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Digital Transformation of Human Resource Practices in Small and Medium Enterprises

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Abstract

Digitalization has become a major force of change in Human Resource Management (HRM). With digital technology, organizations are now able to make use of various solutions for improved management of their staff and experience of the employees. Many SMEs have been turning to digital practices in HR to overcome their limitations of resources and become more competitive. This paper will analyze the impact of digitalization of HRM in SMEs through digital HR practices, including digital recruiting, HR analytics, cloud HR, employee self-service, and digital learning. The paper employs quantitative research methodology in order to study the effects of digital transformation of HRM, organizational agility, and employee performance. Data collected from HR specialists and employees of SMEs are processed statistically in order to analyze the impact of the process of digital transformation (DT) of HR functions on organizational performance. According to the results of the analysis, the process of digital transformation allows increasing the effectiveness of HR functions, enabling evidence-based decision making, and enhancing organizational flexibility. Furthermore, it should be mentioned that a successful digital transformation of HR functions requires technological readiness, supportive leadership, and employees' acceptance of the changes.

Keywords: Digital Transformation, Human Resource Management, SMEs, Digital HR Practices, Organizational Agility, Employee Performance.

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Introduction

DT is a key driver of HRM because it applies digital tools to HRM processes. The role of HRM has evolved over time from administrative processes to strategic operations that use automation and technology. Electronic recruitment, cloud-based employee management, HR analysis, virtual training, and employee self-service may help organizations increase efficiency and availability. These changes have transformed the role of HR managers from administrative assistants to strategic contributors (Fenech et al., 2019).

SMEs can be considered one of the key factors of economic development and employment creation; yet, they face certain issues concerning their lack of funding, capabilities of the employees, and use of technology. In contrast to big companies that have a special strategy aimed at digitalization of the organization, SMEs need a more flexible approach to implementation of technology in their operations. The application of DT will allow SMEs to increase effectiveness of their operations, build new capabilities, and become more competitive; yet, for successful digital transformation, the company should be ready for it (Li et al., 2018).

The rising complexity of business environment has led to the emergence of a need for the growth of organizational agility in SMEs. The role of DT in this respect is in providing better access to information, faster decision-making and increased adaptability (Cichosz et al., 2020). The SMEs that implement digital technologies in response to changing business environment conditions have shown themselves more flexible and innovative especially due to technology-based processes and new digital business models (Priyono et al., 2020). Moreover, technology-based HR management has an impact on employee performance through increased access to learning and better process visibility.

Even though many researchers have shown interest in studying the concept of DT, the literature has emphasized more on technological adaptation and its consequences at the business level. On the other hand, there is not much information about the HR-related impacts of digital transformation within SMEs. This study intends to explore the impact of DT in HR activities within SMEs and its effect on the agility of an organization and performance of its employees.

The paper is structured as follows. Section 1 introduces the concept of DT in HRM and its significance to SMEs. Section 2 summarizes previous works done on digital HRM, organizational agility, and individual performance. Section 3 highlights the methodology used in the study including the framework, data collection, and development of hypotheses. Section 4 outlines the findings and analysis of findings.

Literature Review

DT has led to the revolution of HR management due to the incorporation of digital technology in the management of the workforce, decision-making, and employee engagement process. The digital HRM allows the organization to automate various processes such as recruiting, evaluating performance, communicating with employees, payroll processing, and training. The integration of the use of technologies such as AI, cloud computing, and HR analytics has facilitated better talent acquisition, planning, and development of employees through making better HR decisions. Therefore, digital transformation is seen as an organizational change that affects processes, capabilities, and work environment and not just a technological change (Schwertner, 2017).

There has been the adoption of digital technology by SMEs in order to improve efficiency and overcome their operational constraints. The SMEs however face various obstacles including the issue of finances, technical skills, and difficulty of handling digital change. Studies show that digitalization of SMEs depends on organizational capability, environmental factors, and strategic readiness which determine the effectiveness of technology adoption (Eller et al., 2020). Digitalization tools such as cloud HR solutions and employee management systems provide cheaper methods for SMEs to update HR functions.

In addition, the application of DT presents SMEs with ways to increase their innovation capability and competitiveness. In the periods of uncertainty, DT presents SMEs with an opportunity to reconsider their processes, become more flexible and create novel value creation practices (Papadopoulos et al., 2020). However, successful DT depends on the dedication of the organization's leaders, employees' skills with digital technologies, and change management practices. Technological barriers and organizational resistance to change should be overcome to ensure sustainable transformation (Horváth & Szabó, 2019).

Digital HR transformation results in increased organizational agility through fast decision making, enhanced visibility of the workforce and management practices that are flexible. SMEs can use digital tools to evaluate the capabilities of employees and understand skill requirements under changed circumstances. Furthermore, digital transformation

promotes knowledge sharing and organizational performance through increased internal capability and efficient use of organizational resources (Jordão et al., 2020).

Moreover, digital human resources management affects employee performance by facilitating better communication, creating opportunities for constant learning, and offering easy access to HRM services. Systems of data-driven performance management increase transparency and assist in better evaluations. The efficiency of the process of digital HR management implementation is conditioned by creating the right digital culture and improving employee receptiveness to new technologies. According to several studies concerning the digital transformation of SMEs, innovation and technology adoption contribute to organization's development and its competitive benefit (Gherghina et al., 2020).

Despite numerous studies that examine digital transformation and HR technology adoption, there are not many studies that focus specifically on the impacts of digital HR management on organizational adaptability and employee performance in SMEs. Current literature focuses mostly on the technological aspects, and more research is required about the behavioral and organizational effects of digital HR transformation. Thus, the current study analyzes the contribution of digital HR transformation to organizational adaptability and employee performance in SMEs.

Methodology

Research Design

In this study, a quantitative research design will be designed to analyze how digital transformation impacts the operations of HR management in SMEs. This research model seeks to explore the connection between digital HR transformation, organizational agility and employee performance. In this case, digital HR transformation is seen as the primary factor influencing, while organizational agility is seen as the organization capacity that results from the use of technology, and leads to good employee performance outcomes.

This study examines the primary digital HR practices that include digital recruitment, HR analytics, cloud-based HR management solutions, digital learning, and employee self-service. These dimensions constitute the key aspects of DT of HR in SMEs.

Data Collection and Sample Profile

The data were gathered using a well-known questionnaire which was administered to SME employees and HR professionals. The questionnaire consisted of demographic information and measures associated with employee performance, digital HR implementation, and organizational agility. The questionnaire used a five-point Likert scale measuring respondents' attitudes.

In total 300 valid responses were analyzed empirically. The respondents included employees, managers and HR staff from various SME sectors, thus offering information about the degree of digital HR implementation and its effectiveness.

Measurement and Data Analysis

All the study variables were measured through reliable constructs used in previous HRM and OB studies. The digital HR transformation variable was measured through constructs that included indicators of technology adoption, HR automation, analytics, and digital employee services. The organizational agility variable was measured through constructs that included adaptability, responsiveness, and flexibility, while employee performance was measured through the constructs of productivity, efficiency, and work effectiveness.

The analysis of the data was carried out through the use of descriptive analysis, regression analysis, correlation analysis, and reliability analysis. Reliability analysis was performed to measure the reliability of scales, while regression analysis was performed to analyze the relationship between the variables.

Hypothesis Development

- H1: Digital transformation of HR practices significantly influences organizational agility in SMEs.
- H2: Digital transformation of HR practices significantly influences employee performance in SMEs.
- H3: The degree of organizational flexibility greatly impacts the performance of employees in SMEs.

Results and Discussion

Reliability and Descriptive Analysis

Cronbach's Alpha Reliability Coefficient was used to measure the reliability of the constructs employed in the research. The reliability measures were above 0.70, which is the threshold set for reliability measures to be considered acceptable. The results from the descriptive analysis, shows that SMEs are embracing digital HRM practices. This includes the use of online HRM systems, digital communication systems and digital HRM practices.

Table 1: Reliability and Descriptive Statistics of Research Constructs

Construct	Mean	Standard Deviation	Cronbach's Alpha
Digital HR Transformation	3.94	0.68	0.89
Organizational Agility	3.82	0.71	0.86
Employee Performance	4.01	0.65	0.91

Table 1 shows that respondents view the digital HR transformation as positive. The high mean score for employee performance implies that digital HR practices enhance efficiency at work, resource accessibility, and coordination among employees.

Relationship Analysis

The correlation test was employed to analyze the connection between the variables. It is evident from the findings that digital HR transformation positively correlates with organizational agility and employee performance. This implies that digital HR can help organizations to be better prepared for changing business needs and increase employee performance.

Table 2: Correlation Analysis of Study Variables

Variables	Digital HR Transformation	Organizational Agility	Employee Performance
Digital HR Transformation	1		
Organizational Agility	0.62**	1	
Employee Performance	0.58**	0.65**	1

Table 2 shows how digital HR transformation is linked to organizational agility. Digital HR transformation helps SMEs gain access to information about the workforce, facilitates communication and reacts fast to any changes in operations.

Hypothesis Testing

Table 3: Regression Analysis and Hypothesis Testing Results

Hypothesis	Relationship	β Value	p-value	Result
H1	Digital HR Transformation → Organizational Agility	0.42	<0.001	Supported
H2	Digital HR Transformation → Employee Performance	0.38	<0.001	Supported
H3	Organizational Agility → Employee Performance	0.45	<0.001	Supported

The results presented in Table 3 corroborate all the suggested hypotheses. It is stated that the digital transformation of HR functions contributes to an increase in organizational agility due to increased workforce flexibility and better decision-making skills. In addition, digital HR functions directly affect employee performance through effective access to information and learning.

Discussion

The findings show that DT is now emerging as a significant strategic competence among SMEs rather than just a technical transition. Digital HR strategies enable SMEs to facilitate administrative tasks, increase visibility of the workforce, and facilitate HR decision-making backed by data. All of these have significant benefits for SMEs, in which scarce resources compel organizations to utilize the available capabilities of the workforce efficiently. The positive impact of digital HR transformation on organizational agility implies that digital HR strategies based on technology facilitate SMEs in adapting to ever-changing business environments. Digital platforms offer information about employees in real time and flexible working opportunities to SMEs. Moreover, the association between organizational agility and employee performance shows that organizations with high organizational agility are able to create better work environments and increase the efficiency of their employees.

Conclusion and Implications

Digital transformation has been seen as one of the factors that have played an important role in transforming human resource practices through the provision of more efficient workforce management, operational efficiency, and performance among employees. This study has considered the impact of digital transformation of human resource practice on organizational agility and employee performance, whereby digital recruitment, HR analytics, cloud-based HR, and employee self-service are some of the practices that have been considered as making human resource processes more efficient and adaptive. Digital transformation of human resource practice is shown to impact on organizational agility by helping organizations to make decisions quickly and respond to changes effectively. Digital transformation of human resource practices also positively impacts on employee performance. The key message is that for successful DT, not only technology but also the readiness of employees, leadership support, and a culture that fosters innovation should be considered. For SMEs' managers and HR professionals, the development of scalable digital tools and digital skills of their employees could increase competitiveness in the future. While this paper provides important findings, further research could analyze the application of HR technologies in specific industries and investigate the impact of new emerging technologies on SME workforce management.

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