

# **The Effect of Organizational Resources on Competitive Advantage in Hotels: Mediation and Moderation Analysis. The Case of North Cyprus**

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## **ABSTRACT**

This study considers the effects of organizational capabilities on outcomes such as customer relationship and competitive advantage in the hotel industry. This further evaluates the moderating effect of market dynamism between organizational capabilities and customer relationship building. This study also examines the mediating effect of customer relationship building between organizational capabilities and competitive advantage.

A questionnaire was designed to collect the data from hotel employees in North Cyprus. Based on judgmental sampling method, questionnaires were distributed among respondents (in both English and Turkish). To ensure data was collected from employees who have enough knowledge, experience, and information to answer the questions, this research only targeted hotel managers, supervisors, senior personnel, and employees with at least two years of work tenure at the relevant hotel, who had also connection with customers.

Confirmatory factor analysis was applied to check the convergent and discriminant validity. Furthermore, a set of reliability tests was applied to check internal consistency of scale items. To ensure that common method bias did not distort the result of this research, Harman's single factor test, common marker variable technique, and common latent factor test were conducted (Podsakoff et al., 2003). To test the proposed hypotheses, correlation and regression analyses were conducted to evaluate the relationships among the variables. Mediation and moderation effects have been checked with bootstrapping analysis.

The findings supported the hypotheses, indicating that organizational capabilities are antecedents of customer relationship quality and in turn competitive advantage. The mediating effect of customer relationship building among organizational capabilities and competitive advantage was also approved. Results also confirmed that market dynamism plays a moderating effect on relationship between organizational capabilities and customer relationship building.

**Keywords:** organizational capabilities, market dynamism, customer relationship building, competitive advantage, hotel, North Cyprus.

## ÖZ

Çalışmamız, otel sektöründe örgütsel yeteneklerin müşteri ilişkileri ve rekabet avantajı üzerine etkisini incelemektedir. Bu çalışma Pazar dinamiğinin örgütsel yeteneklerin müşteri ilişkileri üzerine olan etkisi üzerine moderatör düzeyini de incelemektedir. Çalışma ayrıca örgütsel yetenekler ve rekabet avantajı üzerine müşteri ilişkilerinin etkisini de analiz etmiştir.

Kuzey Kıbrıs'ta faaliyet gösteren otel çalışanlarına yönelik anket tasarımlanmış, yargısal örnekleme yöntemi kullanılarak (İngilizce ve Türkçe) otel çalışanlarına dağıtılmıştır. Sağlıklı ve güvenilir veri elde etmek amacı ile anket çalıştığı otel ile ilgili bilgi, tecrübeye sahip çalışanlarla yapılmış ve otel yöneticileri, danışmanlar, kıdemli personel ve en az iki yıl tecrübesi olan çalışanlar ile yapılmıştır.

Çalışmamızın yakınsak (convergent) ve diskriminant geçerliliğini kontrol edebilmek amacı ile doğrulayıcı faktör analizi uygulanmıştır. Ayrıca, kullanılan ölçeğin içsel tutarlılığını ölçmek amacı ile de güvenilirlik testleri (Dijkstra-Henseler rho, Cronbach alpha, ve bütünlük güvenilirlik) uygulanmıştır. Ortak yöntem hatasının olmadığını kanıtlamak amacı ile de Harman'ın tek faktör testi, ortak işaretleyici değişken tekniği, ve ortak gizli faktör testleri (Podsakoff et al., 2003) yürütülmüştür. Öngörülen hipotezleri test etmek değişkenler arası ilişkileri değerlendirmek amacı ile korelasyon ve regresyon analizleri yapılmıştır. Arabulucu ve ılımlılık etkilerini ölçebilmek için de bottstrapping analiz yöntemi uygulanmıştır.

Elde edilen bulgular ortaya konan hipotezleri desteklemiş, örgütsel yeteneklerin müşteri ilişkileri kalitesi ve neticesinde rekabet avantajına dönüşmesine öncül olduğu

anlaşılmıştır. Müşteri ilişkilerinin örgütsel yetenekler ve rekabet avantajı ile olan ilişkisine aracı (mediator) olduğu onaylanmıştır. Sonuçlar ayrıca pazar dinamiğinin örgütsel yetenekler ve rekabet avantajı ile olan ilişkisini etkilediğini de onaylamıştır.

**Anahtar Kelimeler:** örgütsel yetenek, pazar dinamiği, müşteri ilişkileri, rekabet avantajı, otel, Kuzey Kıbrıs.

*To My Parents*

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# **Chapter 1**

## **INTRODUCTION**

This chapter of the dissertation discusses the approach for the research. This section further presents the aims and objectives of the dissertation with a detailed focus on its contribution and business research. Tourism as a phenomenon deals with travel, holiday, and pleasure with experiences that are inconsistent with routine life; and therefore, the importance of tourism in the world and North Cyprus are also discussed in this chapter.

### **1.1 The Importance of Tourism in the World**

Tourism is considered as a phenomenon linked with social and economic development as well as continues growth and extending diversification over the decades (UNWTO, 2021). This industry has become one of the most effective factors in developing economic among countries. This changing nature and mobility have turned tourism industry into a critical driver for socio-economic progress (UNWTO, 2021). This industry is one of the main sectors in international commerce and also addresses at the same time one of the major sources of income for many countries. This growth is accompanied by increasing diversity and competition between destinations.

This global development of tourism has brought economic benefits and employment opportunities in different sectors such as construction, agronomy, and telecommunications. The number of world destinations continues to rise and investing in tourism is becoming a fundamental driver for social and economic improvement

(Ashley et al., 2007). This happens due to the effects of tourism on local residents, improvement of rural area, enhancement of living standards, sociocultural effects and cultural exchange, employment opportunities etc.

Tourism industry is one of the prominent instruments for growth in countries (Katircioglu et al., 2007). Worldwide, tourism grew by 3.9% in 2016. There were 46 million enhancement in number of tourists in 2016 comparing to 2015 (UNWTO, 2017), and increase of 300 million in number of international tourists from 2008 to 2016. Based on a forecast, international tourists are anticipated to increase by 3.3% annually, achieving 1.8 billion travellers by 2030 (UNWTO, 2016). Tourism development encourages hotels to conduct long-term planning to satisfy the requirements of potential clients, and benefit from attracting more customers.

Tourism and hospitality industry is affected by several factors such as the interactions between governments, communities, tourists, service providers, and business suppliers (Macintosh & Goeldner, 1986). Tourism, as a multi-faceted activity, requires public, cultural, financial, and environmental inputs (Lickorish & Jenkins, 2011). The value chain created by tourism includes tour and travel services such as reservations, transportation industry (both international and national services), residence; hospitality services, food and beverage, tourism products, travel agencies, airlines, caterings and so on.

There are many advantages of tourism not directly related to economics (Pyke et al., 2016). These benefits include greater interest in local arts and crafts, as well as advances in education, leisure, banking, transportation, medicine, and other kinds of facilities in the destination country (Liu et al., 2008; Padilla-Meléndez & Del-Águila-

Obra, 2016). Tourism increases national income (Archer, 1982) and improves local welfare (Blake et al., 2006).

## **1.2 Importance of Tourism Industry in North Cyprus**

Among destination choices, islands are preferred by millions of people (UNWTO, 2012). Island destination usually requires particular consideration because there are remarkable features of islands such as fragile environments, historical characteristics, and socio-cultural aspects which can lead to development of a unique and successful tourism destination. Islands geographical, natural, and historical qualities make these destinations appealing to tourists. Also, the attractions to beaches and weather patterns of many islands differentiate them from other tourism destinations. In addition to the coast, many of the island's destinations have a variety of scenery and natural wonders that can offer more inclined to the adventure. Tourists experience places and activities in the islands they may never experience in other destinations.

Cyprus is an island located in the Mediterranean Sea (Katircioglu et al., 2007), and is the third largest island, with 9,251 square kilometres. It belonged to several empires, and became independence in 1960 after an agreement between the UK, Greece, and Turkey. Cyprus was one of the most successful countries in the international tourism industry in the 1980s and 1990s, however has been struggling to establish itself at the same level of international tourism arena ever since (Adamou and Clerides, 2009).

North Cyprus holds about one-third of the island, 3,355 square kilometres, and is now called the Turkish Republic of North Cyprus. This country is famous for its safety, coast, culture, and history. Weather of this region is hot and dry in the summer, and cool in the winter which makes this island a good choice for travellers even in winter.

The economy in North Cyprus is dramatically affected by services sectors, which includes education, trade, and tourism. Tourism and hotel industry is one of the top industries in North Cyprus and many tourists visit this country each year. Tourism increased residents' employment in the service sectors (Zaei & Zaei, 2013) such as hotels, travel agencies, casinos, catering services, transportation services, airports, seaports, gift shops, and restaurants

In addition to the unique features of this island, both natural and geographical, it is possible to create a significant advantage in the competitive market of the hotels. This economic development must be done through a long-term plan to bring sustainable growth to service providers through the proper use of marketing strategy.

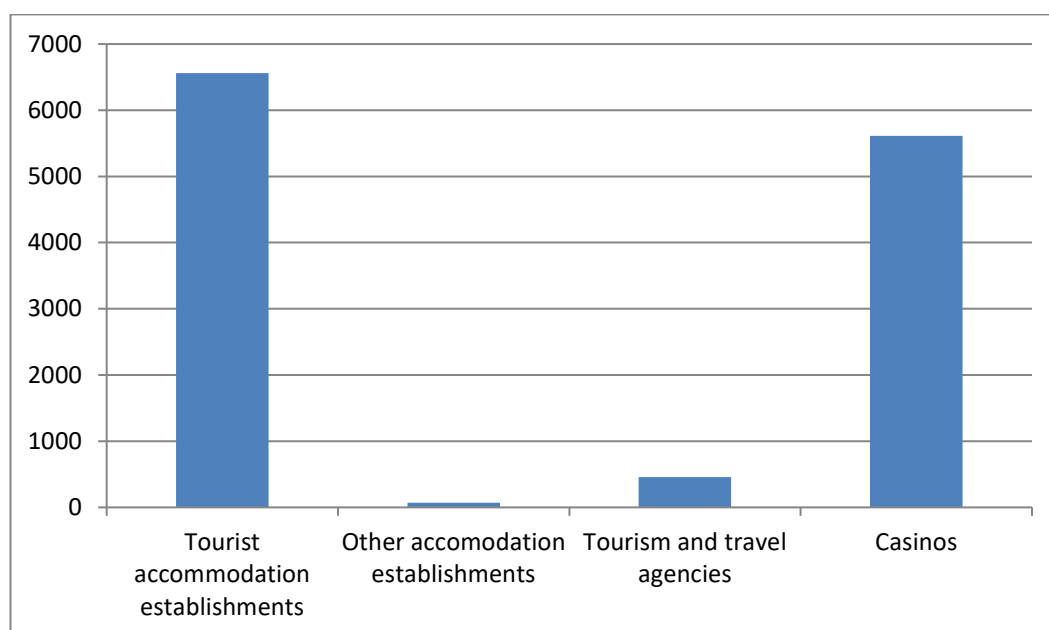


Figure 1: The number of employees in tourism sector in North Cyprus in 2015

### 1.3 Research Philosophy

To remain competitive, hotels struggle to differentiate themselves from their competitors, and create a good relationship with clients. This strategy considers the



customers' perception towards value. From one side, service providers should maintain to provide the high-quality goods and services, as well as maintaining strong relationship with customers.

Multiple factors affect hotel performance (Yang & Cai, 2016; Maria, 2017), and organizations utilize different resources to achieve competitive advantage. Indeed, hotels apply various resources to achieve their goals, but despite the huge investments, their businesses may still fail. Hotels must balance competition and survival; and the way an organization manages its resources leads to success or failure (Lajara, 2003).

In order for hotels to meet strategic goals, they need to effectively deal with resource management and organizational competencies. Such competencies bring more efficient organizational results by using the ability to conceive and execute unique business plans and methods. The company's reaction to dynamism in the market is also affected by the resources and capabilities the company owns.

Organizational resources and capacities perform a set of functions to achieve specific results and help competitiveness of companies. Optimal results are achieved by using these capabilities to obtain two choices of providing a lower cost or/and a unique product or service. This decision is based on how a company can manage the internal resources to a set of strategies towards this purpose.

However, tangible and intangible resources do not solely determine success or failure of the companies, but external changes may push organizations to reconcile themselves with surroundings (Noh et al., 2011; Berssaneti & Carvalho, 2015). The external environment includes the elements outside the company's control that influences their

ability to perform and is even more crucial in hospitality industry. To survive and succeed, hotels must come along with environmental changes. It is crucial to understand the environment to identify uncertainty and navigate appropriately to adapt.

Furthermore, as the competitiveness in the markets has intensified, building customer relationships is needed as an immediate step by companies to create a sustainable advantage. Management of resources helps hotels to build a good relationship with customers. This allows them to become different from other competitors, benefit from good connection with customers, and remain competitive, which may result in sustainable advantage. Therefore, the continuous application and improvement of appropriate resources help hotels to support economic development of both hotels and country and lead to long-term economic sustainability.

To gain advantage in this competitive environment, it is critical for organizations to focus on their human resource as well as their business strategies. Organizations have different resources, which can contribute to vary the level of organizational success; since improving competitive advantage is based on how an organization can offer different products or services to customers (Ensign, 2001; Dirisu et al., 2013).

Hiring competent personnel and qualified supervisors, setting the practical and accurate goals, and applying the most appropriate strategies are critical issues for companies. Moreover, hotels must manage their tangible and intangible resources for this purpose to achieve their goals.

### **1.3.1 Purpose of the Study**

With application of resource-based view, resource dependence theory, as well as dynamic capabilities approach, this study aims to investigate the effects of both the internal and external factors to improve competitive advantage in hotels. To understand this, the research evaluates how organizational capabilities can influence customer relationship building, and in turn to hotels' competitive advantage. Based on resource-based view, companies own resources, which enable them to work for a higher performance. Specially, rare resources with unmitigable nature can bring higher level of outcomes which are more difficult for competitors to adapt themselves accordingly, and therefore can be considered as source of competitive advantage.

This study also investigates the mediation role of customer relationship building on the association between organizational capabilities and competitive advantage. To stress the importance of customers in improving organizational outcomes, this research focused how spending organizational resources and capabilities on creating proper relationship with customers may lead hotels to enhance the level of competitive advantage. Customers are an important asset for companies. Based on resource-based view, creating proper relationship with clients can enable the company to understand customer demands more clearly, and furthermore, to provide the products and services accordingly. Therefore, the company will be able to set the most appropriate strategies to cover customer demands and improve competitive advantage. For this purpose, the dimension of customer relationship building was included in the research model as a factor of improvement in hotel's competitive advantage.

This research further examines the moderation effect of market dynamism on the association between organizational capabilities and customer relationship building.

Since hotels can manage their resources in a static market more effectively comparing to dynamic environment, this research evaluates the role of market dynamism on creating relationship with customers. Based on dynamic capabilities approach, dynamic capabilities enable organizations to integrate and reconfigure the resources. This helps to reconcile with the changing environments and therefore, lead to sustainable competitive advantage as well as obtaining superior performance in a dynamic environment. Furthermore, based on resource dependence theory, resources are the key drivers to organizational prosperity; and availability and control of the resources are under the basis of power. Based on this theory, organizational resources are not only under the control of company, and strategies should be intently taken to retain the resources; and this association can be unbalanced. It is about the domination of company's power over the other firms and reducing the dependency on scarce resources. Therefore, hotels need to use the resources and capabilities to overcome the effect of market dynamism on their business, and obtain the power over other competitors to build a proper relationship with customers and remain competitive.

### **1.3.2 Contribution of the Study**

To develop the hotel industry in North Cyprus, it is necessary to determine the factors may stimulate sustainable economic consequences. However, today, economic activities with social and economic dimensions are affected by sustainability issues in business. When there are changes and complexity in the business environment, the possibility of forecasting for the future activities is increasingly limited. In this case adaptability is critical, not only for obtaining a sustainable competitive advantage but also to survive and remain competitive in the business.

Competitive advantage is further related to management of the activities that are done to maintain the unique characteristics of the business. According to Elidemir et al. (2020), companies must have heterogeneous and implicit capabilities (not easy to imitate), and such resources and capabilities make difficulties for competitors to perform the same strategies in a consistent manner.

Despite the studies have been done previously, there are gaps in the literature which are covered in this research. The relevant studies are either limited to a specific industry, aspect, or concept, and are not necessarily covering the current research model. This study is rather new and unique in the aspects listed below.

First, in order to consider the effects of organizational capabilities, previous studies have investigated several aspects as antecedents of competitive advantage (e.g. Gunasekaran et al., 2017; Dehning & Stratopoulos, 2003;). However, existing literature mostly covered only one particular aspect of capabilities. For instance, to explain the linkage of capabilities and competitive advantage, studies have considered information technology (e.g. Mao et al., 2016; Gunasekaran et al., 2017), human capital (e.g. Lawler III, 2009; Delery & Roumpi, 2017; Alnidawi et al., 2017), and innovation capabilities (e.g. Camisón & Villar-López, 2011; Lin, Tseng, Chen, & Chiu, 2011). However, one specific aspect could not determine success or failure of a business. Business outcomes are based on various capabilities, and also how these factors work together can determine the performance. For this purpose, this research considers organizational capabilities as a general factor in order to fill this gap and indicates how capabilities (in general) can lead a hotel to success or failure.

Second, hotel industry is different from other service sectors, and is a highly competitive industry which is known for continuous transformation (Orfila-Sintes and Mattsson, 2009). Existing literature related to this topic mostly were conducted in various sectors, and not necessarily in hotel industry. Trends in hotels change constantly which may in turn demand application or adaption of resources. According to Cruz-Ros and Gonzalez-Cruz (2015), examining the capabilities regarding the service industry will advance strategy creation in this industry. Despite the fast-changing nature of this sector, there is a need to understand further the effects of organizational capabilities to improve competitive advantage.

Third, the existing literature have been conducted in different geographical destinations rather than island (García-Villaverde, 2017), and those researches in hospitality industry considered different concepts such as green hotels (Leonidou et al., 2013). These differences in location and concept may lead to different results. Therefore, this research is conducted in North Cyprus as an island destination, which may differ in terms of available resources and market characteristics.

Fourth, most of studies considered only the effect of internal factors on business outcomes. However, a business is also affected by external environment such as competitors and customers which may appear with different preferences and various changes. Market dynamism is an important phenomenon which affects business outcomes. However, despite the importance of this external factor, there are very rare studies discussed this dimension in the research model (e.g. Leonidou et al., 2013; García-Villaverde, 2017). The current research considers the effect of market dynamism on competitive advantage in hotel which can provide beneficial outcomes and implications.

In particular, the conceptual model of the current research is unique. This study examines how organizational capabilities can build customer relationships, and how this improves competitive advantage. This study further considers the effect of market dynamism as an external factor on business outcomes. Therefore, the research model underlines the effect of both internal and external factors on competitive advantage.

## **1.4 Thesis Structure**

Chapter 1 focuses on the importance of this study, research philosophy, purpose of the research as well as research contribution. It is described in this chapter why this research is conducted and provides a general understanding of the issues which this study was designed for.

Chapter 2 considers the theoretical framework, provides the literature review and detailed information on existing studies which are relevant to this thesis. The theories applied in this research (resource-based view, resource dependence theory and dynamic capabilities approach) are also discussed to support the arguments behind the hypothesized relationships.

Chapter 3 covers the methodology of the research. The methods applied in order to conduct the research have been discussed in this chapter. Procedure of the research, sampling method, data collection process, questionnaire design, and the methods applied to test the hypotheses as well as the remedies to control the common method bias have been discussed in this section.

Chapter 4 represents the findings of this research. The demographic characteristics of respondents, results of reliability, validity, and the model test are also explained in this chapter. Furthermore, the results of practices which were applied to control the

common method bias are described, and whether the hypotheses were supported/rejected are also discussed in this section.

Chapter 5 represents discussion on findings and explain the phenomenon according to what was aimed in chapter 1. Based on findings, managerial and theoretical implications are provided. There were some limitations and concerns while conducting this research which are addressed in this chapter. Suggestions to eliminate these weaknesses are provided for future studies and direction for further research are also presented.



## **Chapter 2**

### **THEORITICAL FRAMEWORK**

This section explains the theories which have been applied to explain the relationships between variables, and presents theoretical framework of this research. It also points to the related studies and literature to support the proposed relationships. Furthermore, definitions of applied variables have been provided for clear understanding of the terms.

#### **2.1 Theories**

This research applied three theories to describe the relationship between organizational and environmental determinants with hotels outcomes. To discuss the importance of internal resources, this study applies Resource-Based View (RBV). The reason for using this theory is because it covers the aspects of organizational resources in this study, and does not only focus on the ability of management. It considers the capabilities as the creativities of managers, and other personnel, as well as other unique resources owned by a company (Mintzberg, 1987).

To describe the effects of external environment, this study applied Resource Dependence Theory (RDT) and Dynamic Capabilities Approach. Among the existing theories consider the external factors on organizational performance these two theories cover the notion of external factors in this study's research model. These theories indicate that companies depend on resources, and these resources eventually are affected by the external environment. Based on these theories, organizational superior

resources and capabilities help companies to react to dynamism in the market and adapt the organizational strategies accordingly.

### **2.1.1 Resource-Based View - RBV**

To identify the significance of organizational resources, RBV emerged in 1980s and is an approach which considers the organizational resources as the key factors of competitive advantage. Scholars believe that organizational sources to achieve competitive advantage should be found inside of the organization (Akio, 2005). They presume that internal resources are indeed the core source of competitive advantage. That is, organizations have to focus on their tangible and intangible resources and make them work together to improve their performance. Tangible assets are physical resources which can easily be prepared or bought from the marketplace; whereas, intangible assets are the resources that have no physical existence but can be owned by the organization (Kristandl and Bontis, 2007) such as goodwill, brand reputation, intellectual and spiritual capital. Effectively, intangible assets reflect into the resources that are not entirely imitable or replaceable without many efforts (Barney, 1991). Tangible assets can be bought through competitors easily (Harc, 2015), while intangible resources can be made over time. Beyond the resources that have been considered traditionally as tangible (such as land, labor and capital), RBV literature identifies and supports the significance of both tangible and intangible capabilities and resources in creating higher outcomes (Tichá and Hron, 2006). In other words, RBV indicates that organization owns such heterogeneous capabilities and resources that patronage the competitive advantage; and illustrates the differences in performance across the firms (Conner, 1991). Converting a short-term to a long-term competitive advantage needs resources to be heterogeneous in nature, and not totally to be movable between organizations (Peteraf, 1993).

Based on this view, firm resources have the major of the effect on organizational performance and competitive advantage (Peteraf, 1993). This view also indicates that the specified unparalleled available resources may result in superior performance and further create competitive advantage (Wang, 2014). Stability of such benefits is characterized by the credibility of inputs to pattern the resources. But the available resources of the company may not be sufficient to simplify the operation. Companies should draw out the current business opportunities by concentrating the existing resources, create and expand a set of such resources to maintain the competitiveness in the market (Song et al., 2002). Therefore, to reinforce the competitive advantage, it is essential to consider the resources that may intensify the company's ability to keep the higher outcomes.

Amit and Schoemaker (1993) classified the organizational structure into two categories of resources and capabilities. They mentioned that resources can be bought and sold; and are not specific to a company, whereas capabilities are specific to an organization and can be used within that specific company.

Barney et al. (2001) emphasized the importance of people in contribution of organizational success. According to Barney (1991) unique, valuable and unsustainable resources help companies in creating such strategies which can improve competitive advantage.

Leonidou et al. (2013) mentioned that companies can enhance competitive advantage by triggering the strategies which are compatible with companies' strengths and further can cover the weaknesses. Their research stressed the importance of

organizational capabilities and resources to empower green hotels in order to respond the environmental changes and shape the marketing strategies.

Regardless of the tangible/intangible nature of the resources, these inputs should be managed properly, since even companies own the most valuable resources but cannot manage them effectively, they won't be able to improve their competitive ability. Therefore, this study assumes that organizational capabilities are the drivers of competitive advantage.

### **2.1.2 Resource Dependence Theory (RDT)**

RDT stated for the first time in the 1970s by Pfeffer and Salancik (Hillman et al., 2009). This theory describes how a company is influenced by the external factors and environment. The content of this theory is very important due to the ability of organization to collect, modify and using the inputs than rivals for success.

RDT is regarded by the thought that resources are the key drivers to organizational prosperity; and availability and control of the resources are under the basis of power (Pfeffer and Salancik, 1978). Organizational resources are not only under the control of company, and strategies should be intently taken to retain the resources; and this association can be unbalanced. This theory suggests that firms try to modify the dependency in their relationships through reducing their own, and/or enhancing the dependency of other firms to themselves. Indeed, experts in resource dependence theory look for procedures to make dependency for the other companies on them, not vice versa. On the other hands, it is about the domination of company's power over the other firms and reducing the dependency on scarce resources.

RDT also explains how an organization is influenced by outsiders to operate the company. In this view, companies are considered as an integration of their behavioural patterns and structure to retain necessary resources outside the company; as they depend on various sources such as capital, staff, and materials so on. Without these elements' organizations cannot lead to achieve appropriate outcomes and accordingly, companies need to go forward to the concept of scarcity. Furthermore, clients are the final resources organizations are depending on; specially, in terms of income, they are considered as the essential elements. RDT pay attention to the external environment and companies which compete, supply, distribute and provide funds to a company in order to attract customers. Furthermore, RDT concentrates several strategies that companies can use to deal with the problems in dependency of relationships.

As environment keeps changing over time and does not remain constant for a long period, some adjustments are required for companies to update their strategies. They may need to continuously adapt themselves with dynamism in external environment. Leonidou et al. (2013) has discussed that by amending and implementing proper environmental marketing strategy, the likelihood of creating competitive advantage will increase. It indicates the importance of organizational ability in adapting with dynamism, as well as creating strategy in dynamic environment.

### **2.1.3 Dynamic Capabilities Approach**

This theory emphasizes on the ability of companies to react sufficiently and on time to external changes which require an integration of multiple capabilities. Changing markets force the companies to adapt the company's resource's structure and make the required changes accordingly. Every and each adjustment will impose costs to the company, so companies must develop processes to find high-yield, low-cost changes.

Ability of companies to changes depends on the competency to recognize changes in the environment, assess the current market, and whether they are able to respond quickly.

Dynamic capabilities are needed to face new challenges. Human capital in a company need to understand the mobility of the environment and apply the strategic assets in order to respond. This indicates that new technology, new futures applied by competitors, customer feedback must be reflected into the company's future activity.

This theory is concerned with developing the strategies of successful corporate executives to adapt to unsustainable fundamental change. Companies can not only rely on a particular process since a new trend may appear. When this occurs, managers need to adjust their plans according to the new trends.

In order to differ between the RBV and dynamic capabilities approach, RBV more considers on sustainability of competitive advantage. However, the dynamic capabilities approach considers the importance of competitive survival in order to respond to dynamic business conditions.

## **2.2 The Hypothesized Relationships**

Variables of this study include organizational capabilities as independent variable, customer relationship building as mediator variable, competitive advantage as criterion variable, and market dynamism as moderator variable. Based on applied theories in this study, this research proposed the relationships between mentioned dimensions. In this research, we try to understand how organizational capabilities can bring organizational outcomes, such as customer relationship building, and in turn competitive advantage. We also examine the extent to which market dynamism acts as

moderator influencing the association among organizational capabilities and customer relationship building. The proposed relationships are shown in 2.

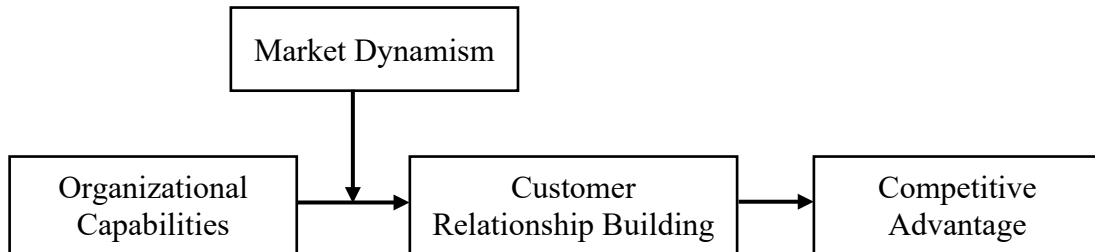


Figure 2: Conceptual framework

### 2.2.1 Organizational Capabilities and Customer Relationship Building

Organizational capabilities are the company's capacity to develop the resources, both tangible and/or intangible, to fulfil an activity or a task to enhance performance (Teece et al., 1997; Amit and Schoemaker, Inan and Bititci, 2015). According to Helfat and Peteraf (2003) organizational capability is a company's ability to perform a set of tasks, utilize organizational resources, in order to achieve a particular final result.

Study of Sturman et al. (2008) focused the effects of human resource in an organization and referred to the generic concept of it. According to this study, human capital has the important effects on performance of companies, because knowledge and skills they carry are unique. This determines that human capital misses a significant amount of its value when experts and specialists change the company, because this feature is not transferable.

Scholars believe that human capital is an intangible resource of an organization and is directly related to an organizational performance and outcomes. They concur that human resource has various dimensions (Yeoh, 2004). For instance, Burns et al. (2008)

discussed about 2 aspects of human capital named general and specific. The general dimension is about the individual education which leads to improving the skills and ability of problem solving, amongst various contexts. The other aspect, specific dimension, is about reinforcing the capabilities and skills through practice and experience. Managers in different departments know that their achievements depend to enhancement in customers' demand. Therefore, they try to improve their skills and capability to enhance their personal benefits.

Based on RBV, competence is one of the resources in order for companies to improve competitive advantage. Ismaila et al. (2013) about small and medium enterprises indicated that because of limitation in company's financial situation, organizations are strongly attached to the skills and capabilities of their human capitals. Especially management competence is critical in obtaining organizational outcomes. Furthermore, in international marketing where environment is antagonistic and complicated, the importance of managerial role is more obvious (Carpenter et al., 2001). As a result, organizations will perform better if managers carry the capabilities and necessary qualifications. Capabilities and skills enable managers to respond to customers' need and improve the level of their satisfaction. It improves the quality of relationship between managers and customers.

According to Omorede et al. (2013), managers with lower level of competence capability enhance disappointment, unconcern, distraction, and anxiety in the company. Competency enables individuals to show better performance in their duties and manage different conditions more effectively.



Rodolfa et al. (2005) suggested that a competent expert is eligible, mighty, and able to figure out the situations and perform the certain things in the best time and suitable way. In addition, researches on individual competence have focused on the proficiencies and capabilities and the way they assist the teamwork, considering the structures and outcomes. These characteristics may reflex in consequences such as motivation, creativity, invention, and personality and appear in customer satisfaction.

Kaleka (2002) has assessed the effects of several factors on export competitive advantage. Based on that research, resources and capabilities are assumed to obtain better understanding of cost effectiveness, as well as service and product in the market. The findings indicated that against all odds, human experiment does not seem to have a crucial role in export competitive advantage in terms of cost efficiency, and unique products and services.

Based on a study done by Lau (2011), managerial competence is an important factor in order to develop market-strategy orientation. By triggering the strategies, costs will be managed, and performance can be improved. Andreas (2004) has focused the role of managerial competence in order to obtain both operational and financial achievements in the companies. Based on that, higher level of quality management is the crucial driver of organizational performance.

Employees also have key role to create a proper connection with clients. Wang and Netemeyer (2002) consider that traits which are related to success motivation may have the higher connection with efficiency rather than other personality variables. Therefore, people with highly competitive characteristics are more likely to forerun in their performance rather the other personnel; and it may direct them to show the better

performance. Therefore, this performance can be reflected in the connection with customers. According to Kilduff et al. (2010), competitiveness is the characteristic of individuals in their lives; and they compete for progresses. They believe that competition is typically the driver of winning or overcoming the opponents. However, there are still a number of competitors who can survive or even act better by considering their strong external and internal incentives.

Ul-Hassan et al. (2013) have assessed the effects of personnel characteristics on job outcomes. Based on that study, employees are in such positions to make their own career targets and show good performance in different work conditions. This effort can be reflected in the relationship with customers. That is, employees try to create a better connection with customers to get the compliments from them which in turn improve employees' situation at work.

Rather than intangible resources, it is also essential to insure about correct application of materials and properties. Since if failures occur during the process of business, organizations miss the huge number of customers and, in turn profits. According to Fry et al. (2004) physical resources can be applied to create products such as physical technologies, materials, equipment, instruments and even location (Barney, 1991). Another study done by Beleska-Spasova et al. (2012) considered the effect of human resources as well as physical resources on the performance of organizations. As a result, they indicated on the positive effects of four organizational capabilities on organizational export outcome. However, they showed that physical resources don't seem to have important effects on the performance. Therefore, their study indicated that managerial factors can affect organizational performance comparing with physical resources. They believe that comparing between the importance of organizational

resources, human resources have more crucial role than physical resources to achieve higher performance.

Gu and Jung (2013) have worked on the effects of information resources business processes. In their study, they applied RBV to explain in the flow of performance and achievement. They indicated the importance of information system application to improve organizational outcomes. Appropriate business process is useful for companies to create a better relationship with customers. When customers benefit from ease of access to services and service provider itself, they may show higher and better interaction to organization; and in turn, it may enhance the quality of relationship between company and customers.

Galbreath and Galvin (2008) studied about the organizational factors and industry structure. They indicated that, recently, structure characteristic of an industry is not as important as the organizational resources. Result indicated that regarding to firms' performance, organizational resources are more important in service providing companies rather than structure of industry. Specially, organizational resources seem to play more essential role rather than manufacturing companies. Furthermore, considering on both service and manufacturing companies, results showed that intangible resources and capabilities describe variation in performance; however, there is not the same result about the effects of tangible resources on organizational performance. Based on the discussion, the following hypothesis is proposed:

**H1.** Organizational capabilities positively affect customer relationship building.

### **2.2.2 Customer Relationship Building and Competitive Advantage**

Organizational resources are considered as critical factors that are tied to a company and can be managed by managers and decision makers. In addition, because building

a long-term relationship with customers reduces their removal rate and enhances the benefits, the business relationship with customers is considered as an organizational resource. On the other hand, competitive advantage is a situation in which a company conduct a value-creating strategy that does not pursue closely by competitors (Baumann et al., 2017).

The importance of relationship abilities of companies has been emphasized in the literature. Creating a stable and close relationship with customers is essential in improving the organizational outcome. Study of Alipour and Hallaj Mohammadi (2011) indicated that one of the instruments of improving competitiveness is the ability of the companies to regulate themselves with the needs of clients rapidly. According to study of Müller (1991) customer is the main factor of organizational success through loyalty in European markets. Regarding to the finding of this study, it seems that organizations need to consider on their customers to benefit from a quality of relationships with them. Customers who are not pleased with relationship with service provider are not willing to show loyalty. Their study indicated that organizations have to work on customers' satisfaction and loyalty to achieve higher outcome.

Among resources, customers are considered as one of the most powerful resource of a company; therefore, the relationship between company and customer must be valued. According to Roger-Monzo et al. (2015) customers are turning to be more selective and concerned about providing high quality services, and this is an important factor for competition among companies. Emphasizing the critical role of customer loyalty, Jiang and Zhang (2017) stated that it is an intangible resource for companies in order to create competitive advantage. In addition, according to Bauman et al. (2017), this

may improve the possibility of cross-buying and word of mouth recommendation, as well as the length of the company-customer relationship.

Berry (1995) pointed out that the main concept of relationship marketing in a company is to attract new customers and create longer relationship with them. Relationships are the so-called source of competition and increase the lifetime value of customers. They may help meet customer needs and build long-term trust and relationships. Feng et al. (2010) further triggered the effect of customer involvement on organizational outcomes using a RBV and found that customer involvement increases process flexibility, delivery reliability, and product quality, thus creating a competitive advantage.

Alipour and Mohammadi (2011) found the ability of a company to handle customer demands leads to improved competitiveness. In addition, Pai and Tu (2011) mentioned that maintaining a good relationship with customers improves the organizational image and increases competitive

Although there have been studies that consider customer relationships and their dimensions as a factor influencing organizational outcomes, however, so far there is no agreement on the exact dimensions of this relationship (e.g., Walsh et al., 2010; Hennig-Thurau et al., 2002). For instance, Hennig-Thurau et al. (2002) considered satisfaction and commitment as two dimensions of relationship quality, However, Walsh et al. (2010) triggered satisfaction, trust, and commitment. This research considers one general dimension of customer relationship building to maintain a proper connection with them.

In the competitive environment of hotel industry, it is necessary to patronize patterns to maintain clients. Competitive advantages can be improved through customers' involvement. Organizations' profits and growth can be affected by customers through positive word of mouth, reselling the range of goods and services, providing the new categories of products etc. (Sheth, 2001).

Feng et al. (2010) have indicated the important role of customers on improving competitive advantage. Findings have shown that customers are one of the key points in business survival and success. A good relationship with customers can be obtained by providing high quality product and service, flexibility, and reliability. Chang et al. (2014) have mentioned that management of customer relationship helps to simplify customer-based performance, such as satisfaction, and word of mouth. Based on the discussion, the following hypothesis is proposed:

**H2.** Customer relationship building positively affects competitive advantage.

### **2.2.3 Mediating role of Customer Relationship Building**

While existing literature illustrate that dynamic abilities are critical factors to achieve a competitive advantage, knowing how this happens is also necessary. Given the vital role of customers in organizational success and failure, service providers are increasingly looking for new ways to provide services, attract new customers and retain existing clients.

Mediation is a variable that explains the association between two other dimensions. It identifies the mechanism that explains the relationship between independent and dependent variables including the third dimension rather than the direct association (MacKinnon, 2008)

Based on RBV, organizational capabilities are sources of company's competitive advantage. They enable organizations to achieve better outcomes by establishing strong relationships with customers. That is, if resources can be managed effectively, companies will have better performance. Having a good relationship with customers brings higher satisfaction and trust, which both of are drivers of competitive advantages. Kuo et al. (2017) stressed the importance of expanding a long-term connection with customers and serving them with high quality services. According to their study, when a company benefits from higher dynamic capabilities is likely to improve performance and competitive advantage.

Customers play an essential role in the performance of organizations, and the relationship quality between them and the organization is an important factor to enhance competitive advantage. Organizations apply various resources to run a business; they use them to build a strong relationship with customers and through this, improve competitiveness among competitors.

Alipour and Hallaj Mohammadi (2011) mentioned that managing the relationship with customers is the main element of competitiveness. They believe that companies cannot get connected to the clients unless they realize their needs, understand their values and recognize the types of useful goods or services customers want. They may consider the preference of clients in the offering goods or services. As mentioned in their study about the importance of customer relationship management to achieve competitive advantage, it seems that organizations need to apply various instruments as prerequisites for better customer relationship management. They may use the human as well as physical resources. The more valuable resources a company applies will bring the higher outcomes.

Building a strong customer relationship is a long process and it is a very important investment for an organization. One of the critical issues that organizations need to consider is prevention of missing the existent customers (Tugrul, 2006). Subject to this topic, keeping the existing customers and attracting the new clients help an organization to obtain higher competitive advantage (Celep et al., 2013). In this matter, organizations need to pay a high attention to the quality of relationship with customers. Therefore, they may focus the capabilities and resources they have to apply; and through this way improve the competitive advantage.

According to literature, customer relationship is affected by human capital, procedure and technology to reinforce the relationship with customers. It is based on the capability of organizations and the way they apply the resources to make a better relationship with clients. Based on existing literature, resources such as modern technology are not the only antecedent of success in companies (eg. Yimet al., 2005; Mohammed and Rashid, 2012); since there are other critical factors such as company-customer relationship which also determines the level of success.

Relationship management helps companies to learn about customers, and improve performance (Fozia et al., 2014). Strategies, actions, as well as resources enable companies to establish a better relationship with their clients, and therefore, enhance their performance. A research done by of Ismail (2014) assessed how managerial competencies affect quality of relationship with customers; and furthermore, on competitive advantage in small and medium companies. The research showed that there is positive association between managerial competencies, relationship quality and competitive advantage. Furthermore, relationship quality is mentioned as a



mediation in that research. According to the discussion the following hypotheses are proposed:

**H3.** Customer relationship building has a mediating role between organizational capabilities and competitive advantage.

#### **2.2.4 Moderating Role of Market Dynamism**

Organizational performance is driven by various factors, such as organizational structure, culture, strengths, weaknesses, market strength, etc.; and proper application of resources is not the only determinant of success for a company (Mohammed and Rashid, 2012). Companies apply various physical resources to guarantee their uniqueness and prosperity. However, they should adopt themselves with dynamic environment which makes variations in needs of instruments of market strategies. It helps organizations to survive in competitive environment.

Based on to Baron and Kenny (1986), moderation is a third variable which influences the strength of association between two variables. It can be qualitative or quantitative. Moderator is also referred as interaction effect in the literature.

Leonidou et al. (2013) has focused the antecedents and consequences of success in green marketing. They revealed that capabilities and resources empower companies to enhance the environmental marketing. Through formulation and implementation of the marketing strategy, competitive advantage can be achieved. Moreover, that study has mentioned that companies can compete by application of sufficient and proper resources. Day (1994) has also mentioned that organizational performance is influenced by dynamism in market and the adaptability of the company with this mobility is a crucial determinant of success. competent companies can adjust their

strategies based on dynamism in market environment and perform in a way which is difficult to imitate for other companies in the market (Fang & Zou, 2009).

Based on Lim and Lee (2015), companies can work on loyalty program to obtain higher profitability in online market. However, dynamism in environment can increase the uncertainty for both customers and companies. Based on RDT, companies are influenced by their surroundings. Therefore, environmental mobility may impact organizational outcomes. In dynamic environment customers and companies experience uncertainty due in decision-making (Waldman et al., 2001).

There are several studies have triggered the moderation role of environmental changes on the managerial performance as well as organizational outcomes (Ensley et al., 2006). For instance, Homburg et al. (1999) has indicated that managers have lesser control of organizational performance while facing dynamism in environment. Furthermore, according to Eisenhardt (1989) managers in changing environments need to apply such information which are more predictable in their decision-making process.

Based on Wright and Snell (1998) employees have three main characteristics named skills, behaviour and practices. These are critical determinants in order to deal with a changing environment. According to Andreas (2004) companies in Constant and more stable environment can use their available resources more effectively rather than when they work in a uncertain environment.

Environmental change can also affect customer behaviour and company-customer long-term loyalty (Chen & Popovich, 2003). Glic et al (1993) showed that in a static

environment there is no significant association between rational decision-making and performance. Based on the discussion, the following hypothesis is proposed:

**H4.** Market dynamism has a moderating role between organizational capabilities and customer relationship building.

## **Chapter 3**

### **METHODOLOGY**

This section presents information about the instruments and methods applied in this research. This includes the method of data collection, sample size, measurements of variables, the applied methods for reliability and validity of the questionnaire, testing the potential for common method bias, and the process of analysing the hypothesized relationships.

#### **3.1 Procedure**

This study conducted in North Cyprus which is a part of the island of Cyprus and only recognized by Turkey politically (Özduran and Tanova, 2017). Tourism industry is the predominant factor in development in this country.

Judgmental sampling method was applied to choose the participants from the total population in order to be part of the research. After the aim of the study was described to the hotel managers and supervisors, they accepted the responsibility to distribute the questionnaire between 264 of their employees. Judgmental sampling method was applied in triggering the participants in an attempt to ensure data is being collected from employees who have enough knowledge, experience, and information to answer the questions properly. Targeted participants were managers, supervisors, senior personnel, and employees with at least two years of work tenure at the relevant hotel. The respondents also had a connection with customers. Participants were informed that their answers would be treated completely anonymously and confidentially.

Respondents were asked to answer the questionnaires in a self-administrative manner. That is, questionnaire was designed to be completed by the respondents without the intervention of others. After collecting all questionnaires, 201 were deemed usable (76% response rate).

The questionnaire was prepared in English but translated to Turkish since it is the primary language in North Cyprus. The questionnaire was translated back into English afterwards. According to Mohatlane (2014), back-translating involves translating a document into another language through a translator, and translating that version back into the original language through another translator. The two versions were then compared. Translators should not have any knowledge of the original text. If there is no difference in content between the original questionnaire and back-translated version, questionnaire can be considered for distribution. In this study, both English and Turkish questionnaire were distributed among the participants, to both foreign and Turkish employees.

To avoid the effect of social desirable bias, envelopes were given to participants to cover their answers when returning questionnaires to supervisors. Social desirability is the willingness of some people to show themselves in a desirable view, regardless of their actual feelings about a subject (Podsakoff et al., 2003). Avoiding this bias was critical since it can mislead the true associations between the factors under investigation (Ganster et al., 1983).

As advised by Podsakoff et al. (2003) to remedy the common method bias, psychological separation was used when preparing the questionnaire. A cover letter was included before both parts of the questionnaire to separate the predictors from

other variables. It appeared that the predictor variables are not directly proposed to be linked to the other variables and no relationship between these variables were assumed in the questionnaire.

In order to examine whether sample data was taken from a normal population distribution, the normality test was conducted. For this skewness and kurtosis have been tested and were below than recommended values of 2 and 9 (Schmider et al., 2010).

Furthermore, a pilot study simulated the research on a smaller scale (Porta 2008). This enables the researchers to recognize pitfalls in their study and make necessary corrections before beginning their main research (Hazzi & Maldaon, 2015). Before the distribution of the questionnaire among large number of respondents, number of 26 hotel employees were targeted to perform a pilot test. This was done to understand whether more time or resources were required on specific aspects of the questionnaire design, such as method, length, timing, and also to confirm there is no issue in terms of understandability of the content. No confusion over the items was approved, and questions were understood clearly.

### **3.2 Measures**

This study applied existing measures from relevant literature. Using a pre-established questionnaire had several advantages. First, questions were already tested. Additionally, it saves time and fund since there is no need to develop, test, or code questions (Biemer & Lyberg 2003).

***Organizational Capabilities:*** Organizational capabilities have been measured by applying eight items developed by Lopez-Cabrales et al. (2006). This included

questions like “Our hotel emphasizes on flexible design.” and “Our hotel emphasizes on service diversity”. Items were asked based on Likert Scale, ranging from 1 to 5 (strongly disagree to strongly agree).

***Customer relationship building:*** Three items from Kaleka (2002) were taken to assess customer relationship building. Items such as “We understand our customers’ requirements,” and “We establish close relationships with customers,” were considered to determine customer relationship quality. Items were asked based on Likert Scale, ranging from 1 to 5 (strongly disagree to strongly agree).

***Market dynamism:*** Seven items by Sarin and Mahajan (2001) assessed market dynamism. For instance, the items like “In our business, marketing strategies change so often” and “In our business, technology changes so often” were used for this factor. Items were asked based on Likert Scale, ranging from 1 to 5 (strongly disagree to strongly agree).

***Competitive advantage:*** To evaluate competitive advantage, three items from Tuan and Yushi (2010) have been applied. These items included “We work on cost strategy through process innovation, operation system, enhancing productivity, and employees performance” and “We work on innovation strategy by being the first to introduce new services, engaging in marketing”. Items were asked based on Likert Scale, ranging from 1 to 5 (strongly disagree to strongly agree).

***Demographics:*** Demographic questions have been also asked in the questionnaire. This allows readers to compare this study with other researches. Questions were such as age, gender, marital status, and education of employees. Gender was constructed as

a binary variable (male/female), while age was asked through alternative age classification ranges (18-27, 28-37, 38-47, 48-57, higher than 58). Marital status was inquired as a binary variable (married/unmarried). Educational level, however, was determined with the alternative classification, with primary, secondary and high school, 2/4 years university degree, and graduate degree options.

### **3.3 Reliability, Validity, and Data Analysis**

Before testing the relationship between variables, questionnaires were subjected to reliability and validity checking.

Validity refers to the extent that an item can measure its intended measurement (Deniz & Alsaffar, 2013). According to Campell and Fiske (1959), ensuring validity is done through testing convergent and discriminant validity. Convergent validity refers to the interrelationship between different items with overlapping constructs, while discriminant validity considers items with theoretically different constructs that are not strongly inter-correlated (Wang et al., 2015). According to Lehmann (1988), one approach to evaluate the validity is factor analysis. It produces constructs with indicators for each, and Eigenvalue must be greater than 1.0. Eigenvalue is a special of scalars related to a linear equations system. It is known as characteristic roots (Hoffman and Kunze, 1971) and is about which variable can be considered as a factor (latent variable).

In this research, confirmatory factor analysis was applied to check convergent and discriminant validity. Two items from organizational capabilities construct were dropped due to low-level factor loading. As shown in chapter 4, other items were loaded significantly under assigned factors ( $\lambda > 0.5$ ,  $p < 001$ ).



Moreover, a set of reliability tests (Dijkstra-Henseler's rho, Cronbach's alpha, and composite reliability) was applied to check internal consistency among scale items. Reliability is the trend towards consistency when redoing measurements of the same phenomenon in a period of time (Deniz & Alsaffar, 2013). Reliability is, thus, about the consistency of a measure. A set of tests were conducted to assess the reliability. These three tests were composite reliability, Dijkstra-Henseler's rho, and Cronbach's alpha to measure the internal consistency among scale items. The results of reliability tests have been provided in Chapter 4.

Furthermore, to verify that common method bias did not affect the results, Harman's single factor test, common marker variable technique, and common latent factor test were performed (Podsakoff et al., 2003). In Harman's single factor method, all the items related to different latent variables load on only one factor and shows that if all the items describe one single variable how much the loading will be. It determines whether or not most of the variance was defined by a single factor. This method is a most widely known approach in evaluating common method variance. It is straightforward and simple (Podsakoff et al., 2003).

Furthermore, after performing Harman's single-factor test, results show that no factor with a high variance greater than 40% was emerged, which demonstrates that a common method bias does not seem to be a threat for this research (Podsakoff et al., 2003).

This research also applied the common latent factor method advised by Podsakoff et al. (2003). A common factor was entered and connected to all observed variables in the structural model, with all these paths imposed to be equal. The common variance

was assessed as the square value of the common factor related with each path before standardization (Eichhorn, 2014). The result demonstrates that the value for the common latent factor (0.28) and the square of this value is 0.08, which indicates common method bias is not considered as a threat to measurement since the value (7.8%) is below the threshold of 50% (Eichhorn, 2014).

To apply a common marker variable method, this research added a construct which does not relate to at least one of the existing variables in the research model theoretically (job satisfaction in this case) (Eichhorn, 2014). The added measures have been loaded on marker variables with all manifest variables related with a common method factor. All the loadings of the common method manifest variables were assumed equal. The common variance was assessed as the square value of the common factor associating with each path before standardization (Eichhorn, 2014). The result indicated that the common latent factor value (0.26) and the square of this value (0.07), which demonstrate that a common method bias does not have a negative effect on the study measures (Eichhorn, 2014).

To test the proposed hypotheses, regression and correlation analyses were performed to assess the direct effects. Mediation and moderation effects have been checked with bootstrapping analysis. A bootstrapping analysis with 5000 sample size generated at 95% confidence interval was performed to test the mediation and moderation relationships.

## **Chapter 4**

### **FINDINGS**

In this part, the results are presented. It illustrates the characteristics of the study's sample, exploratory factor analysis, and assesses the reliability and validity of the questionnaire. Furthermore, means, standard deviation, and correlations between variables are provided. This chapter also represents the results of regression analysis, to test the hypothesized relationships including direct associations between variables, as well as mediating and moderating effects. This chapter ends with accepting or rejecting the hypotheses.

#### **4.1 Participant Information**

The study included a sample of 201 hotel personnel with at least two years of experience at work who direct connection with customers. A major part of participants was male (62%) and only 38% were female. Nearly a third of the participants aged between 18 and 27 (31%) and 29% were between 28 and 37. Only 26% of the participants were between 38 and 47, and the rest (13%) were 48 years old or above.

Most of participants was married (64%) and 36% were reported single. Eleven percent of respondents had a primary school education and 15% had a secondary and high school education. Around 49% had completed their undergraduate studies, and the rest (24%) completed their graduate studies.

Table 1: Respondent's profile

-	Frequency	Percent	Cumulative Percent
<b><u>Gender</u></b>			
Male	125	62.20	62.2
Female	76	37.80	100.0
Total	201	100.0	100
<b><u>Marital Status</u></b>			
Married	129	64.20	64.2
Single	72	35.80	100.0
Total	201	100.0	100
<b><u>Age</u></b>			
18-27	63	31.30	31.3
28-37	59	29.40	60.7
38-47	52	25.90	86.6
>48	27	13.40	100.0
Total	201	100.0	100
<b><u>Education</u></b>			
Primary School	22	10.9	10.9
Secondary and high School	31	15.4	26.4
2/4 years university degree	99	49.3	75.6
Graduate degree	49	24.4	100.0
Total	201	100.0	100

## 4.2 Validity, Reliability, and Exploratory Factor Analysis

Table 2 shows the internal consistency reliabilities. Cronbach's alpha, Dijkstra-Henseler's rho ( $\rho_A$ ), and composite reliability (CR) were applied as three methods to check the reliability of the questionnaire. Results show that all values related to these three measures were considered to be acceptable and to be higher than the commonly accepted cut-off level of 0.7 (Hair et al., 2017). Furthermore, the construct validity test, containing convergent and discriminate validity, was performed. Table 3 provides the results of the average variance extracted (AVE) which demonstrates the validity of

research constructs as all AVE values are greater than 0.50, which is the commonly accepted cut-off rate. Furthermore, results of the heterotrait–monotrait ratio of correlation (HTMT) demonstrates discriminate validity, as all HTMT values were less than the cut-off level of 0.85 (Hair et al., 2017).

Table 2: Confirmatory factor analysis and reliability tests

Items	Loading	rho_A	$\alpha$	CR
<b><u>Organizational capabilities (Lopez-Cabrales et al., 2006)</u></b>		0.863	0.86	0.895
This hotel emphasizes on reinforcement of the organizational culture.	0.758			
This hotel emphasizes on employee potential.	-			
This hotel emphasizes on strategic vision.	-			
This hotel emphasizes on flexible design.	0.754			
This hotel emphasizes on reengineering and innovation.	0.747			
This hotel emphasizes on service quality.	0.795			
This hotel emphasizes on diversity of services.	0.81			
This hotel emphasizes on the relationship with customers.	0.733			
<b><u>Market dynamism (Sarin and Mahajan, 2001)</u></b>		0.848	0.846	0.883
In this business, the mix of available products and services changes so often.	0.728			
In this business, marketing strategies change so often.	0.675			
In this business, standards change so often.	0.843			
In this business, customer preferences regarding the service features change so often.	0.682			
In this business, the technology changes so often.	0.69			
In this business, the frequency of competitors (entering/leaving) the industry is high.	0.765			
In this business, customer preferences regarding the price of the services change so often.	0.649			
<b><u>Customer relationship building (Kaleka, 2002)</u></b>		0.729	0.722	0.843
We understand our customers' requirements.	0.813			
We can establish close relationships with our customers.	0.823			
We create strong relationships with customers.	0.766			

<b>Competitive advantage (Tuan and Yushi, 2010)</b>	0.792	0.783	0.874
We work on cost strategy through process innovation, operation system, enhancing productivity, and employee's performance.	0.792		
We work on quality strategy through strict quality control, satisfying customer needs about services.	0.869		
We work on innovation strategy by being the first to introduce new services, engaging in marketing.	0.842		

Note:  $\alpha$ : Cronbach's alpha; CR: composite reliability.

Table 3: Convergent and discriminate validity tests

HTMT	Organizational Capabilities	Market Dynamism	Customer Relationship Building	Competitive Advantage
Organizational capabilities	<b>0.588</b>			
Market dynamism	0.242	<b>0.521</b>		
Customer relationship building	0.441	0.375	<b>0.641</b>	
Competitive advantage	0.353	0.188	0.542	<b>0.698</b>

Note: HTMT: heterotrait–monotrait ratio of correlation, AVE (average variance extracted) is provided in diagonal in bold.

### 4.3 Relationship between Variables

H1 proposed that organizational capabilities positively affect customer relationship building. The results shown in Table 5. Table 5 represent those organizational capabilities are significantly and positively related to customer relationship building ( $\beta = 0.347$ ,  $t = 5.218$ ,  $p < 0.01$ ). Thus, H1 is supported. Furthermore, H2 proposed that there is a positive association between customer relationship building and competitive advantage; results presented in Table 5 support this, confirming that customer relationship building indeed has a significant and positive effect on competitive advantage ( $\beta = 0.406$ ,  $t = 6.272$ ,  $p < 0.01$ ). Therefore, H2 is also supported.

Table 4: Correlation test, means, standard deviations

Variable	Organizational Capabilities	Market Dynamism	Customer Relationship Building	Competitive Advantage
Organizational capabilities	1			
Market dynamism	0.189 **	1		
Customer relationship building	0.347 **	0.299 **	1	
Competitive advantage	0.292 **	0.144 *	0.406 **	1
Mean	3.786	3.084	3.736	3.95
Standard deviation	0.661	0.475	0.663	0.863

Note: \*\* significant in the level of 0.01, \* significant at the 0.05 level.

Table 5: Regression analysis testing the direct effects

Independent Variable	DV: Customer Relationship Building		Independent Variable	DV: Competitive Advantage	
	$\beta$	$t$		$\beta$	$t$
Organizational capabilities	0.347	5.218 **	Customer relationship building	0.406	6.272 **
$\Delta R^2$	0.116 **		$\Delta R^2$	0.161 **	
F	27.224 **		F	39.343 **	

Note: DV stands for dependent variable. \*\* significant in the level of 0.01.

H3 proposed that customer relationship building has a mediating effect between organizational capabilities and competitive advantage. To test this indirect effect, a bootstrapping method with PROCESS Model 4 and a sample size of 5000 was applied. Table 6 displays that customer relationship building mediates the relationship between organizational capabilities and competitive advantage (indirect effect = 0.157, LLCI = 0.069 and ULCI = 0.257,  $p < 0.01$ ), and the bootstrapped confidence interval does not include zero (Hayes, 2009). Therefore, H3 is supported.

Table 6: Bootstrapping analysis testing the mediation effect

Hypothesized Mediating Effect	Indirect Effect	LLCI	ULCI	<i>p</i> -Value
Organizational capabilities→ Customer relationship building→ Competitive advantage (0.347 a × 0.451 b)	0.157	0.069	0.257	<0.01

LLCI: lower level confidence interval, ULCI: upper level confidence interval. <sup>a</sup>: coefficient for the association between organizational capabilities and customer relationship building, <sup>b</sup>: coefficient for the association between customer relationship building and competitive advantage.

Testing of the moderation effect is represented in 7. For this, a bootstrapping method with PROCESS Model 7 and a sample size of 5000 was conducted to assess the moderation effect. Results confirmed that the interaction effect of organizational capabilities and market dynamism on customer relationship building is deemed significant ( $\beta = -0.160$ , LLCI =  $-0.227$ , ULCI =  $-0.093$ ,  $p < 0.01$ ). According to the results displayed in Table 4, based on employees' perceptions of market dynamism, the mobility of market does not appear to be very high in North Cyprus (mean = 3.084). However, even this moderate dynamism sheds light on the relationship between organizational capabilities and customer relationship building. These findings lend empirical support to H4, confirming market dynamism moderates the association between organizational capabilities and customer relationship building.

Table 7: Bootstrapping analysis testing the moderation effect

Hypothesized Mediating Effect	$\beta$	LLCI	ULCI	<i>p</i> -Value
Organizational capabilities	0.23	0.147	0.312	<0.01
Market dynamism	0.092	0.006	0.179	<0.05
Organizational capabilities × Market dynamism	-0.160	-0.227	-0.093	<0.01

LLCI: lower-level confidence interval, ULCI: upper-level confidence interval.



#### **4.4 Results Summary**

Organizational capabilities are significantly and positively associated with customer relationship building. Therefore, **H1 is supported.**

Customer relationship building is significantly and positively associated with competitive advantage. Therefore, **H2 is supported.**

Customer relationship building has a mediating role between organizational capabilities and competitive advantage. Therefore, **H3 is supported.**

Market dynamism has a moderating role between organizational capabilities and customer relationship building. Therefore, **H4 is supported.**

## **Chapter 5**

### **DISCUSSION AND CONCLUSION**

This section summarizes this research and discusses the findings and implications. Limitations and recommendations for future studies are addressed at the end of the chapter.

#### **5.1 Discussion**

Previously, the effects of organizational capabilities on competitive advantage in organizations were rarely assessed. Empirical studies considered the effects of mostly human resources on performance of organizations. Therefore, this study fills this gap by triggering the importance of organizational capabilities in forming better relationships with customers and enhancing competitive advantages.

Furthermore, by considering external factors on the performance of organizations, this study demonstrated that internal factors are not the only determinants of organizational outcomes. This study determined that market dynamism can affect organizational outcomes. With this knowledge, companies can strategize internal and external interactions to improve their competitiveness.

Also, island destinations are preferred by many tourists (UNWTO, 2012). Travelers may differ based on their destination choices (Cai, 2002). Therefore, their expectations for service providers might not be as same for other destinations. This study enriches

our understanding about island destinations, since the elements of success can be dissimilar in different destinations (Tasci et al., 2007).

This research does not only examine how organizational capabilities have an effect on customer relationship building and competitive advantage. Moreover, the mediation role of customer relationship building between organizational capabilities and competitive advantage was also assessed. The research further examined whether market dynamism plays a moderator role organizational capabilities and customer relationship building. The findings of this research support the arguments provided in chapter 2 towards the effect of organizational capabilities and customer relationship building on competitive advantage.

This result is consistent with previous researches which have confirmed the connections between organizational capabilities and customer relationships (Cheraghalizadeh and Tumer, 2017). Consistent with the Leonidou et al. (2013), organizational resources were critical predictors of building customer relationship, which suggests that resources are crucial to building better relationships with customers. However, this needs to be applied along with other organizational capabilities to be more efficient. Creating a good relationship with customers can be initially based on the capability of organizations to satisfy clients' needs. Ideally, customers can be quickly understood in order to be responded, and this helps a better company–customer relationship to be built. The research further proposes that creating a better relationship with customers is a driver of competitive advantage; specially, when a company can keep a relationship with customers in different situations and meet their varying needs, it results to an improved competitive advantage. Consistent

with Barney (1991), organizational capabilities in building a proper relationship with customers lead to more appropriate strategies and a higher competitive advantage.

This research also supports the hypothesis proposed for the mediating effect. Customer relationship building has a mediation role between organizational capabilities and competitive advantage in the field of hotel industry. The findings showed that improvement in capabilities can strengthen customer relationship building and, in turn, reinforce organizations' competitive abilities. Indeed, when employees can manage diverse situations, apply available resources to satisfy their customers, and create a good relationship with them, therefore, a greater competitive advantage is obtained (Cheraghalizadeh and Tumer, 2017). Consistent with Kuo et al. (2017), companies with superior dynamic capabilities are more likely to perform competitive, and this can be achieved through maintaining a long-term connection with customers and through processing high-quality services to them.

Moreover, the moderation effect of market dynamism on relationship between organizational capabilities and customer relationship building was approved. Results confirmed that the existence of market dynamism stimulates the effect of organizational capabilities on customer relationship building. This shows that organizational capabilities can be less effective in building good relationships with customers in an unstable market, in North Cyprus, an island destination. In line with Jantunen et al. (2018), a company can manage the capabilities in a dynamic internal environment; however, this might not be sufficient to respond to the external environment successfully.

altogether, all hypothesized relationships proposed in this research were supported. That is, to progress competitiveness, organizations should consider their available resources and apply the most suitable capabilities. Doing so enables them to build better relationships with their customers, handle dynamism in the market, and reinforce their competitive advantage.

This research suggests that obtaining competitive advantages requires involving internal and external factors. The findings of this study provide important insights on the importance of organizational capabilities on customer relationship building and competitive advantages.

## **5.2 Theoretical Implications**

The findings of this research contribute to hotel management literature in various ways. First, this study enriches the empirical research in tourism and hotel management literature by focusing and assessing the relationship between organizational capabilities in order to create company–customer relationship. The results concur with the dynamic capability approach and resource-based view, indicating that organizational capabilities progress the relationships with customers. This finding is in accordance with previous literature about the effects of organizational capabilities on customer outcomes (e.g., Cheraghalizadeh & Tumer, 2017; Ramanathan & Ramanathan, 2013). The service sector, especially hotel industry, requires such personnel to work under situations that can satisfy even tough customers; and this can sometimes be difficult. Organizational capabilities enable companies to deal with such situations and improve company–customer relationships. This in turn leads to an improved competitive advantage. Customer relationship building has been considered a first-order dimension in this study. This contrasts with

previous researches (e.g., Walsh et al., 2010; Hennig-Thurau et al., 2002) that have primarily focused on other dimensions, such as satisfaction and loyalty.

Second, the current research contributes to ongoing literature in the hotel industry. It confirms the moderating effect of market dynamism between organizational capabilities and customer relationship building, which there are rare studies done in the literature. The findings also consider market dynamism is an important factor affecting customer outcomes which should be considered in decision-making. Based on findings, dynamic markets may require more managerial attention rather than markets characterized by lower levels of dynamism. This finding contrasts the findings of Leonidou et al. (2013), which shows no moderating effect of market dynamism between environmental marketing strategy and competitive advantage in green hotels. It is worth noting, the study of Leonidou et al. (2013) was conducted based on different concepts, and in green hotels, which might have different outcomes. Based on certain studies conducted in North Cyprus indication that North Cyprus as an island destination is known for its sun, sea, and sand, above other qualities (Alipour et al., 2020). These characteristics make this island unique from other tourism destinations in terms of internal and external determinants. This finding also contributes to the literature in hotel industry, especially as it relates to island destinations, which provides useful suggestions to managers and other decision makers in this field.

### **5.3 Managerial Implications**

The current study also contains important managerial implications. For hotels to enhance their competitive advantage, managers must first understand customer demands and based on this knowledge, they need to adapt organizational resources and capabilities to satisfy them. Gathering information about customers, their

preferences, and expectations, may provide the opportunities to apply, maintain, and improve distinctive capabilities. Employees further need to have knowledge about the benefits receiving from a good company–customer relationship. Understanding of this importance can be initiated from organizational culture and transform into practice by training personnel and holding routine sessions. Employee performance can be constantly monitored and evaluated by supervisors and accompanied by a reward system, as this motivates better communication with customers.

Dynamism and change in the market cause difficulties to understand and predict customer demands; and therefore, this mobility affects companies' connections with customers. Managers should improve their capabilities to manage and control ongoing changes in the environment and know how to quickly respond to dynamic market. Taking control of organizational capabilities and applying them correctly allows hotels to react to dynamism in the market in a more appropriate manner. This will help in pointing out customer behaviour patterns and changes in environment, as these capabilities may trigger most appropriate responses to customers and the adjustment of marketing strategies accordingly. Proper application of organizational capabilities to trigger market dynamism helps companies to adapt themselves with upcoming trends in the market and with changing customer needs.

This research demonstrates the importance of human resources to create successful connections with customers. Due to the essential roles of managers in organizations, companies need to hire competent managers to improve their organizational performance. The competent managers reinforce the organizational strengths and reduce the weak points. Therefore, human resource departments must define the

required abilities and competencies for each managerial position, and carefully consider hiring based on those criteria.

Managers should also consider customer compliments and complaints through periodic questionnaires. This provides direct information about what customers need and the level of their satisfaction/dissatisfaction with services and also employees. Furthermore, talking to customers during the check-out process is useful to determine the perceived quality of services and communication.

## **5.4 Limitations and Instruction for Future Research**

The present research has several limitations to be discussed. First, this research, similar to other studies applying surveys with self-administered data, might enhance the likelihood of common method bias; however, we tried to make sure about the appropriateness of the data by using statistical and procedural remedies of common method bias.

Second, customer relationship building is an important topic for business owners as the quality of business is no longer limited to the service quality but also related to creating a good connection with customers. However, there might be differences in willingness of clients to create this relationship which will be due to differences in age, family size, family status, gender, nationalities and so on. It is recommended to conduct a research considering the effect of these factors on customer relationship. Moreover, various aspects such as satisfaction, loyalty, commitment, engagement, and trust can be considered as dimensions of customer relationship building for further research.



Third, in this research, customer relationship building was examined based on the perception of hoteliers, and there might be the possibility that employees were patronizing the relative hotels. Therefore, it is important to understand the perceptions towards customer relationship from customers point of view. It will be beneficial to conduct an internet-based customer reviews booking.com and hotels.com and similar platforms. This will clarify the differences between perception of hoteliers and customers towards relationship and provide more accurate and reliable findings.

Forth, the findings of this research are limited in generalizability. Data were gathered from hotel employees in North Cyprus, an island destination. Other countries and contexts may lead to different results.

Furthermore, the R-squared value of the current study shows a low effect size ( $<0.3$ ). Future research should employ more predictors to enhance this value and remove this limitation.

Moreover, for data collection, researchers were not permitted to distribute and collect the questionnaires directly by themselves; and hotel managers conducted the data collection. This could enhance the potential of socially desirable bias. Despite all the efforts to solve this problem by keeping the respondents remain anonymous, however, this is, yet a limitation.

Lastly, competitive advantage with its aspects (e.g. price, quality, and innovation) can be considered for future studies. This helps to better understand the effects of utilizing resources for each individual aspect. For this purpose, we recommend future studies consider those aspects and analyse each one as separated latent variable.

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