance appraisal_2	.839
Performance appraisal_3	.755
Performance appraisal_4	.803
Performance appraisal_5	.740
<b>Financial performance</b>	
<i>(KMO test =0.806; Bartlett test: Approx. <math>\chi^2 =191.869</math>, <math>df =10</math>, <math>Sig. =.000</math>)</i>	
<b>Factor loadings</b>	
Financial performance_1	.818
Financial performance_2	.803
Financial performance_3	.632
Financial performance_4	.805
Financial performance_5	.596

<sup>a</sup>The cutoff values suggested by Hair et al. (2019)

Source: author

<sup>b</sup>All loadings are significant at  $p < .001$  (\*\*\*)

We then used Cronbach's alpha to evaluate the individual reliabilities of product innovation, process innovation, technological innovation, and SME performance. Table 1 displays the numbers of items and reliability coefficients for each construct, together with the means and standard deviations. Shi et al. (2012) stated that a Cronbach's alpha value between 0.6 and 0.8 is deemed suitable. All of the constructs had reliability values that

surpassed the suggested threshold of 0.6 ( $>0.60$ ), showing their acceptability and providing additional validation of the assessment items' dependability.

### Hypotheses Testing

Table 3 presents the mean values, standard deviations, correlations, and reliability measures for training and development, performance appraisal, and financial performance. The correlation between variables was statistically significant and below the threshold of 0.7. The analysis determined that the variance inflation factors (VIFs) of the variables were below 10. This indicates that there is no need for concern regarding multicollinearity, which is consistent with the findings given by Kutner et al. (2005) and Acquah (2007). We used Cronbach's alpha to assess the reliability of the variables. All of the constructs had reliability values that exceeded the required threshold of 0.6 ( $>.60$ ), indicating their acceptance and providing further confirmation of the assessment questions' dependability.

**Table 3 displays the calculated descriptive statistics, Cronbach's alpha, and correlations for a sample size of 130.**

Definition	#Items	$\alpha^1$	Mean	S.D.	1	2
Training and development	5	.779	3.57	1.11	.	
Performance appraisal	5	.839	4.14	0.85	.587**	
Financial performance	.5	.757	3.59	1.02	.211*	302**

\* $p < 0.05$ ; \*\* $p < 0.01$ .

Source: first author

### The Variable "Financial Performance" Has Immediate Impacts.

A multivariate regression analysis was employed to assess the influence of an independent variable on the dependent variable, "financial performance," of small and medium-sized enterprises (SMEs). The regression analysis is displayed in Table 4. The regression analysis indicates that the independent variables examined in the study account for 3.7% of the observed variation in the dependent variable, which is the "financial performance" of small and medium-sized firms (SMEs). The F value is 5.959 with a significance level of 0.05, indicating that the model is highly significant at this level. The independent variable "training and development" has a positive association with the dependent variable "financial performance" with a prediction value of 21.1% ( $b = 0.211$  and  $p = 0.05$ ). This indicates that for every 1% increase in the implementation of training and development methods, there will be a corresponding 21.1% change in financial performance. The regression model's constant term has a coefficient that is negative. This implies that when the training and development independent variable is reduced to zero, the dependent variable will have a value that is the negative equivalent of -2.812. The existence of this negative number suggests the potential existence of unexplained factors in the model that are exerting an impact on the dependent variable. The findings demonstrate a strong and statistically significant positive relationship between "training and development" and "financial performance," providing compelling evidence in favor of H1 ( $H1 \uparrow$ ), as seen in Table 4.

**Table 4. We conducted a regression analysis on the dependent variable "financial performance" using a sample size of 130.**

Model	R <sup>2</sup>	$\Delta R^2$	$\beta$	b	S. E	F	t	p
(Constant)	.044	.037		-2.812	.086	5.959	.000	1.000
Training and development			.211	.211	.086		2.441	.016

Note:  $b$ =Un-standardized Coefficients,  $S. E$ =standard error of variables,

Source: author

$\beta$ =standardized coefficients,  $t$ =t-statistic,  $p$ =significance level.  $R^2$  = square,  $\Delta R^2$  =adjusted R square.

The regression analysis shows that the independent factors under consideration account for 8.4% of the variability in the dependent variable, "financial performance." The model demonstrates statistical significance with a significance level of  $\alpha = 0.001$ . The findings indicate a clear and favorable correlation between performance appraisals and financial performance. More precisely, the estimate of 0.302 suggests that a 1% alteration in the implementation of performance appraisal methods is associated with a 30.2% alteration in financial performance. The p-value of 0.000 indicates that there is a statistically significant association.

The findings demonstrate a robust and statistically significant correlation between "PA" and "financial performance," offering compelling support for H2 (H2↑), as illustrated in Table 5.

**Table 5. We conducted a regression analysis on the dependent variable "financial performance" with a sample size of 130.**

Model	R <sup>2</sup>	ΔR <sup>2</sup>	β	b	S.E	F	t	p
(Constant)	.091	.084		4.448	.084	12.806	.000	1.000
Performance appraisal			.302	.302	.084		3.578	.000

Note: b=Un-standardized Coefficients, S.E=standard error of variables,

Source: author

β=standardized coefficients, t=t-statistic, p=significance level. R2 = square, ΔR2 =adjusted R square.

**Table 6: Hypotheses test results**

Hypotheses - (Path)		Results
<i>Direct effects</i>		
H <sub>2</sub> :	Training and development → Financial Performance	Supported
H <sub>3</sub> :	Performance appraisal → Financial Performance	Supported

Source: first author

## DISCUSSION

This study aims to analyze the influence of human resource management (HRM) practices on the financial performance of small and medium-sized enterprises (SMEs), with a particular emphasis on specific practices. The aim is to expand and replicate earlier studies conducted in two domains, namely HRM and financial performance. The study's findings indicate that small and medium-sized enterprises (SMEs) can attain financial prosperity by implementing suitable training and development programs as well as performance appraisal techniques. This supports the notion that effectively managing human resources is crucial for enhancing business outcomes, especially in the context of small and medium-sized enterprises (SMEs). These findings provide valuable insights into the management literature and can be utilized by both academics and practitioners for further research. We emphasize the theoretical significance of the research by presenting a contingent perspective on the relationship between training and development, performance appraisal, and financial performance. Efficient implementation of HRM practices is critical for improving organizational financial performance. SMEs should strategically invest in their human capital to achieve financial success, as HRM practices complement other organizational strategies. The managerial implications offer useful insights for small and medium-sized enterprise (SME) managers and practitioners in Kosovo. By prioritizing training and development as well as performance appraisal processes, small and medium-sized enterprises (SMEs) can improve their financial performance. This emphasizes the significance of HRM practices as a strategic investment rather than a mundane administrative task.

The study's managerial implications highlight the importance of recognizing the critical role of HRM practices, particularly training and development and performance appraisal, in enhancing SMEs' financial performance. The present study offers an effective instrument for HR managers to assess the extent to which their current HRM procedures are comprehensive. Managers of small and medium-sized enterprises (SMEs) must recognize that investing in their workforce through training and development initiatives is not just a cost but rather a strategic investment. Managers can enhance the talents of their workforce by providing opportunities for skill enhancement and ongoing education, thereby improving their staff's capacities. This will ultimately result in enhanced efficiency and superior financial results. Alternatively, if small and medium-sized enterprises (SMEs) desire to align their employees' efforts with the objectives of the firm, they require effective performance appraisal systems. The manager is accountable for ensuring that the performance evaluation process is transparent, candid, and linked to financial remuneration. This enhances employee motivation and fosters optimal performance, thereby contributing to the overall success of the firm. Regularly assessing the effectiveness of training and development programs and performance appraisal systems allows managers to identify shortcomings and make necessary adjustments to optimize their impact on financial performance. By

incorporating HRM into strategic planning processes, managers may guarantee that human capital development programs enhance financial performance and align with long-term corporate objectives.

## **CONCLUSION**

Ultimately, there is a lack of consensus among authors on a globally approved and all-encompassing framework for HRM procedures that is utilized in diverse research projects. However, the choice of an HRM practice framework is determined by its compatibility with other variables considered in the study. In line with previous research on human resource management (HRM) practices, this study specifically examines two practices: training and development and performance appraisal. The study specifically examined these two behaviors to analyze their individual impacts on financial performance. The study involved the participation of 130 executives from companies in the Republic of Kosovo in order to collect the final results and accomplish its purpose. Using advanced statistical methods like regression analysis, the study's results showed that training and development, as well as performance review practices, are strongly linked to the financial success of small and medium-sized businesses (SMEs). The data presented here offer empirical support for the research hypotheses (H1 and H2) positing positive correlations between HRM practices and financial performance. This study's findings have a significant impact on the adoption of HRM practices that focus on specific strategies and their impact on financial performance. This provides managers with a framework for effectively implementing procedures related to "training and development" and "performance appraisal," which are essential instruments for attaining financial success. Overall, the research contributes to further research endeavors and scholarly elucidations, both within Kosovo and across the wider area.

## **LIMITATION AND FUTURE RESEARCH**

Several constraints constrain this study, despite its numerous useful contributions. The study is subject to the following constraints: At first, the study's sample size may be inadequate, which hinders its capacity to accurately represent all small and medium-sized enterprises (SMEs) in Kosovo. Further investigations should prioritize increasing the sample size and obtaining a more thorough sample.

In addition, while this study used two practices as examples of HRM practices, it does not cover all aspects of HRM, which is a well-recognized topic with several concepts. Various variables influence human resource management (HRM) practices. Further research could examine the impact of other HRM practices, such as recruiting and selection, salary and benefits, or employee relations, on the financial performance of small and medium-sized enterprises (SMEs). This would enhance the comprehension of HRM's role in SMEs by providing a more holistic perspective.

This study stands out due to its cross-sectional design, which collects data at a specific point in time. Future research could use longitudinal or experimental techniques to better understand the cause-and-effect relationships between HRM practices and SMEs' long-term financial prosperity.

Moreover, it is crucial to emphasize that the findings derived from this research are exclusively relevant to the specific conditions of small and medium-sized enterprises (SMEs) in Kosovo. Moreover, this research does not clarify how HRM practices improve the financial performance of SMEs in various circumstances and countries, taking into account the varied applications of these practices in different industries, organizational sizes, and age groups. This merger has the capacity to endure rigorous testing in diverse scenarios, including multiple sectors, locations, and cultural contexts. The variations among nations and the factors that contribute to them may be of interest. Islami (2021b) suggests that it is advisable to compare Western cultures with those of developing and transitional economies.

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