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**Article**

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# Employee satisfaction, human resource management practices and competitive advantage

## The case of Northern Cyprus

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### Abstract

**Purpose** – The purpose of this paper is to explore the impact of human resource (HR) management practices on achieving competitive advantage through studying the mediating role of employee satisfaction in the context of five-star hotels in Northern Cyprus.

**Design/methodology/approach** – To produce numeric data as well as to test the hypothesis, the researchers employed structural equation modeling and AMOS. The testing included ( $n = 439$ ) questionnaires. The model suggested by the authors examined the tourism sector, and in particular, five-star hotels located in Northern Cyprus.

**Findings** – The main research findings revealed that HR practices had a significant effect on competitive advantage. By comparison, the research findings revealed that the mediator variable had no effect on achieving competitive advantage for five-star hotels in Northern Cyprus.

**Originality/value** – This study demonstrates originality by responding to the recommendations of prior studies conducted on HR in Northern Cyprus Island. This makes a theoretical contribution to the field, since only Turkey recognizes Northern Cyprus, which makes conducting research on this country a challenge for researchers worldwide. Based on this study's outcomes, this paper discusses its theoretical and practical implications, as well as recommendations for future research.

**Keywords** Competitive advantage, Employee satisfaction, Human resource practices, Northern Cyprus

**Paper type** Research paper

### Introduction

The hotel industry is a growing global industry today due to growth in tourism worldwide. Similar to other industries, this industry is characterized by intense competition between companies. Each company must optimize its position to gain competitive advantage in order



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to survive and succeed in the market. Competitive advantage refers to a firm's advantages over rival firms that help it to increase its sales (Solnet and Hood, 2008; Brown *et al.*, 2015). In this respect, the firm needs to find the right strategy to confront the challenges faced by its industry. The firm needs to identify its strengths, weaknesses, opportunities and threats; it must design its strategies accordingly to achieve its organizational mission and vision (Uysal, 2013).

The world is experiencing massive changes with respect to technology, development, organizational practices, market structures and government policies (Collins and Smith, 2006; Lall and Teubal, 1998; Malik and Kotabe, 2009). All fields of production are increasingly competitive, and companies face intense competition with rival companies in their industry (Coad and Teruel, 2013). Nowadays, a company cannot succeed and maintain its position in the market if it does not execute strategic planning and resource optimization (Ahlvik *et al.*, 2016). In the global economy, an organization needs to strengthen itself through prudent design of commercial policies to achieve success and sustainability in the industry. Human resources (HR) is a vital resource for any organization, and adequate management of HR can help an organization achieve its goals and objectives (Abdul-Halim *et al.*, 2016).

A review of the literature reveals an increasing interest in the impact of HR management (HRM) practices on the competitive advantage of hotels (Albrecht *et al.*, 2015; Chand and Katou, 2007; Hroust and Mohamed, 2014). Several studies have recognized the importance of HRM to improve an organization's competitive advantage. However, a detailed study of the hotel industry that identifies the factors that can affect employee satisfaction, such as practical compensation in the hotel sector, does not exist (Pan, 2015). The researchers identified this gap, noting that only few studies examine how hotels implement HRM practices to obtain strong competitive advantages over their competitors (Dominguez-Falcón *et al.*, 2016; Young-Thelin and Boluk, 2012). In this study, we consider HR practices as result-oriented practices that enable firms to become more effective and gain core competitive advantage. HR practices are defined as a group of internally coherent and consistent HR practices that are designed to promote employee competence, motivation, as well as commitment. Therefore, these practices are already oriented to superior business performance and to reach a competitive advantage.

Locke (1969) defined employee satisfaction as "the pleasurable emotional state resulting from the appraisal of one's job as achieving or facilitating the achievement of one's job values." Many studies forget the power of employees for attaining competitive advantage (Pfeffer, 1994; Rose *et al.*, 2010; Campbell *et al.*, 2012; Pan, 2015). Employee commitment and satisfaction present a great opportunity for any organization (Walk, 2012). Cao and Chen (2016) mentioned that employee satisfaction can change from time to time and from one organization to another. Further, the more the employee satisfaction, the more will be the economic benefits obtained by the organization (Chi and Gursoy, 2009). Some studies pointed out that HRM practices lead to employee satisfaction and engagement; if embedded in organizational policies, these factors can help an organization to achieve competitive advantage and maintain a good level of organizational performance (Abubakar, Namin, Harazneh, Arasli and Tunç, 2017; Abubakar, Elrehail, Alatailat and Elçi, 2017; Albrecht *et al.*, 2015; Parvin and Karbin, 2011; Ukil, 2016). Several additional studies noted that satisfied employees will generate competitive advantages (Ellinger *et al.*, 2003; Matzler and Renzl, 2007).

Therefore, given the aforementioned gap in the existing literature, this study aimed to establish several important relationships that have not been well explored in the hotel sector in Northern Cyprus. First, this study examined the mediating role of employee satisfaction in the relationship between HRM practices and the competitive advantage of five-star hotels in which these factors have not been explored in the north of Cyprus or in the tourism sector. Second, this study contributes to the field of HRM in the hotel and tourism industry by offering an in-depth look at the existing literature. Third, it considers the mediation effect of employee satisfaction, which was initially introduced in hotel management and tourism.

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Finally, such complex relationships expand the dimension of research conducted in HRM and competitive advantage. The paper is organized as follows: it starts with hypothesis development, followed by methods, item measurements, data analysis, and discussion, and it finally concludes with implications and future direction.

## Background and hypothesis development

### *Human resource planning, employee satisfaction and competitive advantage*

Practitioners have long argued that competitive advantage is an advantage over rivals gained by offering a greater value to consumers. In other words, competitive advantage is the thing that differentiates a firm from its rivals. Drawing on the resource-based theory, competitive advantage can be achieved when a firm has a set of heterogeneous resources that is immovable. Wright *et al.* (1994) added that “a sustained competitive advantage exists only when other firms are incapable of duplicating the benefits of a competitive advantage.” In the context of HR planning, the employment and other employee-related issues are critical factors that must be considered.

In particular, the HR planning process must encompass human capital and the current and potential skills of employees, as well as organizational planning with respect to staffing. The scientific current of the theoretical foundations of management (Taylor, 1911), places more emphasis on the design of jobs to efficiently and appropriately use the human skills in question. Wright *et al.* (1994) noted that “human resources can be characterized as a commodity rather than a rare resource; however, to the extent that jobs require skills that allow for variation in individual contributions (i.e. when it is no longer a commodity), these skills should normally be distributed in the population.” Further, the organizations neglected the role of HRM in the innovation process that is essential to give the organization competitive advantage; to do so, the organization should adopt innovative behavior in HRM planning linked with a reward system to increase the level of employee satisfaction (Amarakoon *et al.*, 2018; Elrehail *et al.*, 2018).

Michael Porter noted that some firms are able to achieve technological superiority and they are able to differentiate and produce better-quality products or products that are more attuned to customer needs than their competitors. Staffing is the first step to realize this achievement, as happy and satisfied employees are productive employees. According to Ivancevich (2006), HR planning influences employee job satisfaction positively, because this allows employees to participate in organizing their own careers and making specific employment decisions. Coyle-Shapiro *et al.* (2013) added that sound HR planning can motivate employees, which influences their happiness, and happy employees are productive employees. Based on the extant literature, this study proposed the following hypotheses:

- H1. HR planning has a statistically significant impact on the competitive advantage.
- H7. Employee satisfaction would fully mediate the association between HR planning and the competitive advantage.

### *HR job analysis and design, employee satisfaction and competitive advantage*

According to Klaus *et al.* (2003), an analysis of planned work and work design helps employees to show a greater commitment to work and the organization, which, in turn, influences individual and organizational performance as a result of employee satisfaction. A Randstad Engagement Index (2012) report suggested that the HR practices of job and task design, training and development, analysis and design of HR work have a profound effect on labor and work commitments. The report also urged new millennium organizations to enrich and provide various work-related duties and tasks. Further, significance and autonomy add enthusiasm to work commitments and pave the way to the building of trust.

Empirical findings show that work engagement is positively related to job satisfaction (Giallonardo *et al.*, 2010; Karatepe and Olugbade, 2009; Yeh, 2013; Zopiatis *et al.*, 2014). Intuitively speaking, an engaged employee is a satisfied employee. Therefore, if HR job analysis and design are rightly performed, employee satisfaction is expected to rise. The first type of activities relates to job enrichment, which entails task enrichment and assigning complex and challenging tasks. The second is job enlargement, which entails broadening the scope of a worker's tasks. These activities are critical motivators that could enhance work engagement, which heightens employee satisfaction (Randstad Engagement Index, 2012).

Assigning tasks with greater autonomy and freedom, as well as variety, is thought to trigger internal motivation and enact personal responsibility. More specifically, success in such tasks will produce and enhance internal employee satisfaction, which will promote increased employee willingness to pursue both prescribed and voluntary work, thereby indirectly granting the focal organization a competitive advantage. This study argues that employee satisfaction may mediate the relationship between HR job analysis and design and competitive advantage. Based on the extant literature, the study proposed the following hypotheses:

- H2. Job analysis and design has a statistically significant impact on competitive advantage.
- H8. Employee satisfaction would fully mediate the relationship between job analysis and design and competitive advantage.

#### *Employee performance appraisal, employee satisfaction and competitive advantage*

Enterprises seeking to gain a competitive advantage should input processes and manipulate some resources over which they possess both direct and indirect control, including materials and human capital, to generate and achieve sustainability in the marketplace. On the contrary, employee performance appraisal is a meticulous process that involves a systematic evaluation of an employee's work-related performance and productivity after a certain period. Performance appraisal can result in a rise in pay, promotion and other types of compensations. It is assumed that a better performance appraisal can have an impact on employee job satisfaction.

Supercilious performance among firms in the same sector and pomposity in production resources reflect a competitive advantage. As such, the ability to stay ahead of industry rivals creates an opportunity for firms to ensure market leadership. In particular, competitive advantage depicts the interplay between the types of competitive advantages, that is cost, differentiation and scope of a firm's activities. Reportedly, modern appraisal systems improve employee satisfaction through personal recognition (Cowling and Newman, 1995). More specifically, an appraisal system that emphasizes employee development and personal growth will have a positive impact on employee satisfaction (Truss *et al.*, 2010; Teagarden *et al.*, 1992; Porter and Spear, 2010). Employee performance appraisal "is a process – often combining both written and oral elements – whereby management evaluates and provides feedback on employee job performance, including steps to improve or redirect activities as needed."

Wayne and Kacmar (1991) noted that performance appraisal is an aversive process due to its ability to cause undesirable social consequences (i.e. workplace confrontation, conflicts and incivility), which may arise from poor appraisal practices through low and/or unfair ratings. Notably, employees who are satisfied with their workplace performance appraisal are often effective and efficient in their task. For instance, Khan (2009) examined the effect of performance appraisal on faculty member's job performance and satisfaction. The author

concluded that the absence of a proper performance appraisal system hindered faculty members' job performance and satisfaction. Ahmed and Ahmed (2010) diagnosed the impact of performance appraisal on employee attitudinal and organizational outcomes in Pakistan. The authors concluded that a good performance appraisal system could decrease turnover and increase employee job satisfaction. This notion received similar empirical support from Darehzereshki (2013) and Deepa and Kuppasamy (2014). Hence, performance appraisal can trigger satisfaction among employees, which might translate into a competitive advantage for firms. Based on the extant literature, this study proposed the following hypotheses:

- H3. Employee performance appraisal has a statistically significant impact on the competitive advantage.
- H9. Employee satisfaction would fully mediate the relationship between employee performance appraisal and the competitive advantage.

*HR recruitment, selection and placement; employee satisfaction; and competitive advantage*

From various HRM approaches, we found that a major source of competitive advantage to a firm is finding the right employees, that is, HR recruitment, selection and placement. Existing research delineates that a substantial number of applicants are searching for jobs in roles that provide opportunities for challenge, growth, engagement and satisfaction (Mishra *et al.*, 2014; Harter and Blacksmith, 2009; Xu and Cooper Thomas, 2011). Henceforth, "to attract and retain high caliber, high achieving, productive, committed and 'engaged' employees, organizations need to provide working contexts that provides a good 'fit' between the role expectations of prospective employees and their subsequent working environment" (Morgeson and Dierdorff, 2011). As noted by Sikora *et al.* (2016), organizations should employ qualified employees to achieve competitive advantage by using their skills and ability to perform their tasks in a proper way.

With respect to a strategic HR focus on employee satisfaction as a source of competitive advantage, existing research suggests that researchers have turned red to this HR utility. Therefore, this study attempts to fill this research void. Meyer and Gagné (2008), Macey and Schneider (2008) and Guest (2014) recommended that organizations who want dedicated, happy and energetic workers should use evidence-based selection processes to predict from a group of applicants those who are most likely to be engaged on the job. Nevertheless, it is important to note that employees who are engaged are satisfied employees, and this is a consequence of workers' interaction with their situational context.

Clearly, whenever possible, "recruit current employees for new, more desirable jobs, rather than going outside the organization. By drawing on available workers who are already loyal to the firm and understand its mission, a good fit is more likely, thus enhancing employee engagement (Alatailat *et al.*, 2019). For example, the Randstad Engagement Index found that 61 percent of employees expect to grow their careers with their current employers and just over one-third plan to seek a new position within their current company" (Randstad Engagement Index, 2012). In this respect, the paper argues that firms that want to enhance worker satisfaction should put more efforts to select the candidates who are best suited to the job and the firm's culture.

As noted earlier, recruitment, selection and placement comprise the decision-making process used to determine and select the right candidate for a specific job. These practices aim to ensure job–person fit and person–organization fit. The point here is to diagnose compatibility between employees and their jobs, and compatibility between employees and their organizations; this eventually creates a better work environment (Tzafrir, 2006; Wright *et al.*, 2005; Beh and Loo, 2013). A study by Katou and Budhwar (2006) found that

recruitment, selection and placement correlated positively with some organizational and employee outcomes (e.g. employee satisfaction, effectiveness, efficiency, innovation and quality). In sum, strategic HR practices encourage high individual performance through employee satisfaction and subsequently promote competitive advantage. This results in two hypotheses:

- H4. Recruitment, selection and placement has a statistically significant impact on the competitive advantage.
- H10. Employee satisfaction would fully mediate the relationship between recruitment, selection and placement and the competitive advantage.

*HR compensation and reward, employee satisfaction and competitive advantage*

According to Sparrow *et al.* (1994), “the act of linking goal setting and rewards, coaching for performance, aspects of career development and performance evaluation and appraisal into an integrated process.” Most organizations try to get and tap the best out of their staff members, getting the best out of employees equals to individual performance, which is subsequently translated into organizational performance therefore creating competitive advantage. This is because the nature of global competition makes it compulsory for firms to measure and motivate services, quality, innovation and risk-taking behavior (Peters, 1992).

According to Dessler (2008, p. 390), reward and compensation are a form of pay given to workers as a result of their employment status. Such type of pay is very important for employees, for instance Aswathappa (2013) noted that compensation can influence employees living standard, status in the society, productivity and lastly employee work and organizational satisfaction. A study conducted in the USA suggests that public servants working for the US Government job satisfaction were influenced by compensation and reward (Ting, 1997). Handel (2000) showed that compensation and remunerations in form of commissions, stock options and cash recognitions increase employee satisfaction.

A similar research found that less remunerated and compensated employees are less satisfied than those who are highly compensated (Frye, 2004). In addition, empirical evidence asserted that a professionally designed compensation and reward system can enhance satisfaction, and it can also attract and retain talented employees, which leads to competitive advantage. Okpara (2004) stated that employee satisfaction is contingent on various factors, which subsume compensation, supervisor and co-workers support, appraisal and promotion. In this view, HR compensation and reward practices in a firm can enhance employee job satisfaction, which, in turn, enhance organizational performance. The greater the performance of an organization, the more likely that organization will achieve the competitive advantage. This study argues that employee satisfaction may mediate the relationship between HR compensation and reward, and competitive advantage. Based on the extant literature, the following hypotheses are proposed:

- H5. Compensation and reward has a statistically significant impact on the competitive advantage.
- H11. Employee satisfaction would fully mediate the association between compensation and reward and the competitive advantage.

*Training and development, employee satisfaction and competitive advantage*

Porter (1980) argued that for firms to gain competitive advantage, they should initiate strategic and managerial activities that rivals cannot easily imitate. Following this suggestion, scholars applied this concept to HRM (see e.g. Heimlich, 1990; Schuler and MacMillan, 1984).

The majority of these researchers suggested that HR practices can be used to gain competitive advantage, as these practices are not easy for competitors to imitate. More specifically, capital and technology can be acquired easily at any time. However, it is “rather difficult to acquire a ready pool of highly qualified and highly motivated employees” (Sparrow *et al.*, 1994).

Enterprises can gain a competitive advantage by using superior HR practices in numerous ways, including culture management; staffing and organizational structure; performance management, training and development and resourcing (Taamneh *et al.*, 2018). Besides motivating employees, it is important to outsource certain tasks to appropriate and qualified individuals (external resourcing), and to train and develop employees concerning technology and business engineering. According to Beer *et al.* (1985), these issues are related to HR and human capital flow policy, which have an intimate relationship with employee satisfaction, as they tend to be more competent and comfortable with their assigned task and the work atmosphere itself.

Training and development denotes efforts and strategies by an organization to improve the skills, abilities and knowledge of current employees (Jiang *et al.*, 2012; Chadwick and Dabu, 2009; Shaw *et al.*, 2013). Albrecht *et al.* (2015) suggested that firms should do their best to mitigate feelings of anxiety and uncertainty among new employees, that is the excitement and enthusiasm of new workers should be built upon and translated into high levels of engagement. This process of “organizational socialization help newcomers to appreciate the values, abilities, expected behaviors, and social knowledge essential for assuming an organizational role and for participating as an organizational member” (Albrecht *et al.*, 2015).

Nguyen *et al.* (2010) pointed out that training and development leads to the accumulation of knowledge and the development of human capital, which eventually influences the welfare of employees and job satisfaction. This is because employees can carry out assigned tasks easily and without difficulties. Broadly, employee job satisfaction improves the financial and non-financial performance of an organization. As a result, over the long term, employee job satisfaction creates a competitive advantage for the organization. In this sense, training and development has a significant impact on employee satisfaction, and satisfied employees contribute to competitive advantage. Based on the existing literature, this study proposed the following hypotheses:

*H6.* Training and development has a statistically significant impact on the competitive advantage.

*H12.* Employee satisfaction would fully mediate the association between training and development and the competitive advantage.

## Methodology

Some studies have examined the state of HRM practices in the hotel industry in Northern Cyprus. Although these studies provide insight into the industry, they do not comprehensively represent the players in the sector. In particular, indigenous-owned five-star hotels are the main focus, as they do not receive any aid or support from the government. Moreover, for determining the appropriate sample size, the researchers used 95 percent confidence level, 5 percent margin of error. According to Saunders *et al.* (2012), these percentages are appropriate for social science researchers.

The researchers applied IBM SPSS AMOS v21 to the data set, undertaking structural equation modeling (SEM) to diagnose the research model and identifying the data set's underlying structure. Before testing the hypotheses, the researchers carried out confirmatory factor analysis (CFA) to assess the structure and properties of the measurement variables, as well as to corroborate convergent, discriminant and construct validity of the variables. More specifically, SEM is useful for evaluating complicated models, especially the ones that have



mediation or a moderator. In this study, we have a mediation effect; as such, SEM can help uncover important relationships. This procedure has been used before in studies conducted in the same field (Elrehail, 2018; Abubakar, Namin, Harazneh, Arasli and Tunç, 2017; Abubakar, Elrehail, Alatailat and Elçi, 2017). Other methods, such as regression, cannot uncover measurement error, and thus may result in an inflated outcome (Raykov and Traynor, 2016).

### *Study instruments*

- HRM practices: the employees of the hotel were asked the extent to which they agreed with statements about HRM practices in their respective hotels. All response scales for the measures were on a five-point Likert scale, ranging from 1 (I strongly disagree) to 5 (I strongly agree). HRM practices were assessed with 24 items, for example: “the HR manager is involved in business strategy planning,” “the hotel has clearly defined and documented policies and procedures in place for recruitment and selection” and “the hotel executes needs-based training and development criteria” which were adapted from Wang and Zang (2005) and Alnajdawi *et al.* (2017).
- Employee satisfaction: the study asked employees to describe their satisfaction with six items, for example: “satisfied with how the organization addresses internal issues impacting services and products” and “satisfied with rewards program,” as developed and validated by Dotson and Allenby (2010).
- Competitive advantage: this indicates the degree to which a hotel has a disadvantage/ advantage compared to primary competitors. The study measured this variable using nine items adopted from Lai *et al.* (2006), for example: “offers a similar product at a lower price,” “offers a low service cost,” “provides requested and customized services” and “promptly follows up with customer claims and complaints.”

### *Data analysis*

This section clarifies the procedure used to improve the model, including the techniques used to improve the instrument, collect data and analyze the data. Therefore, it tested each aspect of the hypothetical model through HR planning, job analysis, recruitment, selection and placement, compensation, training and development, evaluation of employee performance, competitive advantage and employee satisfaction as mediating variables.

SEM assumes normality of the data set. Raykov *et al.* (2016) stated that “model fit permits one to obtain estimates of the model parameters with desirable properties, such as consistency and asymptotic unbiasedness and normality.” Rucker *et al.* (2011) noted that “mediation analyses focuses on examining the magnitude of indirect effects,” and such effects are best accessed via SEM analyses. Thus, this paper employed SEM and then used CFA as the fundamental research methodology. The researchers collected two independent models with the harnessed data to rule out the probability of common method variance and to discover the most suitable alternative model for the data (Elrehail, 2018). The next few paragraphs provide a detailed overview.

Next, the researchers diagnosed demographic variables (see Table I). The researchers sent a total of 600 questionnaires to hotel employees, and 451 employees responded, yielding a response rate of about 75 percent. Out of the 451 responses, 12 had missing data, and as such were eliminated from the analyses. Out of the 439 valid responses, 76 percent (337) of respondents were male, and the rest were female. The majority of the employees (89.7 percent) were aged between 18 and 30 years, about 10 percent were aged between 31 and 40 years old, and the rest were above 40 years. This outcome provided support to the existing demographic finding of the employee age distribution in the hospitality industry. According to a report by [hostelmanagement.com](http://hostelmanagement.com), the average age of hotel employees is

	Frequency	Percentage
<i>Gender</i>		
Male	337	76.8
Female	102	23.2
Total	439	100.0
<i>Age</i>		
18–30	394	89.7
31–40	43	9.8
More than 40	2	0.5
Total	439	100.0
<i>Tenure (years)</i>		
1–3	334	76.1
4–7	71	16.2
Above 7	34	7.7
Total	439	100.0
<i>Income in TL</i>		
1,500–1,999	358	81.5
2,000–2,499	64	14.6
2,500–2,999	15	3.4
More than 3,000	2	0.5
Total	439	100.0
<i>Education</i>		
High school	11	2.5
Diploma or associate degree	59	13.4
Bachelor's degree	356	81.1
Higher degree	13	3.0
Total	439	100.0

Note: TL, Turkish Lira

**Table I.**  
Demographic distribution

between 18 and 36 years. Similarly, the Institute of the Hospitality in the UK reported that the majority of the hospitality workforce is less than 29 years of age. In terms of education levels, an overwhelming number of the employees in Northern Cyprus hotels (81 percent) had bachelor's degree, 13 percent had some college degrees and the rest had high school and/or higher degrees. Previous studies have shown that the literacy rate in Northern Cyprus is high, with approximately 90 percent of the population having a university education (Nadiri and Tanova, 2010). This highlights the unique nature of the high demand for university education in the country. Most participants (82 percent) had a monthly income between 1,500 and 1,999 Turkish Lira, and 15 percent had a monthly income between 2,000 and 2,499 Turkish Lira, and the rest exceeded 2,500 Turkish Lira. Finally, we observed the organizational tenure of the respondents; the results show that 76 percent of the participants worked for their organization between one and three years, 16 percent worked between four and seven years, and the rest worked above seven years.

First, the researchers tested a model in which all items from all constructs were designed to load on a single-factor model. The diagnosed single-factor model resulted in poor goodness-of-fit indices: ( $\chi^2 = 10,136.658$ ,  $df = 741$ ;  $p < 0.000$ ; CFI = 0.287, IFI = 0.289, GFI = 0.386, NFI = 0.274, RMSEA = 0.170, RMR = 0.057). Next, the researchers tested the data on a ten-factor model. Overall, the outcome shows a good fit for the ten-factor model, as the model fit indices were stronger and better than the previous model, which supports the discriminant validity of our scales: ( $\chi^2 = 1,966.09$ ,  $df = 680$ ;  $p < 0.000$ ; CFI = 0.902, IFI = 0.903, GFI = 0.828, NFI = 0.859, RMSEA = 0.066, RMR = 0.024).

In addition to aforementioned validity test and goodness-of-fit indices check, the researchers assessed construct, convergent, and discriminant validity by evaluating the items' factor loadings. Overall, the factor loadings were above the cutoff point of 0.40, as recommended by Bagozzi and Yi (1988) and Byrne (2010). The factor loadings of the measurement variables ranged from 0.42 as the lowest value to 0.98 as the highest value. Only one item was eliminated from the study.

Consequently, the researchers also used the average variance extracted (AVE) to examine the convergent and discriminant validities of each construct. According to Fornell and Larcker (1981), to ensure convergent and discriminant validity, the AVE value of a given construct should account for more than 50 percent of the corresponding items. Table II shows that AVE accounted for more than 50 percent for each construct, respectively. Next, the study evaluated composite reliability (CR). Scholars such as Bagozzi and Edwards (1998) and Bagozzi and Yi (1988) asserted that CR value should exceed 0.60; inferring from Table II, all the CR exceeded the recommended cutoff value.

Furthermore, the researchers tested the scale item reliability using Cronbach's  $\alpha$ . Nunnally (1978) noted that  $\alpha$  values that exceed 0.70 represent and suggest scale reliability as well as internal consistency of the research variables. Inferring from Table II, all  $\alpha$  value of the constructs exceeded the recommended cutoff value. Overall, this outcome provides additional support for construct validity, convergent validity and discriminant validity for the constructs in the model. The results collectively provide evidence of convergent validity and internal consistency for the full measurement model and same results for paper recently published in the field (Alzghoul *et al.*, 2018).

HRM practices have six dimensions. This study used the six dimensions as independent variables. Therefore, the potential threat of collinearity in the measurement model needs to be diagnosed. According to O'Brien (2007), "the VIF value of 5 or 10 or higher indicates a multicollinearity problem." All values were below cutoff point 5 used by Alnajdawi *et al.* (2017). In general, the findings suggest that multicollinearity is not a major concern with the data set and that we can continue with the analysis.

Before testing the research hypothesis, several multivariate assumptions must be made for the SEM analysis to be carried out, namely, fit of the model, normality of the data set, and collinearity, reliability and validity of the construct. In particular, the current study's sample size is equal to 439, which is considered adequate for the SEM analysis (Hair *et al.*, 2010). The absolute maximum values of bias and kurtosis are 1,036 ( $< \pm 1.5$ ) and 1.54 ( $< \pm 2$ ), respectively (Kline, 2011). The highest VIF is 2.17 ( $< 10$ ) and the lowest tolerance is 0.46 ( $> 0.1$ ). In addition, no correlation coefficients are greater than 0.8, which shows that multicollinearity did not occur (Jahmani *et al.*, 2018; Kline, 2011).

Constructs	AVE	CR	$\alpha$
Human resource planning	0.83	0.67	0.84
Job analysis and design	0.72	0.88	0.86
Employee's performance appraisal	0.53	0.81	0.81
Recruitment, selection and placement	0.55	0.86	0.85
Compensation and rewards	0.73	0.91	0.92
Training and development	0.61	0.89	0.89
Employee satisfaction	0.50	0.80	0.83
Cost advantage	0.72	0.89	0.87
Service variety advantage	0.61	0.85	0.85
Service quality advantage	0.69	0.92	0.92

**Notes:** AVE, average variance extracted; CR, composite reliability;  $\alpha$ , Cronbach's  $\alpha$

**Table II.**  
Reliability and  
validity of the  
research variables

To proceed with the proposed model and test the hypothesized relationships, the researchers began initial testing using descriptive statistics and simple correlation analyses to examine the correlation and the nature of linkages between the study variables. Table III presents summary statistics and correlations as well as the discriminant validity of study variables. The results suggest that HR planning and job design and analysis did not positively correlate with employee satisfaction ( $r = 0.072, p > 0.05$ ) and ( $r = 0.083, p > 0.05$ ), respectively. However, employee performance appraisal ( $r = 0.247, p < 0.001$ ), recruitment, selection and placement ( $r = 0.309, p < 0.001$ ), compensation and rewards ( $r = 0.355, p < 0.001$ ) and training and development ( $r = 0.285, p < 0.001$ ) correlated positively with employee satisfaction. Next, employee satisfaction did not relate with service variety advantage. However, employee satisfaction was negatively related with cost advantage ( $r = -0.121, p < 0.05$ ) and service quality advantage ( $r = -0.105, p < 0.05$ ).

As indicated in Tables IV and V, a significant relationship exists between the independent variables and the dependent variable.

*H1* predicted that HR planning would have a significant impact on the competitive advantage of five-star hotels. The path coefficient from HR planning to competitive advantage was significant and positive ( $\beta = 0.172, p = 0.019$ ). Therefore, *H1* received support.

*H2* predicted that HR job analysis and design would have a significant impact on the competitive advantage of five-star hotels. The path coefficient from HR job analysis and design to competitive advantage was significant and negative ( $\beta = -0.271, p = 0.000$ ). Therefore, *H2* received support.

*H3* predicted that employee performance appraisal would have a significant impact on the competitive advantage of five-star hotels. The path coefficient from employee performance appraisal to competitive advantage was positive and significant ( $\beta = 0.138, p = 0.000$ ). Therefore, *H3* received support.

*H4* predicted that HR recruitment, selection and placement would have a significant impact on the competitive advantage of five-star hotels. The path coefficient from HR recruitment, selection and placement to competitive advantage was significant and negative ( $\beta = -0.086, p < 0.001$ ). Therefore, *H4* received support.

*H5* predicted that HR compensation and rewards would have a significant impact on the competitive advantage of five-star hotels. The path coefficient from HR compensation and rewards to competitive advantage was not significant ( $\beta = 0.033, p = 0.318$ ). Therefore, *H5* did not receive support.

*H6* predicted that training and development would have a significant impact on the competitive advantage of five-star hotels. The path coefficient from training and development to competitive advantage was negative and significant ( $\beta = -0.226, p = 0.000$ ). Therefore, *H6* received support.

*H7* proposed that employee satisfaction would fully mediate the association between HR planning and the competitive advantage of five-star hotels. Following the convention for testing mediation effects (Baron and Kenny, 1986), the researchers tested whether the predictor variable "HR planning" had an association with the proposed mediator and then with the dependent variable. The independent variable had a significant association with the dependent variable but not with the mediator. This violated the mediation assumptions; thus, *H7* was rejected.

*H8* proposed that employee satisfaction would fully mediate the association between HR job analysis and design and the competitive advantage of five-star hotels. Following the convention for testing mediation effects (Baron and Kenny, 1986), the researchers tested whether the predictor variables "HR job analysis and design" had an association with the proposed mediator and then with the dependent variable. The independent variable had a significant association with the dependent variable but not with the mediator. This violated the assumptions of mediation; thus, *H8* was rejected.

**Table III.**  
Descriptive statistics  
and correlations  
between the study  
variables

Variables	1	2	3	4	5	6	7	8	9	10
1. Human resource planning	–									
2. Job analysis and design	0.626**	–								
3. Employee performance appraisal	0.191**	0.282**	–							
4. Recruitment, selection, and placement	0.391**	0.402**	0.487**	–						
5. Compensation and rewards	0.287**	0.236**	0.444**	0.645**	–					
6. Training and development	0.341**	0.320**	0.441**	0.560**	0.567**	–				
7. Employee satisfaction	0.072	0.083	0.247**	0.309**	0.355**	0.285**	–			
8. Cost advantage	-0.146**	-0.241**	-0.066	-0.233**	-0.172**	-0.225**	-0.121*	–		
9. Service variety advantage	-0.078	-0.218**	-0.070	-0.045	0.063	-0.114*	0.065	0.401**	–	
10. Service quality advantage	-0.170**	-0.277**	-0.064	-0.182**	-0.163**	-0.229**	-0.105*	0.524**	0.418**	–
Mean	2.52	1.73	2.22	1.88	1.67	2.04	1.74	4.37	3.90	4.35
SD	0.24	0.48	0.49	0.40	0.54	0.38	0.41	0.49	0.53	0.48

**Notes:** Composite scores for each variable were computed by averaging respective item scores. \*\*Significant at the 0.05 and 0.01 levels, respectively

Independent variables	Dependent variables	$\beta$	$t$ -value	Sig. level	Decision
Human resource planning	Competitive advantage	0.172	2.338	0.019	Accepted
Job analysis and design	Competitive advantage	-0.271	-7.377	***	Accepted
Employee performance appraisal	Competitive advantage	0.138	3.845	***	Accepted
Recruitment and selection	Competitive advantage	-0.086	-1.946	0.052	Accepted
Compensation and rewards	Competitive advantage	0.033	1.000	0.318	Rejected
Training and development	Competitive advantage	-0.226	-4.843	***	Accepted
Human resource planning	Employee satisfaction	-0.118	-1.541	0.123	
Job analysis and design	Employee satisfaction	-0.020	-0.522	0.601	
Employee performance appraisal	Employee satisfaction	0.060	1.606	0.108	
Recruitment and selection	Employee satisfaction	0.120	2.613	0.009	
Compensation and rewards	Employee satisfaction	0.171	5.029	***	
Training and development	Employee satisfaction	0.104	2.146	0.032	

**Notes:** \* $p < 0.1$  level (two-tailed); \*\* $p < 0.05$  level (two-tailed); \*\*\* $p < 0.01$  level (two-tailed)

**Table IV.**  
Path analysis for the research model

Independent variables	Dependent variables	Total effect	Direct effect	Indirect effect	$p$ -value	Decision
Human resource planning →	Employee satisfaction →	0.172	0.170	0.002	0.538	Reject
Job analysis and design →	Competitive advantage	-0.271	-0.271	0.000	0.649	Reject
Employee performance appraisal →	Employee satisfaction →	0.137	0.138	-0.001	0.573	Reject
Recruitment and selection →	Competitive advantage	-0.088	-0.086	-0.002	0.609	Reject
Compensation and rewards →	Employee satisfaction →	0.031	0.033	-0.002	0.763	Reject
Training and development →	Competitive advantage	-0.228	0.227	-0.001	0.590	Reject

**Table V.**  
Effect breakdown and distribution

*H9* proposed that employee satisfaction would completely mediate employee performance evaluation associations and the competitive advantage of five-star hotels. After the conventions to test the effects of mediation (Baron and Kenny, 1986), the researchers tested whether the predictor variable “employee performance evaluation” had an association with the proposed mediator and then with the dependent variable. The independent variable had a significant association with the mediator but not with the dependent variable. This violated the mediation assumptions; thus, *H9* was rejected.

*H10* proposed that employee satisfaction would fully mediate the association between HR recruitment, selection and placement and the competitive advantage of five-star hotels. Following the convention for testing mediation effects (Baron and Kenny, 1986), the researchers tested whether the predictor variable “HR recruitment, selection, and placement” had an association with the proposed mediator and then with the dependent variable. The independent variable had a significant association with the dependent variable and with the mediator. To augment the mediation effect, bootstrap results with a 95 percent confidence interval, using 5,000 bootstrap simulation samples following the recommendation by Hayes and Preacher (2010), also confirmed that the indirect effect was insignificant. This, therefore, suggests that employee satisfaction does not mediate the association between HR recruitment, selection and placement and the competitive advantage of five-star hotels. Hence, *H10* was rejected.

*H11* proposed that employee satisfaction would fully mediate the associations between HR compensation and rewards and the competitive advantage of five-star hotels. Following the convention for testing mediation effects (Baron and Kenny, 1986), the researchers tested whether the predictor variable “HR compensation and reward” had an association with the proposed mediator and then with the dependent variable. The independent variable had a significant association with the mediator but not with the dependent variable. This violated the mediation assumptions; thus, *H11* was rejected.

*H12* proposed that employee satisfaction would fully mediate the association between training and development and the competitive advantage of five-star hotels. Following the convention for testing mediation effects (Baron and Kenny, 1986), the researchers tested whether the predictor variable “training and development” had an association with the proposed mediator and then with the dependent variable. The independent variable had a significant association with the mediator and with the dependent variable. To increase the mediation effect, the bootstrap results with a 95 percent confidence interval, using 5,000 bootstrap simulation samples following the recommendation by Hayes and Preacher (2010), also confirmed that the indirect effect was negligible. Therefore, the results suggest that employee satisfaction does not mediate training and development associations and the competitive advantage of five-star hotels. Therefore, *H12* was rejected.

### Discussion and conclusion

This study examined the role of HR practices in shaping the competitive advantage of five-star hotels in Northern Cyprus. We presented and diagnosed a model that included three precedents of competitive advantage (cost advantage, service quality advantage and variety of service advantage) that have not been considered until now, namely, HR planning; analysis and work design; evaluation of employee performance; hiring, selection and placement; compensation and rewards; and training and development. The framework also engulfs a mediating variable, namely, employee satisfaction. Previous work concerning the association between HR practices and employee or organizational outcomes focused on indicators like employee performance, creativity, team cohesion, teamwork, work values, work commitment, psychological capital and workplace climate. HR can serve a competitive advantage to the business organization. However, research showed that practice-oriented perspective is more important, as it explores the value of HR practices in spite of the quality of HR pool. Narasimha (2008) discussed this topic through the target/thrust matrix, which described the potential for capitalization in superior HRM to gain and maintain a competitive advantage. Further, Altarawmneh and Al-Kilani (2010) mentioned that five-star hotels are mostly more profitable compared to other ranked hotels. Moreover, “that convention is simply because high performing organizations have the resources to divert to the development activities that low performing organizations find difficult to provide” (Altarawmneh and Al-Kilani, 2010, p. 49). Zheng *et al.* (2006) noted that “human resource value creation processes that are based on the appropriate application of the key HRM practices are more likely to encourage businesses and organizations.” From the point of view of hotel industry, efficiency and quality improvement are mandatory for competitive advantage in five-star hotels (Serafini and Szamosi, 2015). Moreover, the hotel industry needs to handle the employees effectively. This study took these key HRM practices into account as predictors of competitive advantage in the Northern Cyprus hotel industry.

*H1* predicted that HR planning would have a significant impact on the competitive advantage of five-star hotels. This hypothesis received empirical support; a plausible explanation can be inferred from prior work. According to Becker and Huselid (1998), HR planning is strongly linked with positive enterprise outcomes, through work engagement (Batt, 2002); creative and innovative behaviors (MacDuffie, 1995); and firm economic performance (Sánchez *et al.*, 2015), and subsequently competitive advantage.

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Notably, proper HR planning can promote unique skills in employees that accord with the attainment of a sustainable competitive advantage for the organization. This notion has received empirical support (Chen *et al.*, 2009; Collins and Clark, 2003). HR planning contributes to the competitive advantage of five-star hotels in Northern Cyprus, in the sense that it ensures that hotels achieve and maintain sustainability.

*H2* received empirical support; a plausible explanation can be inferred from prior work. In their study, Brannick and Levine (2002) suggested that HR job analysis and design is useful as it helps firms to identify future workforce needs and skills; firms with proper personnel management system can maximize their work process efficiencies, which is linked with business performance (Bowin and Harvey, 2001). The finding in this study suggests that HR job analysis and design can be linked with a competitive advantage for five-star hotels. However, five-star hotels in Northern Cyprus should revisit and reorganize their HR job analysis and design attribute to change the negative perception, as evident from the negative relationship between the two variables.

This paper reveals a positive relationship between the evaluation of employee performance and the competitive advantage of five-star hotels, which supports *H3*. In a recent research, Aladwan *et al.* (2015) stated that “developing an evaluation system that accurately reflects employee satisfaction and commitment is a crucial and difficult task.” Matic (2008) added that workers who can match their work values with their workplace assessment system have a greater organizational commitment and are less likely to leave the organization. van Vianen *et al.* (2007) added that inferring from person–organization fit theory, one could speculate that human behavior is a function of both the person and his/her environment. Notably, apart from the abovementioned work, this paper is the only one to have considered the role of performance appraisal in shaping competitive advantage in hotels. Technically, this study extended prior findings, as it focused specifically on competitive advantage as an organizational outcome.

This study found that HR recruitment, selection and placement has a significant impact on the competitive advantage of five-star hotels, thus providing empirical support for *H4*. Research shows that HR recruitment, selection and placement is associated with the selection of individuals who are motivated, qualified and the right person for a specific job. If such individuals are provided with the necessary incentives, their motivation increases; from a firm’s point of view, this may enhance the retention of quality employees and subsequently enhance individual and/or organizational performance (Sánchez *et al.*, 2015). However, extant research has made no attempt to link HR recruitment, selection, placement and competitive advantage. This study fills this gap by identifying the nature of the relationship between HR recruitment, selection, placement and competitive advantage. This study’s outcome proposes a material implication for five-star hotels in Northern Cyprus: the researchers suggest that HR recruitment, selection and placement needs to be improved, as the current system seems to mitigate competitive advantage due to a negative relationship.

This study uncovered no significant relationship between HR compensation and rewards and the competitive advantage of five-star hotels. This is surprising as existing theoretical framework suggested that HR compensation and reward policies have a positive and significant impact on related organizational concepts, for example, organizational commitment and organizational performance (Aladwan *et al.*, 2015). Intuitively speaking, the researchers expected such a relationship with competitive advantage, because the competitive advantage is a construct similar to the aforementioned ones. Notwithstanding, in an “ever-competitive local and global business environment, many organizations are trying to develop effective reward strategies that are directly linked to the enhancement of employee and organizational performance” (Milne, 2007; Yeganeh and Su, 2008). Thus, “employee motivation is arguably a crucial intermediate variable between a performance-based compensation system and performance” (Fey *et al.*, 2000).



Expectancy theory states that if firms provide employees with desired compensation and rewards, they are likely to perform in a way to obtain the reward. Nevertheless, the association in the data set is insignificant; Huselid (1995) noted that “performance-based compensation and merit-based promotion are ingredients in organizational incentive systems that serve to encourage individual performance and retention.” The two compensation and reward system should be balanced to have the desired organizational outcome. This study’s findings led the researchers to reject *H5*; a compensation and reward system did not enhance competitive advantage of five-star hotels. Based on this, the researchers call on five-star hotel establishments in Northern Cyprus to balance and monitor their compensation and reward system, because other underlying factors may be creating the current causal effect with the variables in question.

*H6* predicted that training and development would have a significant impact on the competitive advantage of five-star hotels. This hypothesis received empirical support; a plausible explanation can be inferred from prior work. Recent findings by Sánchez *et al.* (2015) suggested that “training and development improve the knowledge, skills, and abilities of a firm’s current and potential employees.” Training and development was positively linked with organizational commitment (Feldman and Ng, 2007). Further, Tzafir (2006) added that training and development was closely associated with work values, performance and organizational commitment. However, this study found that the relationship is inverse. Hence, the researchers suggest that training and development programs in five-star hotels in Northern Cyprus must be reframed, as employees seem to hold a negative perception of the policy.

Furthermore, the study found that employee satisfaction did not mediate the relationship between the six HRM practice dimensions – namely, HR planning; job analysis and design; employee performance appraisal; recruitment, selection and placement; compensation and rewards; and training and development – and competitive advantage. Thus, *H7–H12* were rejected. However, existing literature suggests that a potential linkage exists. The number of theoretical and empirical frameworks denotes that HR practices have a profound effect on organizational climate (Bowen and Ostroff, 2004). In fact, well-designed and consistent “HRM policies, practices, and procedures communicate to employees expectations about the skills, knowledge, motivations, attitudes, norms, values, and behaviors expected within their organization” (Bowen and Ostroff, 2004). Henceforth, a favorable organizational climate may inflate employee engagement, which can be a source of competitive advantage (Albrecht *et al.*, 2015).

Some meta-analyses have argued that work engagement influences the attitudinal, behavioral and performance of employees (e.g. Halbesleben, 2010). In this regard, Demerouti *et al.* (2010) cautioned that competitive advantage is a complex and multifaceted construct. The current findings advance our knowledge on the associations between the six HRM practices and competitive advantage by showing that such an association does not exist. This means that a firm’s competitive advantage does not share any variance with employee satisfaction as evident and applicable to work engagement. A plausible explanation for the current outcome might be that competitive advantage is more related to strategic HRM practices and not to an individual variable, such as employee satisfaction. That is, “greater potential for sustainable competitive advantage stems from investments in firm-specific skills, skills that cannot be easily duplicated by competitors”. The current outcome, which is the absence of mediation, is groundbreaking; hence, further research is needed before other alternatives could be ruled out and the present findings archived.

### **Theoretical and practical implications**

Few studies have attempted to explore the relationship between HR practices and competitive advantage. The scarcity of existing studies has resulted in various approaches

to causality between HR practices, work engagement and firm performance (Albrecht *et al.*, 2015). This paper goes beyond the typical vision of work engagement as a mediator of the relationship between HR practices and organizational performance (Huselid, 1995). It proposes an alternative model that links the role of strategic HR practices as a catalyst for shaping the competitive advantage of hotels. Thus, it fills an important gap in the research area, as indicated by a review of the literature (Jiang *et al.*, 2013; Jackson *et al.*, 2014), which calls for studies interaction between HR practices, firm performance and competitive advantage. This paper shows that HR practices may result in additional organizational outcomes in the workplace.

Based on this study's mixed results, the researchers recommend that hotel management should "change [its] mind set from the traditional sub-functional (selection, training, appraisal, compensation, etc.) view of HR to one where all of these independent sub-functions are viewed as interrelated components of a highly interdependent system." Given the need to understand the system clearly, rivals would find it difficult to identify or replicate a firm's strategy, since it requires time and energy and all the components to complement each other. In order to gain a quality advantage, the HR department of a company needs to adopt proper selection and growth strategy. The HR department needs to focus on developing healthy working environment, where employees can fulfill all the demands of customers. HR managers also need to take care of the health and safety of employees in the workplace. They need to develop appropriate incentive and appraisal structure for employees so that they work in accordance with the company objectives. For example, in the hotel industry, it is the primary requirement of hotels to meet the demands of customers. Hence, management of the hotels has to give incentives to the employees who responded quickly to the queries of customers.

Hotel managers need to seek ways to trigger employees, by establishing such initiatives to make the employees more innovative and valuing them via rewards or engaging them in the decision-making process (Karatepe, 2012; Abuhjeeh *et al.*, 2018). Besides, human capital is one the most important resources that gives any organization a competitive advantage and a leading strategic position among the competitors in the market (Takeuchi *et al.*, 2003). The outcome of this study also highlights that top management may be interested in benchmarking in relation to HR practices. Barney and Wright (1997) noted that "benchmarking identifies the rules of competition in an industry and can be maximally valuable in providing information on two issues. First, it helps firms to identify what superior practices the competition is engaged in which might provide them a competitive advantage until other firms can imitate it. Second, benchmarking should be used to identify ways to leapfrog competitors. This is accomplished through developing innovative HR practices, and is especially successful if they are ones that competitors will find it costly or difficult to imitate."

### **Research limitations and directions for future research**

This study had some limitations. First, the researchers obtained ratings of HR practices, employee satisfaction and competitive advantage at the same time. The researchers cannot rule out that individual ratings may have influenced or biased their ratings of the hotel's HR practices and competitive advantage. However, results from our confirmatory factor analyses and Harman's one-factor test suggest no significant concerns regarding common method bias. Nevertheless, relying on the same source measures may cause an underlying methodological problem. In other words, this study's cross-sectional design may have a profound effect on the findings. The findings are also only applicable to the Northern Cyprus hotel industry and, more specifically, to five-star hotels in that industry.

Thus, the researchers caution readers that the findings are only applicable to established hotels and industries. "Longitudinal studies and multilevel analytic approaches to

differentiate and disaggregate variance at individual, group and organizational levels can help map the strength of proposed direct and indirect relationships.” Further theoretical research is needed to determine how HR practices interact with other variables with an inclusive, competitive advantage in other industries or cultural settings. Fortunately, our model can stimulate and guide future research and promote a greater understanding of the importance of strategically orienting HRM practices to stimulate competitive advantage.

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