

INTI INTERNATIONAL UNIVERSITY

MASTER OF BUSINESS ADMINISTRATION

The mediation role of strategic orientation between human
resource management and organizational performance:
Evidence from Maldivian hotels and resorts

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ABSTRACT

Prior research evidence has been set on the relationship between human resource management and performance relationship. Yet, very little has been comprehended on exactly the vehicle that drives this relationship of human resource to organizational performance.

In response to the call to explore this hidden element of the mechanism through human resource strategies work to achieve a higher performance, this study is designed to extend the previous work by examining the relationship between human resource strategies and strategic orientation and organizational performance in terms of financial and non-financial performance. Specifically, this research probes into the relationship between human resource strategies developed by Dyer and Holder (1988) (involvement, investment and inducement strategies) and strategic orientation developed by Miles and Snow (1978) (prospector, defender, analyzer and reactor strategic orientation), and organizational performance in relation to financial and non-financial performance of 101 hotels and resorts based in the Maldives. The questionnaires were distributed to the hotels and resorts using convenient sampling.

The research hypotheses were tested using PLS estimation technique version 2.0 while descriptive analysis was done using SPSS statistical software version 20. This research revealed the significant effect human resource strategies have on strategic orientation and also the positive influence of strategic orientation to both financial and non-financial performance. This study also established the mediation role of strategic orientation in driving the human resource strategies to non-financial performance. However, no such mediation was found in the relationship between human resource strategies to financial organizational performance.

The discussion collates the empirical evidence and contribution. Theoretical and practical implications as well as recommendations for future research are provided.

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DECLARATION BY CANDIDATE

I hereby declare that this thesis is my own work and effort and that it has not been submitted anywhere for any award. Where other sources of information have been used, they have been duly acknowledged.

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TABLE OF CONTENTS

ABSTRACT.....	i
ACKNOWLEDGEMENT	ii
LIST OF TABLES	vii
LIST OF FIGURES	vii
LIST OF APPENDICES	viii
CHAPTER 1: INTRODUCTION.....	1
1.1 Chapter Overview	1
1.2 Background.....	1
1.3 Problem Statement	2
1.4 Research Objectives.....	5
1.5 Assumptions.....	5
1.6 Significance of the Study	5
1.7 Limitations of the Study.....	7
1.8 Scope of the Study	8
1.9 Operational Definitions.....	8
1.10 Structure of Thesis	9
1.11 Chapter Summary	10
CHAPTER 2: LITERATURE REVIEW.....	11
2.1 Chapter Overview	11
2.2 The concept of strategic human resource management	11
2.3 Dimensions of strategic orientations.....	12
2.4 Theory and Hypotheses.....	20
2.4.1 Human resource strategies and strategic orientation.....	21
2.4.2 Strategic orientation and organizational performance	22
2.4.3 The mediating effect of SO.....	25

2.5	Research Framework.....	26
2.6	Chapter Summary	28
CHAPTER 3: METHODOLOGY.....		29
3.1	Chapter Overview	29
3.2	Research Design.....	29
3.2.1	Nature of Research Design	29
3.2.2	Types of Research Design.....	30
3.2.3	Research Approach	31
3.2.4	Time Horizon	31
3.3	Research Sampling.....	32
3.3.1	Sampling technique.....	32
3.3.2	Sample size and population.....	33
3.3.3	Unit of analysis	34
3.4	Data collection method	34
3.4.1	Measuring Instrument	35
3.5	Data Analysis Technique	36
3.5.1	Structural Equation Modeling (SEM)	37
3.5.2	Partial Least Square (PLS) Estimation.....	37
3.5.3	PLS Estimation Approaches	39
3.6	Ethical Considerations	40
3.7	Chapter Summary	41
CHAPTER 4: RESEARCH FINDINGS		42
4.1	Chapter Overview	42
4.2	Response Rate.....	42
4.3	Descriptive Analysis	42
4.4	Reliability Analysis.....	44
4.5	Results from Partial-least Square (PLS) Modeling.....	45

4.5.1	PLS Outer Model Evaluation.....	45
4.5.2	Inner model evaluation.....	49
4.6	Hypotheses Testing.....	50
4.6.1	Direct Effect.....	50
4.6.2	Indirect Effect.....	51
4.7	Chapter Summary.....	52
CHAPTER 5: DISCUSSION, RECOMMENDATION AND CONCLUSION.....		53
5.1	Chapter Overview.....	53
5.2	Discussion.....	53
5.1.1	Human resource strategies and strategic orientation.....	54
5.1.2	Strategic orientation and organizational performance (financial and non-financial).....	56
5.1.3	The mediation effect of strategic orientation.....	58
5.2	Theoretical Implications.....	60
5.3	Practical implications.....	60
5.4	Recommendations and an agenda for the future.....	62
5.5	Conclusion.....	63
5.6	Personal Reflection.....	63
REFERENCES.....		65
APPENDICES.....		87

LIST OF TABLES

Table 2.1: Four strategic typologies developed by Miles and Snow (1978).....	24
Table 3.1: Empirical support of sample size.....	33
Table 3.2: Summary of the Questionnaire.....	36
Table 4.1: Demographic profile of respondents.....	43
Table 4.2: Reliability of the constructs.....	44
Table 4.3: Convergent and discriminant validity.....	46
Table 4.4: Correlations of latent constructs.....	48
Table 4.5: Inner model evaluation and hypotheses testing.....	49

LIST OF FIGURES

Figure 2.1: Individual direct effect model.....	26
Figure 2.2: Indirect (mediating) effect model.....	27

LIST OF APPENDICES

Appendix A: Letter confirming studentship by INTI Laureate University.....	88
Appendix B: Letter by the researcher.....	89
Appendix C: Permission approval by Ministry of Tourism, Arts and Culture in Maldives.....	90
Appendix D: Sample of the Questionnaire.....	91
Appendix E: SPSS Output for descriptive analysis.....	93
Appendix F: Research Model with results.....	94
Appendix G: Project Log.....	96
Appendix H: Ethics Form.....	100
Appendix I: Initial Research Project Proposal (IRPP).....	108
Appendix J: Turnitin Originality Report.....	122

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CHAPTER 1: INTRODUCTION

1.1 Chapter Overview

The opening chapter presents the research overview beginning with the background of the research (section 1.2) followed by the problem statement (section 1.3) and research objectives in relation to the literature (section 1.4). The assumptions made are highlighted (section 1.5) together with the deliberation of significance of the research (section 1.6). The limitations of the research (section 1.7) are then explained along with the research scope (section 1.8). The chapter will conclude with operational definitions (section 1.9) along with the structure of the thesis (section 1.10) and a brief summary of the areas that discussed in the chapter (section 1.11).

1.2 Background

It is an agreed priority within the Human Resource Management (HRM) literature that for organizations to be highly competitive, effective and successful in this dynamic business environment, organizations should give a paramount in managing Human Resources (HR) (e.g., Buren, Greenwood and Sheehan, 2011; Buller and McEvoy, 2012; Chow, Teo and Chew, 2013). On-going analysis and research within the field elevates the importance of aligning HRM systems to organizations business strategy in order to improve a company's bottom line (e.g., Shih, Chiang and Hsu, 2007; Subramony, 2009; Chow and Liu, 2009; Azmi, 2011; Chow, Teo and Chew, 2013).

The role of HRM has changed over time. Literature has indicated that the orientation of HRM has evolved to be rather different compared to previous manifestations (e.g., Buren, Greenwood and Sheehan, 2011). Pursuing strategy that links people from profit has become a major theme which means that the function of HRM is creating value by associating HR strategies to business strategies (Yeung and Berman, 1997; Chow, Teo and Chew, 2013). This is also designated as Strategic HRM (SHRM) in afore mentioned literature. Similarly, latest studies has depicted that the conventional definition of a strategic approach to HRM is defined as "*the pattern of planned human resource deployments and activities intended to enable an organization to achieve its goals*" (e.g., Chadwick, 2010; Buren, Greenwood and Sheehan, 2011; Chow, Teo and Chew, 2013).

However, the service sector related to hotels and resorts are frequently understood as one with inadequate employee practices and due to this the sector experiences a high employee turnover rate (McGunnigle and Jameson, 2000; Wilton, 2006; Blomme, Tromp and Rheede, 2008). The physiognomies of this sector which is highly intensive in labor and its vulnerability to environmental impacts for instance fluctuations in the market further justifies the importance of SHRM in the sector (Chand, 2010). Therefore, countries that give a paramount to hotels and resorts as a major income driver such as Turkey and Maldives should adopt SHRM in the sector (Avcı, Madanoglu and Okumus, 2011). For instance, with the hotels and resorts being the major enabler of the Maldivian economic development and the competition heightening from the neighboring countries, Maldives needs to support its hoteliers to generate sufficient returns to enhance the organizational performance as well as attract human capital (Ministry of Tourism, Arts and Culture, 2013).

Synthesizing various research conducted, an insight on how human resource strategies (HRS) influences organizational performance has been identified (e.g., Wright, Dunford and Snell, 2001; Harris and Ogbanna, 2001; Jiang et al., 2012; Theodosiou, Kehagias and Katsikea, 2012). The critical role played by the Strategic Orientation (SO) to link HRS to organizational performance has also been acknowledged in the literature (e.g., Chow, Teo and Chew, 2013). It has also been identified that organizational performance cannot only be measured in terms of finance; non-financial factors should also be included in the same mode as financial performance (Avcı, Madanoglu and Okumus, 2011). However, the mechanism through which HRS works to attain superior performance has not been fully unveiled (Chow, Teo and Chew, 2013). Henceforth, this study explores the mediating role of SO on the relationship of HRS to organizational performance in terms of financial organizational performance (FOP) and non-financial performance (NFP).

1.3 Problem Statement

The vehicle that links HRS and organizational performance (financial and non-financial) has not been fully explored; and sufficient research has not been conducted to examine the mechanism through which HRS works in achieving superior performance (Chow, Teo and Chew, 2013).

Therefore, this study has probed into the unveiled research that exists amid HRS and FOP as well as NFP by examining the mediating role of SO between HRS and organizational performance in terms of FOP and NFP.

Chow, Teo and Chew (2013), stresses on the importance of researching on the ways in which HR produces continued competitive advantage and augment organizational performance (FOP and NFP) and hence designates SO as a mediator of the HRS – FOP and HRS - NFP relationship. The main theory used is the SO developed by Miles and Snow (1978). Smith, James, Guthrie and Chen (1989) mentioned that this strategic typology is one of the most important and popular theories of strategy types. Prior research has emphasized the significance of integrating HRS and strategy in order to achieve superior business performance financially and non-financially (e.g., Pfeffer, 1994; Wright, Dunford and Snell, 2001). Hence, in order to achieve the research objective, the concept of HRM strategies (Inducement, Investment and Involvement) by Dyer and Holdings (1987) has been used in the study.

To date, SHRM research has primarily focused on evaluating the linkages between HRS and organizational performance (FOP and NFP) and how HRS influences the performance of the organizations (e.g., Harris and Ogbanna, 2001; Jiang et al., 2012; Theodosiou, Kehagias and Katsikea, 2012). Similarly, research prominence has been given on how SO affects organizational performance as well (e.g., Doyle and Hooley, 1991; Aragón-Sánchez and Sánchez-Marín, 2005; Escribá-Esteve, Sánchez-Peinado and Sánchez-Peinado, 2008; Avci, Madanoglu and Okumus, 2011; Kumar, Boesso, Favotto and Menini, 2012). However, research on the relationship that is driving HRS to organizational performance (FOP and NFP) is abundant.

Although literature has primarily emphasized on the importance of SO in the hotels and resorts (e.g., Avci, Madanoglu and Okumus, 2011), such importance has not been explored in the Maldives. Maldivian tourism sector especially related to hotels and resorts are the main source of income for the country and accounts for a large number of jobs in the country (Ministry of Tourism, Arts and Culture, 2013). Nevertheless, the hotels and resorts were conspicuously affected by the recent economic and financial crisis and remain tremendously vulnerable to the fluctuations in the economy. Although the Maldivian tourism sector associated with hotels and resorts was expected to rebound in 2010, the incessant recession in Euro zone in mid-2011

continued. The squeeze of profits induced by the global crisis has provoked some resorts and hotel owners to cut costs by reducing staff or making staff redundant (Ministry of Tourism, Arts and Culture, 2013). Therefore, the Maldivian hotels and resorts have to adopt strategies that are flexible and easily adaptable in this dynamic business environment.

On a larger scale, the contraction in resorts and hotels may reduce government revenues and prove costly to the economy. Given the importance to the economy, there is a need to diversify the resorts and hotels based in the Maldives including attracting demand, enhancing economic participation, increasing motivation, and so on so forth. This will have a significant impact on the organizational performance of the hotels and resorts.

Hence, it is crucial to deliver outstanding performance to retain and attract customers not only to achieve the economic benefit but also since the competition is heightening from neighboring countries such as Sri-Lanka, India and China (Business Times, 2012; Ministry of Tourism, Arts and Culture, 2013). There is, therefore a need to investigate the role of SO that mediates the bond that exists between HRS and FOP as well as HRS and NFP in the hotels and resorts based in the Maldives.

Chow, Teo and Chew, (2013) emphasizes that HRS combined with SO will be better for organizations to reach their strategic goals. Therefore, HRS and SO underpin each other to generate sustainable competitive advantage which will eventually heighten the performance of the organizations. Thus, the important joint linkages between HR and SO to organizational performance (FOP and NFP) should be further investigated. Henceforth, this study has served implications to the hotels and resorts in the Maldives which is the main income driver in the country as mentioned earlier.

This research designated SO as a mediator of HRS to FOP and HRS to NFP relationship in the hotels and resorts based in the Maldives. To broaden the horizon, more profound research should focus on doing similar but to other industries. The findings can also be used to support the aspects of the contingency perspective.

1.4 Research Objectives

The overarching research objective is to investigate and study the mediation effect of strategic orientation on the human resource strategies to organizational performance relationship in terms of financial and non-financial performance in the hotels and resorts based in the Maldives. The specific objectives are:

1. To determine the relationship of human resource strategies (inducement, investment and involvement) to strategic orientation in the Maldivian hotels and resorts.
2. To identify the impact of strategic orientation to organizational performance in terms of financial performance and non-financial performance.
3. To examine the mediation effect of strategic orientation on human resource strategies to organizational performance relationship in terms of both financial and non-financial performance.

1.5 Assumptions

The assumption that the responses received by the managers are discrete and not influenced by any factors such as common method bias has been made throughout the research. This is mainly because the study heavily relied on a single respondent from each organization risking the common method bias. Common method bias is defined as *“variance that is attributable to the measurement method rather than to the construct of interest. The term common method refers to the form of measurement, at different levels of abstraction such as content specific items, scale type, response format and the general context”* (Fiske, 1982 as cited by Podsakoff, MacKenzie, Lee and Podsakoff, 2003).

1.6 Significance of the Study

This research has probed into the mediating role of SO in the relationship between HRS and organizational performance (FOP and NFP) in line with the research done by Chow, Teo and Chew (2013) whereby the authors stated that this relationship has not been fully explored. The analysis and findings will be beneficial to the Maldivian government since the hotel and resort industry in the Maldives has transformed rapidly metamorphosing the Maldives into a

quintessential island holiday destination. This is because the Maldivian tourism industry related to hotels and resorts has been experiencing a strong growth of 4.3 percent at average (in real terms) per year since 1999. This significant economic growth and the planned development within this sector has transformed the country into a world-renowned high-class tourism destination. The volume of tourists visiting Maldives increased from 430,000 to 683,000 between 1999 and 2009; an average increase rate of 7.5 percent (Ministry of Tourism, Arts and Culture, 2013). The amount crossed 1 million by 2012 while 70 percent of tourists are from Europe (mostly from Italy and the United Kingdom). Moreover, the investment within the hotel and resort industry is growing rapidly as well. More than half of the resorts are managed through foreign ownership or joint ventures while the rest are operated by Maldivians. This is generating a significant amount of income for the country contributing to the nation's gross domestic product (GDP). According to the strategic human resource development plan for the tourism industry 2011 – 2015, total revenues from the tourism industry in the Maldives comprises of approximately 28 percent of total government revenues and brings nearly 75 percent of foreign exchange reserves (Ministry of Tourism, Arts and Culture, 2013).

Moreover, the re-emergence of tourism in Sri-Lanka as a ravishing tourism destination and the heightening of hospitality sector in China and India are putting more pressure to the hotels and resorts based in the Maldives (Business Times, 2012; Ministry of Tourism, Arts and Culture, 2013). Therefore, attention must be given to sustainable development through strategic interventions that will enhance the performance in the resorts and hotels based in the country. Furthermore, the biggest bottle-neck recognized in the strategic human resource development plan for the Maldivian tourism industry 2011 – 2015 is a decline in interest to enter the tourism industry and the fall of motivation to remain and grow within the industry compared to previous years. Hence, proper strategies needs to be adopted by the resorts and hotels established in the country to tackle the challenges faced by the emerging competition from the neighboring countries such as Sri-Lanka, China and India. It is also crucial to enhance the motivation level that will boost the interest to enter and remain in the industry.

In the flourishing service sector of the Maldives, the tourism and hotel sector accounts for more than 22,000 jobs (Ministry of Tourism, Arts and Culture, 2013). As mentioned earlier, the highest percentage of foreign currency earnings and GDP depends on the resorts and hotels