



# Effects of human resource management on hotel performance using structural equation modeling



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## ABSTRACT

The hotel industry is the largest and most rapidly growing industry in Jordan. Hotel management regularly seeks directions that enable them to sustain their competitive position. This study, therefore, investigates the impact of human resource management (HRM) practices, service quality, employee satisfaction, employee loyalty, customer satisfaction and customer loyalty on hotel performance in Jordan and then examines the relationships between these factors. A conceptual model is developed by proposing eleven hypotheses. Data are collected via a distributed survey to three-, four- and five-star Jordanian hotels. A total of 52 hotels in Amman responded to the questionnaires pooling 52 HR managers, 52 sales managers, 236 employees and 311 customers. The model is examined using structural equation modeling. The main results indicate that HRM practices, service quality, employee satisfaction, employee loyalty, customer satisfaction and customer loyalty have a positive influence on the improvement of hotel performance in financial and innovation domains. In conclusion, the methodology applied to measure the performance of hotel industry provides valuable information to top management and decision makers in Jordan regarding main factors that improve hotel performance and sharpen its competitive strength.

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## 1. Introduction

Tourism is the main productive sector in Jordan. It generates over 17% of Gross National Product. With its regional spread, tourism is an ideal industry to diffuse benefits across Jordan, and during the past few years, it has been responsible for generating a significant increase in foreign and domestic investment. A major part of the tourism sector is the hotel industry, which is the largest and most rapidly growing industry, employing over 14,690 people. It directly and indirectly employs over 37% of the total force in the tourism sector. Despite that, the hotel industry in Jordan is confronted with considerable challenges imposed by turbulent and rapidly changing external environment that it operates in.

Increased service quality, customer satisfaction, customer loyalty, employee satisfaction, employee loyalty, and hotel performance through human resource management (HRM) practices is a viable way for hotels to remain competitive (Lytras & Ordóñez de Pablos, 2008a, 2008b). Several studies have been conducted to examine the relationships between these factors. For example, Tortorella and Fogliatto (2014) presented a method for assessing the impact of HRM practices in a company under lean implementation in a case study from the automotive parts manufacturing sector. Zhai, Liu, and Fellows (2014) investigated the effect of HR practices

and organizational learning on firms' performance in Chinese construction industry using structural equation modeling. The results support organizational learning as a mediating variable of the relationship between HR practices and organizational performance. Longmore and Ronnie (2014) explored the key HR practices affecting doctors in a medical complex in South Africa using an open-ended questionnaire to gather data from 75 doctors in this setting. Results showed that the most important HR practices were paying salaries on time and accurately, the management of documentation, communication, HR staff showing that they respected and valued the doctors, and reimbursement for conferences and special leave requests. Sirca, Babnik, and Breznik (2013) studied the role of HRM climate in employees' attitudes through linking HRM climate perceptions to job satisfaction, job involvement and perceived organizational performance. The model was then tested on a sample of 574 Slovenian employees from the manufacturing sector. Yee, Yeung, & Cheng, 2010 examined the relationships among employee loyalty, service quality, customer satisfaction, customer loyalty and firm profitability, and the contextual factors influencing these relationships in 210 high-contact service shops in Hong Kong using Structural Equation Modeling (SEM). Chand (2010) investigated the effects of HRM practices on service quality, customer satisfaction and performance in Indian hotels. Ouyang (2010) used confirmatory factor analysis (CFA) and SEM to analyze the casual relationships between service quality, customer trust, customer satisfaction, and

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customer loyalty, and examined the mediator effects of customer satisfaction and trust. Chi and Gursoy (2009) investigated the relationship between employee satisfaction and customer satisfaction, and their impact on the financial performance of a hospitality company utilizing service-profit-chain framework. Further, they examined the mediating role of customer satisfaction on the indirect relationship between employee satisfaction and financial performance at three and four star hotels. Abdullah et al. (2009) examined the linkage between employee satisfaction and employee loyalty by developing the service profit chain in hotels in the Klang Valley area in Malaysia. Som (2008) examined the effect of innovative HRM practices on corporate performance during the change process through a multiple-responder survey of 69 Indian organizations. Gržinić (2007) tested the importance of service quality in hotel industry from both the conceptual standpoint and that of service quality measurement. Matzler and Renzl (2006) tested the relationships between trust in management and trust in peers, satisfaction and loyalty of employees of an Austrian company in the energy sector using SEM with Partial Least Squares.

In Jordan, examining the factors that affect business performance has gained significant research attention. For example, Al-Refaie, Al-Tahat, and Bata (2014) examined effects of customer relationship management on banks performance and customer-bank relationship quality. Al-Refaie and Hanayneh (2014) studied influences of total productive maintenance, total quality management, and six Sigma practices on firms performance in Jordan. Al-Refaie, Li, and Ko (2012) investigated the factors that affect customer linking capabilities and customer satisfaction in Jordanian Hotels. Al-Refaie, Ghnaimat, & Li, 2012 examined the effects of ISO 9001 certification and KAAE on performance of Jordanian firms. Al-Refaie, Li, and Jalham (2012) examined the factors that influence repurchase and customer satisfaction in Jordanian Telecom Companies. Al-Refaie (2011) employed structural model to investigate factors that affect patient satisfaction and revisit intention in Jordanian hospitals. Al-Refaie, Ghnaimat, and Ko (2011) investigated the effects of quality management practices on customer satisfaction and innovation. Still, little published research has been directed to examine the factors that affect hotel performance in Jordanian hotels and investigate the relationship between them. Al-Rousan and Mohamed (2010) examined the impact of tourism service quality dimension in the Jordanian five star hotels. A self-administered questionnaire was used to measure the perceived tourism service quality of the hotel guests at three branches Marriott hotel in Jordan. Al-Refaie, Li, and Ko (2012) examined factors affect customer linking capabilities and customer satisfaction in customer relationship management in Jordanian hotels. This research aims at examining the relationships between service quality, HRM practices, employee satisfaction, employee loyalty, customer loyalty and customer satisfaction and examining their effects on hotel Jordanian performance. The results of this research are of prime importance to hotel managers in prioritizing the main factors, determining their effects on hotel performance, and planning future improvements that leads to increasing hotel competitiveness. The remaining of this research is outlined in the following sequence. Section 2 develops conceptual framework. Section 3 demonstrates the methodology of data collection and analysis. Section 4 discusses the empirical results of the measurement and structural models. Section 5 summarizes the main conclusions and recommendations.

## 2. Conceptual framework

### 2.1. Hypotheses development

#### 2.1.1. HRM practices and service quality

Human resource management (HRM) practices are a distinctive approach to employment management which aims to achieve

competitive advantage via the strategic deployment of a highly committed and capable workforce using an array of cultural, structural and personnel techniques (Storey, 2001). The HRM function includes a variety of activities, including determining staffing needs, recruiting and training the capable employees, performance measurement, managing ways of employee benefits and compensation, and employee records.

Schneider, 1994 found that employee perception of HRM practices significantly related to customer perception of service quality, which is a key factor for increasing hotel's competitiveness, effectiveness and flexibility. Hartline and Ferrell (1996) suggested that hotel contract employees should receive the necessary training in order to deliver high quality service. The relationship between HRM practices and service quality enhances the ability of hotel employees, provides better service, and improves the effectiveness in service delivery. Hence, the following hypothesis is proposed:

**H1<sub>1</sub>.** HRM practices are positively related to improvement of service quality in hotels.

#### 2.1.2. HRM practices, employee satisfaction, and customer satisfaction

Successful HRM results in employee satisfaction and loyalty. Employee satisfaction is a pleasurable or positive emotional state resulting from the appraisal of the job experiences of the employee (Grigoroudis & Siskos, 2010). Typically, satisfied employees are loyal and productive employees (Heskett, Sasser, & Schlesinger, 1997). Employee loyalty means that employees are committed to the organization success and believing that working for this organization is the best option, planning to remain with the organization, does not actively search for an alternative employment, and is not responsive to offers. Employee loyalty increases as these individuals become more satisfied with their jobs and are allowed to take care of customers (Reichheld, 1996). Employee's satisfaction and loyalty is considered to be one of the most important drivers of quality, customer satisfaction and productivity. Customer satisfaction is the emotional response of a customer to the perceived gap between prior experience and expectations of a product and organization, and the actual experienced performance as perceived after interacting with an organization and/or consuming its product. Loyal customers are satisfied customers who are not easily swayed by price inducement from competitors (Baldinger & Rubinson, 1996; Bowen & Shoemaker, 1998). In practice, satisfied and motivated employees produce satisfied customers and increase organizational revenue and profitability (Pugh, Dietz, Wiley, & Brooks, 2002). On this basis, it is hypothesized that:

**H1<sub>2</sub>.** Effective HRM practices are positively related to customer satisfaction in hotels.

**H1<sub>3</sub>.** HRM practices are positively related to employee satisfaction in hotels.

#### 2.1.3. Employee satisfaction, service quality, and customer satisfaction

Satisfied employees are more likely to provide better services through organizational citizenship behaviors (Yoon & Suh, 2003) and they tend to be more involved in their employing organizations, and more dedicated to delivering high quality services. Thus, service quality is affected by employee satisfaction. Yee, Yeung, and Cheng (2008) revealed that job satisfaction perceived by customer-contact employees is associated with service quality. Moreover, service employees with a high level of job satisfaction will appear to the customer more balanced and pleased with their environment, which leads to positive influence on the level of customer satisfaction. Consequently, the following two hypotheses are proposed:

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