

A Work Project, presented as part of the requirements for the Award of a Master's Degree
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Impact of the HRM content (i.e. practices) and process (i.e. strength)
on individual and organizational outcomes,
in the hotel industry

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1. ABSTRACT

This study aims to explore the impact of the HRM content (i.e. HRM practices) on individual (proximal) and organizational (distal) outcomes, in the hotel industry context, as well as the influence of the HRM process (i.e. HRM strength) as a mediator in the link between HRM practices and individual and organizational outcomes. A total of 202 responses from non-supervisory employees and 38 from supervisors, from 7 hotels in Algarve, were collected and analysed. HRM practices were grouped into three HRM bundles, through an exploratory factor analysis – *Internal Labour Market*, *Employee Involvement* and *Meritocracy and Security*. These HRM bundles were found to have a significant association with both proximal and distal outcomes. Specifically, *Internal Labour Market* was associated with *Job Satisfaction*, *Organizational Citizenship Behaviour*, *Work Engagement* and *Innovative Behaviour*; *Employee Involvement* was associated with *Job Satisfaction*, *Organizational Commitment towards the Organization*, *Organizational Citizenship Behaviour*, *Work Engagement* and *Innovative Behaviour*; and *Meritocracy and Security* was only significant with *Organizational Commitment towards the Organization*, *Organizational Citizenship Behaviour* and *Innovative Behaviour*. Both *Internal Labour Market* and *Meritocracy and Security* positively affect *Organizational Innovation*. Some of the relationships obtained were mediated by *Strength of the HRM system*, but not all. *Strength of the HRM system* reveals itself as a signalling mechanism to increase visibility and relevance of some bundles of HRM practices. Implications of these findings are also discussed.

Keywords: Strategic Human Resources Management, Human Resources Management Practices, Strength of the HRM System, Proximal Outcomes, Distal Outcomes.

2. INTRODUCTION

This work project aims to investigate the influence of the Human Resources Management content (i.e. HRM practices) on individual and organizational outcomes. Additionally, it intends to analyse the influence of the Human Resources Management process (i.e. strength of the HRM system) as a mediator in the link between HRM practices and individual and organizational outcomes. This study will be performed in the hotel industry context, with 4 and 5 star hotels in Algarve.

First, I review the literature focusing on the main topic, which is the impact of HRM practices on individual and organizational outcomes, as well as the mediator role of strength of the HRM system in this relation.

Then, I present the methodology used: two questionnaires, one to the supervisors and another one to the employees. The questionnaire for the supervisors focused on the *HRM Content* and *Strength*, and *Organizational Performance*. The questionnaire given to the employees covered the areas of *HRM Content* and *Strength*, and *Individual Outcomes*.

After interpreting the given results, I present a brief discussion about them and look for a positive relation between the variables mentioned above. In the sequence, I summarize the contributions and implications this study might have to organizations, especially those operating in the hotel industry.

Finally, I present the limitations of my research work.

3. LITERATURE REVIEW

3.1. The link between HRM practices and organizational performance

The global economy has created a new competitive scenario where events constantly change in unpredictable ways and, in order for organizations to successfully compete in this environment, they must continually improve their performance by reducing costs, innovating in products and processes and improving in quality and productivity. At the same time, these organizations are recognizing the role of their human resources as one of the most important resources, as well as a source of sustained competitive advantage (Çaliskan, 2010). Parallel to the acknowledgement that human resources are vital for an organization, the field of human resources management (HRM) is also gaining some importance within organizations, since it aims to ensure that firms obtain and retain the most skilled, well-motivated and committed employees. On the other hand, strategic human resources management (SHRM) involves designing and implementing a set of internally consistent policies and practices, and aligning its human resources with the overall business strategy in order to gain competitive advantage.

In this sense, organizations are becoming increasingly aware that successful human resource policies and practices may increase performance in different areas such as productivity, quality and financial performance. Thus, in recent years, researchers have given considerable attention to the linkage between HR practices and firm performance and, based on research evidence, it is becoming increasingly clear that the HRM system is one key element with an important impact on organizational performance (e.g., Huselid & Becker, 1995; Cunha *et al.*, 2002; Combs *et al.*, 2006).

Two main perspectives have been defined by research in recent years. The first one is based on a systems approach of HRM, and has moved from a focus on separate HRM

practices and employee performance to a broader analysis, focusing on bundles of HRM practices (Cunha & Cunha, 2009) and firm performance. That is, the main tendency in research of the relation between HRM practices and organizational performance has been to consider that HR practices are only effective when considering complementarities or bundles, rather than by examining the effects of individual HRM practices on individual and firm performance, since these practices will, jointly, contribute to the improvement of employee and organizational performance. The second perspective is the strategic view of HRM. In this approach, researchers have studied the particular 'fit' between various practices and the organization's competitive strategy. Embedded in this view is the idea that organizations must align their HRM practices towards their strategic goal and complement one another in order to achieve the organization's business strategy. In this sense, organizations must understand that HR practices can enhance the value of their human capital through development of skills and knowledge and, at the same time, influence employees' behaviours in the desired direction for the implementation of its business strategy and to achieve a sustained competitive advantage (Paauwe & Boselie, 2005). However, this is only possible if employees are willing to stay in the firm and, thus, employees' commitment towards the organization is crucial in this circumstance. In this sense, research on the linkage between HRM practices and performance became increasingly interested in the creation of high commitment work environments through high performance work practices (HPWP's), which can be seen as an extension of the resource-based view (Paauwe & Boselie, 2005). The resource-based view proposes that an organization's human capital can be leveraged in order to provide a source of competitive advantage (Huselid, *et al.*, 1997). In other words, strategic HRM practices help a firm to ensure that its human

resources add value to the organization's production processes, are difficult to replicate and to substitute and, thus, are believed to provide a unique source of competitive advantage (Wright *et al.*, 1994; Bowen & Ostroff, 2004).

SHRM researchers (e.g. Combs *et al.*, 2006) point to three mediators through which HPWP's affect organizational performance, that is, (a) by increasing employees' knowledge, skills and abilities (KSA's), which can be achieved through broad recruiting and selectivity, as well as through practices such as job design and compensation tied to skill development and training, offering employees the opportunity to develop the unique skills needed; (b) by motivating employees to act, which is very important, and can be enhanced with such practices as incentive compensation, performance appraisal and internal promotion policies, as well as flexible work schedules and employment security; and (c) by empowering employees to do so, that is, even knowledgeable, skilled and motivated employees will not be able to make extra efforts if the organization does not offer them the opportunities to act (Huselid, 1995), and it can be enhanced through participation programs, information sharing, self-managed teams and employment security. Given the complexity and causal ambiguity associated with human resources, they turn to be rare, inimitable and nonsubstitutable and, thus, difficult for competitors to copy.

One of the concerns raised in recent studies of HRM and performance is that a wide range of indicators of performance are used; models that explore the linkage between HRM practices and performance (e.g. Pauwee, 2009) distinguish between proximal outcomes, such as employees' behaviours and attitudes, that may be reflected in labour turnover and absence levels; and distal outcomes, such as sales and financial performance, which may be affected by a number of factors, such as the competitive

environment and the organization's marketing strategy. Several researchers (e.g. Guest & Conway, 2011) argue that HRM practices have their core impact in the way they affect employees' behaviours and attitudes, which, in turn, will have an impact on outcomes such as productivity and quality of goods and services, and eventually will be reflected in the financial performance of the organization. These authors suggest that the more proximal measures will be more greatly affected by HR practices and their effectiveness, than distal outcomes.

Concerning the study of individual outcomes, the list of outcomes analysed in recent years is quite extensive, but some have stood out, such as job satisfaction, organizational commitment towards the organization, organizational citizenship behaviour, work engagement and innovative behaviour. HRM practices and job satisfaction have been widely studied all over the world and it is assumed that they are closely associated (e.g. Petrescu & Simmons, 2008) and so researchers believe that HRM practices result in higher levels of job satisfaction. Great attention has also been given to the study of commitment towards the organization (e.g. Allen & Meyer, 1990), being viewed as a tendency to "engage in consistent lines of activity" (Becker, 1960) based on the individuals' recognition of the costs associated with discontinuing the activity, and so commonly linked with turnover - employees who are strongly committed are those who are least likely to leave the organization. On the other hand, organizational citizenship behaviour (OCB) may also be considered as an outcome and has been defined as employees' behaviours that, although not critical to the task or job, help to facilitate the organizational functioning, such as helping co-workers (e.g., Lee & Allen, 2002). Work engagement has also been defined as an important employee

outcome, being defined as a positive and fulfilling work-related state of mind, characterized by vigour, dedication and absorption (Schaufeli *et al.*, 2006). Finally, innovative behaviour is also suggested in literature (e.g. Shipton *et al.*, 2013) to significantly and positively relate to performance and is defined, in this context, as a concrete change that has value relative to a current practice; it actively encourages employees to question behaviours and to think about new ways of working.

According to the literature above referred, the following hypotheses are raised:

H1: HRM practices are expected to positively affect employees' outcomes.

H1a: HRM practices are expected to positively affect job satisfaction.

H1b: HRM practices are expected to positively affect organizational commitment towards the organization.

H1c: HRM practices are expected to positively affect organizational citizenship behaviour.

H1d: HRM practices are expected to positively affect work engagement.

H1e. HRM practices are expected to positively affect innovative behaviour.

While in hypothesis 1 (H1) the purpose is to analyse the link between HRM practices and proximal employee outcomes, the literature has also suggested the impact of HRM practices on organizational performance. In this study, two important outcomes will be analysed: perceived organizational performance and organizational innovation, of great importance when considering the tourism sector and, more specifically, the hotel industry. Thus, the second hypothesis rises:

H2: HRM practices are expected to positively affect organizational outcomes.

H2a: HRM practices are expected to positively affect perceived organizational performance.

H2b: HRM practices are expected to positively affect organizational innovation.

3.2. HRM process as a mediating variable

Bowen and Ostroff (2004) differentiate two features of an HRM system that will jointly contribute to performance, which are, content and process. Whereas content refers to the specific HRM practices and policies intended to achieve a particular objective (ideally, driven by organizations' values and strategic goals), process deals with how the HRM system can be designed and administered in an effective way, in order to create strong situations in the form of shared meaning about the expected employees' behaviours that might ultimately lead to organizational performance.

Bowen and Ostroff (2004) propose that HRM content and process must be effectively integrated in order for the HRM system to actually have an impact on firm performance. That is, given a desired content of the HRM system, it may still not elicit appropriate collective behaviours and attitudes needed for effectiveness, due to the fact that individuals may interpret the HRM practices in an idiosyncratic way, leading to different psychological climate perceptions. Bowen and Ostroff (2004) also suggest that this shared meaning about the expected behaviours and attitudes represents the "strength of the HRM system", which is a process that sends an effective message about HRM content to all employees, clarifying what strategic goals are important and which employees' behaviours are expected and rewarded. The authors also propose that the HRM system creates a strong situation if it is perceived as high in *distinctiveness* (which refers to the relevance of HRM, that is, if the situation is defined in such a way that individuals see it as relevant to an important goal), high in *consistency* (referring to the internal consistency and alignment among HR practices, meaning that the relation event-effect is the same over time, people and contexts) and high in *consensus* (which

means that there is agreement among individuals' views about the event-effect relationship, as well as fairness).

The following two hypotheses stem from this theoretical model, and assume a mediation effect:

H3: *The relation between HRM practices and employees' outcomes is mediated by HRM strength:*

H3a: *The relation between HRM practices and job satisfaction is mediated by HRM strength.*

H3b: *The relation between HRM practices and organizational commitment towards the organization is mediated by HRM strength.*

H3c: *The relation between HRM practices and organizational citizenship behaviour is mediated by HRM strength.*

H3d: *The relation between HRM practices and work engagement is mediated by HRM strength.*

H3e: *The relation between HRM practices and innovative behaviour is mediated by HRM strength.*

H4: *The relation between HRM practices and organizational outcomes is mediated by HRM strength:*

H4a: *The relation between HRM practices and perceived organizational performance is mediated by HRM strength.*

H4b: *The relation between HRM practices and organizational innovation is mediated by HRM strength.*

Figure 1 below summarizes the model being tested in this work project, with the four hypotheses.

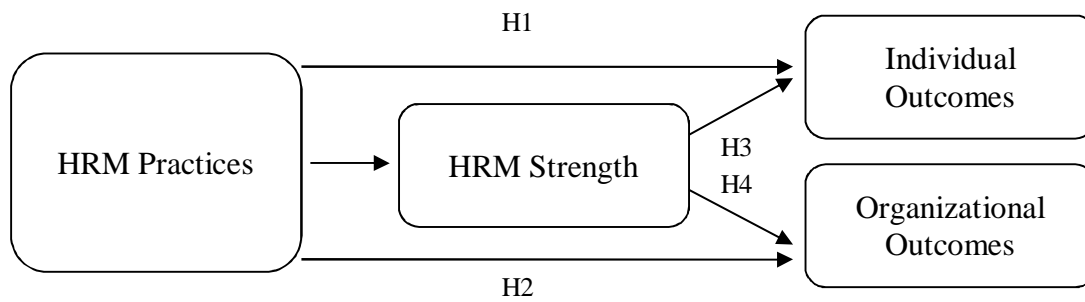


Figure 1 - Summary of the relations between HRM practices, HRM strength and outcomes, and hypotheses tested in this study.

4. METHODOLOGY

4.1. Sample and Data Collection

A study of this type requires a sample as broad as possible. Since, at the time I collected the data, the hotels had reduced staff, due to low seasonal needs, the questionnaires were applied in seven hotels in Algarve, in order to collect the largest possible number of answers. The sample comprises 202 employees from 4 and 5 star hotels (Real Marina Hotel: 38; Riu Palace Hotel: 57; Vila Petra Hotel: 31; Hotel D. José: 20; Hotel D. Filipa: 22; Hotel Faro: 12; Hotel Navegadores: 22) and 38 supervisors (Real Marina Hotel: 8; Riu Palace Hotel: 9; Vila Petra Hotel: 4; Hotel D. José: 5; Hotel D. Filipa: 4; Hotel Faro: 2; Hotel Navegadores: 6). In some hotels the questionnaires were applied presentially, whereas in other cases, due to the hotels' preferences, the questionnaires were distributed to employees and supervisors by the HR director and, then, sealed and delivered to me. The difference between the two questionnaires resides in the dependent variables: supervisors were inquired about organizational performance (*perceived Organizational Performance* and *Organizational Innovation*), whereas employees were inquired by employees' outcomes (*Job Satisfaction*, *Organizational Commitment*

towards the Organization, Organizational Citizenship Behaviour, Work Engagement and Innovative Behaviour). Both questionnaires are presented on Appendix 1 and 2.

4.2. Measures

The survey instruments included items that assessed four main variables, which were rated on a 1 to 6 scale, where 1 = strongly disagree and 6 = strongly agree. These variables are explained below:

HRM Practices. This variable was measured within employees and supervisors and was based on a scale developed by Sanders *et al.* (2008). The 17 items asked respondents to indicate the level of agreement relative to the use of HRM practices in their firm (Section 1 of both questionnaires, Appendix 1 and 2). To analyse this variable, an exploratory factor analysis was performed in order to reduce the initial 17 items into manageable and coherent bundles, from which 3 factors were obtained (with an eigenvalue > 1), using the *Varimax Rotation* method (Table 1, Appendix 3). Those factors were labelled as *Internal Labour Market* (factor 1, Cronbach's $\alpha = .907$ for items 1 to 7 and 12), *Employee Involvement* (factor 2, Cronbach's $\alpha = .868$ for items 8 to 11) and *Meritocracy and Security* (factor 3, Cronbach's $\alpha = .881$ for items 13 to 17). The *Internal Labour Market* bundle reflects an investment in current employees and their skills and career development; the *Employee Involvement* bundle reflects communication with employees and participation in decision making; and *Meritocracy and Security* reflects performance compensation and job security.

Strength of the HRM System. This variable was measured within employees and supervisors. The scale was based on the scale developed by Coelho *et al.* (2012) and corresponds to sections 2 and 3 of the survey (Appendix 1 and 2), with a Cronbach' α of

.954. The first part (Section 2) is a list of HRM practices to be rated in terms of importance for the company and the main goal is to serve as an anchor for employees and supervisors' answers; this section was not used in the analysis. Section 3 includes 15 items and the total score was used in the analysis.

Employee Outcomes. This set of variables was presented to non-supervisory employees only and it is constituted by 5 scales (the complete list of the employee outcomes analysed in this study is presented in Section 5, questionnaire 1, Appendix 1): Job Satisfaction, based on a scale developed by Kim et al (1996), includes 3 items and has a Cronbach's α of .816; Organizational Commitment, based on a scale developed by Allen and Meyer (1990), is composed by 4 items and has a Cronbach's α of .782; Organizational Citizenship Behaviour, based on a scale developed by Lee and Allen (2002), includes 8 items and has a Cronbach's α of .824; Work Engagement, based on a scale developed by Bakker *et al.* (2003), it is constituted by 9 items and has a Cronbach's α of .914; Innovative Behaviour, based on a scale developed by Shipton *et al.* (2013), includes 5 items and has a Cronbach's α of .787.

Organizational Outcomes. This variable was presented to supervisory employees only and correspond to Section 5a/5b, in questionnaire 2, Appendix 2: Organizational Performance, based on Cunha *et al.* (2002, 2009), is composed by 6 items and has a Cronbach's α of .940; and Organizational Innovation, based on a scale developed by Shipton *et al.* (2013), includes 5 items and has a Cronbach's α of .937.

Control variables. Three control variables were included in the analysis of the relation between HRM practices and employees' outcomes, after a first analysis of the intercorrelations between all variables (Tables 2 and 3, Appendix 4 and 5). These control variables were part of the biographical data inquired from participants: *type of*

work contract, (coded 1 = permanent full-time, 2 = temporary full-time, 3 = permanent part-time, 4= temporary part-time), which was used as a control when *Job Satisfaction*, *Organizational Commitment towards the Organization* and *Organizational Citizenship Behaviour* were used as dependent variables; *monthly income*, (coded 1 = <500€ 2 = 501-1200€ 3 = 1201-2100€ 4= 2101-3600€ 5 = >3600€), used as a control when *Innovative Behaviour* was the dependent variable; and *job tenure*, represented by the time employees work in the organization, used as a control when *Job Satisfaction* was the dependent variable. One control variable was included in the analysis of the relationship between HRM practices and *perceived Organizational Performance* (Tables 4 and 5, Appendix 6 and 7): *education* (coded 1 = primary education, 2 = preparatory school, 3 = 9th grade, 4 = 12th grade, 5 = higher education).

5. RESULTS

In order to test **Hypothesis 1**, a regression analysis was conducted with each of the employees' outcomes (*Job Satisfaction*, *Organizational Commitment towards the Organization*, *Organizational Citizenship Behaviour*, *Work Engagement* and *Innovative Behaviour*) as dependent variables and each of the HRM bundles (*Internal Labour Market*, *Employee Involvement* and *Meritocracy & Security*) as independent variables, as well as the control variables (*type of work contract* for *Job Satisfaction*, *Organizational Commitment towards the Organization* and *Organizational Citizenship Behaviour*; *job tenure*, for *Job Satisfaction*; and *monthly income* for *Innovative Behaviour*) (Tables 2 and 3, Appendix 4 and 5). As shown in Table 1 below, both *Internal Labour Market* ($\beta = .380$, $p = .000$) and *Employee Involvement* ($\beta = .196$, $p = .016$) contribute to explain *Job Satisfaction*. However this outcome is not positively

affected by *Meritocracy & Security* ($\beta = .049$, $p = .563$). Tolerance and VIF values demonstrate that there are no multicollinearity problems ($VIF < 10$).

	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	VIF
	B	Std.error	Beta			
(constant)	5,355	.136		39.310	.000	
Type of work	-.170	.062	-.195	-2.735	.007	1.062
Job tenure	-.021	.008	-.194	-2.719	.007	1.062
(constant)	2.892	.281		10.295	.000	
Type of work	-.045	.055	-.052	-.819	.414	1.218
Job tenure	-.015	.007	-.135	-2.257	.025	1.081
ILM	.317	.082	.380	3.849	.000	2.970
EI	.161	.066	.196	2.434	.016	1.977
M&S	.035	.060	.049	.563	.563	2.136

Table 1 – Regression coefficients, with control variables, HRM bundles as independent variables and Job Satisfaction as dependent variable.

When considering *Organizational Commitment towards the Organization* as individual outcome, only *Employee Involvement* ($\beta = .172$, $p = .039$) and *Meritocracy & Security* ($\beta = .251$, $p = .006$) significantly contribute to explain this dependent variable. There are also no multicollinearity problems (please see Table 2 below).

	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	VIF
	B	Std.error	Beta			
(constant)	4,894	,131		37,259	.000	
Type of work	-,256	,072	-,246	-3,540	.001	1.000
(constant)	2,229	,326		6,847	.000	
Type of work	-,108	,065	-,104	-1,660	,099	1,134
ILM	,193	,105	,192	1,840	,067	3,133
EI	,169	,082	,172	2,078	,039	1,980
M&S	,218	,078	,251	2,801	,006	2,311

Table 2 – Regression coefficients, with control variables, HRM bundles as independent variables and Organizational Commitment towards the Organization as dependent variable.

As shown in Table 3 below, both *Internal Labour Market* ($\beta = .227$, $p = .026$) and *Employee Involvement* ($\beta = .363$, $p = .000$) contribute to explain *Work Engagement*, but not *Meritocracy & Security* ($\beta = .014$, $p = .871$). There are no multicollinearity problems.

	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	VIF
	B	Std.error	Beta			
(constant)	2,836	,212		13,403	,000	
ILM	,168	,075	,227	2,239	,026	2,914
EI	,264	,060	,363	4,398	,000	1,933
M&S	,009	,054	,014	,163	,871	2,055

Table 3 – Regression coefficients, with control variables, HRM bundles as independent variables and Work Engagement as dependent variable.

All HRM bundles significantly affect *Organizational Citizenship Behaviour* - with *Internal Labour Market* ($\beta = .269$, $p = .005$), *Employee Involvement* ($\beta = .298$, $p = .000$) and *Meritocracy & Security* ($\beta = .173$, $p = .030$); and *Innovative Behaviour* - with *Internal Labour Market* ($\beta = .243$, $p = .012$), *Employee Involvement* ($\beta = .187$, $p = .018$) and *Meritocracy & Security* ($\beta = .255$, $p = .002$) as shown in tables 4 and 5 below. There are also no multicollinearity problems.

	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	VIF
	B	Std.error	Beta			
(constant)	4,850	,095		51,194	,000	
Type of work	-,112	,052	-,150	-2,137	,034	1,000
(constant)	2,519	,214		11,766	,000	
Type of work	-,003	,043	-,004	-,071	,943	1,130
ILM	,191	,067	,269	2,870	,005	2,966
EI	,209	,053	,298	3,901	,000	1,976
M&S	,106	,049	,173	2,180	,030	2,124

Table 4 – Regression coefficients, with control variables, HRM bundles as independent variables and Organizational Citizenship Behaviour as dependent variable.

	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	VIF
	B	Std.error	Beta			
(constant)	4,745	,176		26,889	,000	
Monthly income	-,149	,075	-,139	-1,979	,049	1,000
(constant)	2,402	,268		8,978	,000	
Monthly income	-,094	,061	-,088	-1,544	,124	1,011
ILM	,198	,079	,243	2,523	,012	2,915
EI	,150	,063	,187	2,381	,018	1,933
M&S	,179	,057	,255	3,140	,002	2,068

Table 5 – Regression coefficients, with control variables, HRM bundles as independent variables and Innovative Behaviour as dependent variable.

In order to test **Hypothesis 2**, a regression analysis was conducted with each of the organizational outcomes (*perceived Organizational Performance* and *Organizational Innovation*) as dependent variables and each of the HRM bundles (*Internal Labour Market*, *Employee Involvement* and *Meritocracy & Security*) as independent variables. Only *level of education* was significantly correlated with *perceived Organizational Performance* and therefore used as control variable. As show in Table 6, *perceived Organizational Performance* is not predicted by any of the HRM bundles. However, the level of education does contribute to explain this independent variable – the higher the level of education, the higher the *perceived Organizational Performance* (Tables 4 and 5, Appendix 6 and 7).

	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	VIF
	B	Std.error	Beta			
(constant)	3,390	,712		4,760	,000	
Education	,390	,171	,355	2,281	,029	1,000
(constant)	,521	,776		,671	,507	
Education	,323	,130	,295	2,483	,018	1,037
ILM	,300	,199	,317	1,503	,142	3,271
EI	,266	,200	,271	1,333	,192	3,053
M&S	,083	,130	,120	,639	,527	2,608

Table 6 – Regression coefficients, with control variables, HRM bundles as independent variables and perceived Organizational Performance as dependent variable.

On the other hand, *Organizational Innovation*, as organizational outcome, is predicted by *Internal Labour Market* ($\beta = .561$, $p = .011$) and *Meritocracy and Security* ($\beta = .391$, $p = .044$), as shown in Table 7.

	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	VIF
	B	Std.error	Beta			
(constant)	2,033	,655		3,103	,004	
ILM	,551	,205	,561	2,683	,011	3,189
EI	-,213	,208	-,209	-1,022	,314	3,053
M&S	,281	,134	,391	2,088	,044	2,561

Table 7 – Regression coefficients, with control variables, HRM bundles as independent variables and Organizational Innovation as dependent variable.

Hypothesis 3 proposes the mediation effect of Strength of the HRM system; to test this hypothesis, several conditions need to be present (Preacher & Hayes, 2004): (1) *the independent variable significantly predicts the dependent variable*; (2) *the independent variable significantly predicts the mediating variable* and (3) *the mediating variable significantly predicts the dependent variable controlling for the independent variable*.

In order to test Hypothesis 3, a regression analysis was conducted with each of the employees' outcomes (*Job Satisfaction, Organizational Commitment towards the Organization, Organizational Citizenship Behaviour, Work Engagement and Innovative Behaviour*) as dependent variables and each of the HRM bundles (*Internal Labour Market, Employee Involvement and Meritocracy and Security*) as independent variables, as well as the mediator *Strength of the HRM system*, following the three steps mentioned above. A Sobel test¹ was also conducted. As shown on Tables 8 to 10, the relation between HRM bundles and employee's outcomes is mediated by HRM Strength in three of the cases. That is, *HRM Strength* mediates the relation between *Internal Labour Market* and *Job Satisfaction* ($z = 5.46$ $p = .000$), the relation between *Meritocracy and Security* and *Organizational Commitment towards the Organization* ($z = 3.58$, $p < .001$), and the relation between *Internal Labour Market* and *Work Engagement* ($z = 2.76$, $p = .005$). In those cases where the mediation effect is not significant (i.e., when $p > .05$), there is either a direct exclusively effect (i.e., SHRMS is not significantly predicting the dependent variable) or no effect at all.

¹ (Sobel, D.S., 2013) "Sobel Test Calculator for the Significance of Mediation", available from <http://www.danielsoper.com/statcalc>. The following formula was involved in the calculation of this test:
$$z = \frac{ab}{\sqrt{(b^2SE_a^2) + (a^2SE_b^2)}}$$
, where a is the regression coefficient for the relationship between the independent variable and the mediator, b is the regression coefficient for the relation between the mediator and the dependent variable, SE_a is the standard error of the relation between the independent variable and the mediator, and SE_b is the standard error of the relation between the mediator variable and the dependent variable.

		Standardized Coefficients	Sig.
		Beta	
Step 1 (the independent variable predicting the dependent variable and controlling for type of work contract and job tenure)	ILM	.380	.000
	EI	.196	.016
	S&M	.049	.563
Step 2 (the independent variable predicting SHRM as dependent variable)	ILM	.395	.000
	EI	-.085	.115
	M&S	.541	.000
Step 3 (the mediating variable predicting the dependent variable and controlling for the independent variable)	SHRM	.355	.000

Table 8 – Mediation test for Job Satisfaction.

		Standardized Coefficients	Sig.
		Beta	
Step 1 (the independent variable predicting the dependent variable and controlling for type of work contract)	ILM	.192	.067
	EI	.172	.039
	S&M	.251	.006
Step 2 (the independent variable predicting SHRM as dependent variable)	ILM	.401	.000
	EI	-.092	.087
	M&S	.544	.000
Step 3 (the mediating variable predicting the dependent variable and controlling for the independent variable)	SHRM	.437	.000

Table 9 – Mediation test for Organizational Commitment towards the Organization.

		Standardized Coefficients	Sig.
		Beta	
Step 1 (the independent variable predicting the dependent variable)	ILM	.227	.026
	EI	.363	.000
	S&M	.014	.871
Step 2 (the independent variable predicting SHRM as dependent variable)	ILM	.403	.000
	EI	-.093	.080
	M&S	.545	.000
Step 3 (the mediating variable predicting the dependent variable and controlling for the independent variable)	SHRM	.264	.009

Table 10 – Mediation test for Work Engagement.

The mediation effect hypothesized in **Hypothesis 4** was not tested, since *Strength of the HRM system* did not have a significant effect on the two dependent variables, *perceived Organizational Performance* ($p > .05$) and *Organizational Innovation* ($p > .05$).

6. DISCUSSION

6.1 Contribution and Implications

The purpose of this study is to demonstrate the impact of HRM practices on individual and organizational outcomes, as well as the mediating role of strength of the HRM system. Results suggest that the HRM practices that have most impact on the individual employees' outcomes are the ones that integrate the *Internal Labour Market* and the *Employee Involvement* practices bundles. *Internal Labour Market* practices refer to training and job opportunities within the organization and, although not affecting employees' commitment towards the organization, it is clear that these type of practices - knowledge and skill improvement, training and internal recruitment and selection, still have a great impact on the remaining employees' outcomes. The practices related to *Employee Involvement* refer to the opportunity given to employees to participate on the management decisions. On the other hand, practices related to *Meritocracy and Security* do not affect *Job Satisfaction* or *Work Engagement*, which is a puzzling result. In this period of crisis, it would be expectable that practices related with payment for performance and job stability and security would be important for the individuals' satisfaction. However, this unpredictable economic environment may also lead employees to feel thankful for having a job and a salary and, that might be the reason why, in this particular case of the hotel industry, employees' satisfaction and likelihood to engage in work activities are likely expected to be boosted by practices related to training and promotion opportunities, as well as to the opportunity to engage in the decision-making process.

Additionally, HRM practices are not significant predictors of *perceived Organizational Performance*, but *Internal Labour Market* and *Meritocracy and Security* have a

significant impact on *Organizational Innovation*. According to the supervisors, those practices related to compensation programs and job stability and security are likely to lead the organization to achieve a higher innovation level. It is important to focus on the role that innovation has in the tourism sector, with a strong competitive environment, as it happens in the hotel industry, especially in the Algarve region, where the competition is fierce.

Strength of the HRM system does mediate some of the relations between the HRM bundles and the proximal performance indicators, but not the distal ones. However, the relation between *Employee Involvement* and individual outcomes was never mediated by *Strength of the HRM system*. The impact of the *Internal Labour Market* and *Meritocracy and Security* related practices have *Strength of the HRM system* as a mediator, since it serves as a communication/visibility mechanism. *Employee Involvement* does not need this signalling mechanism though, because these practices are experienced by the employees, in the extent that they are involved in the decision-making, and so they already perceive it.

Future studies should perform a deeper analysis, such as testing *Strength of the HRM system* as an independent variable and not as a mediator; it was tested *a posteriori* and both the variables *distinctiveness* and *consensus* showed up as relevant predictors of some of the outcomes: *Organizational Commitment towards the Organization* and *Organizational Citizenship Behaviour*, in the case of *distinctiveness*, and *Job Satisfaction*, in the case of *consensus*. In this latter case, the importance of fairness at the workplace should be stressed – employees who feel fairly treated are likely to feel more satisfied. Another option would have been to change the process variable and, instead of using *HRM Strength* as the mediator variable, use another one, such as

Climate or Culture, for employees and supervisors, respectively. In this report I decided not to do it, not only to maintain the main goal of this study, which was to test the mediation effect of the Strength of the HRM system, but also for space constraints.

A major contribution of this study lies on the demonstration of the relation between HRM practices and individual and organizational outcomes, but mainly on the mediating role of strength of the HRM system in the relation between HRM practices and individual and organization outcomes. Besides, I used two different sources of information for the outcomes (supervisory and non-supervisory employees), in order to decrease the common error variance problem.

These research findings highlight a few practical implications. Although human resources are a source of sustained competitive advantage, the costs associated with the development of an HRM strategy have been regarded as an operating expense; this study's results suggest that these costs should be better considered as an investment in capital assets in organizations. With the same purpose, organizations should place a greater attention on the importance HRM practices have in the achievement of positive individual and organizational outcomes and, in this way, create a sustained competitive advantage.

Another finding relates to the importance of innovation in the tourism sector; companies operating in the hotel industry must consider it as a key performance indicator. As we saw from the previous analysis, all HRM practices positively affect employees' *Innovative Behaviour*, which means, once again, that these organizations must take into consideration the practices they implement, once they will likely boost employees to think 'outside of the box' and act innovatively. Similarly, both *Internal Labour Market* and *Meritocracy and Security* related practices positively affect the organizational

outcome, *Organizational Innovation*, which, as stated before, would increase hotels' likelihood of successful performance within the large amount of competitors in this sector.

Finally, another important finding was the fact that *Job Satisfaction* was predicted by *Internal Labour Practices* and *Employee Involvement* related practices, which means that these bundles of practices can offer employees a greater satisfaction within the workplace.

In summary, the causal linkage between HRM practices and organizational performance might enable HR managers to design programs that will bring forth better operational results in order to attain higher organizational outcomes. In this sense, the HRM focus should be on understanding organizational performance processes and designing HRM practices that will influence processes and outcome variables.

6.2 Limitations

Several limitations must be reported in this study, namely the nature of the data. This is a convenient and small sample, particularly in the case of supervisors, as I was able to collect only 38 observations. However, the fact that different individuals with different roles in the organization (i.e. supervisory and non-supervisory employees) were used for the outcomes measures, allowed me to reduce the *common method variance problem*, which happens when results are influenced/inflated when the same individuals respond to all the variables (Gerhart *et al.*, 2000). Another limitation relates to the fact that I could also have used a more sophisticated analysis model, such as the *Structural Equation Modelling*, in order to include the joint-effect of employees' and organizational outcomes from different sources, which is a potential topic for future research.

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