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Employee satisfaction, human resource management practices and competitive advantage

The case of Northern Cyprus

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Abstract

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

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

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

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

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

Paper type Research paper

Introduction

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

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

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

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

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

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

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

Background and hypothesis development

Human resource planning, employee satisfaction and competitive advantage

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

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

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

H1. HR planning has a statistically significant impact on the competitive advantage.

H7. Employee satisfaction would fully mediate the association between HR planning and the competitive advantage.

HR job analysis and design, employee satisfaction and competitive advantage

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

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

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

H2. Job analysis and design has a statistically significant impact on competitive advantage.

H8. Employee satisfaction would fully mediate the relationship between job analysis and design and competitive advantage.

Employee performance appraisal, employee satisfaction and competitive advantage

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

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

Wayne and Kacmar (1991) noted that performance appraisal is an aversive process due to its ability to cause undesirable social consequences (i.e. workplace confrontation, conflicts and incivility), which may arise from poor appraisal practices through low and/or unfair ratings. Notably, employees who are satisfied with their workplace performance appraisal are often effective and efficient in their task. For instance, Khan (2009) examined the effect of performance appraisal on faculty member's job performance and satisfaction. The author concluded that the absence of a proper performance appraisal system hindered faculty members' job performance and satisfaction. Ahmed and Ahmed (2010) diagnosed the impact of performance appraisal on employee attitudinal and organizational outcomes in Pakistan. The authors concluded that a good performance appraisal system could decrease turnover and increase employee job satisfaction. This notion received similar empirical support from Darehzereshki (2013) and Deepa and Kuppusamy (2014). Hence, performance appraisal can trigger satisfaction among employees, which might translate into a competitive advantage for firms. Based on the extant literature, this study proposed the following hypotheses:

H3. Employee performance appraisal has a statistically significant impact on the competitive advantage.

H9. Employee satisfaction would fully mediate the relationship between employee performance appraisal and the competitive advantage.

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

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

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

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

As noted earlier, recruitment, selection and placement comprise the decision-making process used to determine and select the right candidate for a specific job. These practices aim to ensure job–person fit and person–organization fit. The point here is to diagnose compatibility between employees and their jobs, and compatibility between employees and their organizations; this eventually creates a better work environment (Tzafrir, 2006; Wright *et al.*, 2005; Beh and Loo, 2013). A study by Katou and Budhwar (2006) found that recruitment, selection and placement correlated positively with some organizational and employee outcomes (e.g. employee satisfaction, effectiveness, efficiency, innovation and quality). In sum, strategic HR practices encourage high individual performance through employee satisfaction and subsequently promote competitive advantage. This results in two hypotheses:

H4. Recruitment, selection and placement has a statistically significant impact on the competitive advantage.

H10. Employee satisfaction would fully mediate the relationship between recruitment, selection and placement and the competitive advantage.

HR compensation and reward, employee satisfaction and competitive advantage

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

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

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

H5. Compensation and reward has a statistically significant impact on the competitive advantage.

H11. Employee satisfaction would fully mediate the association between compensation and reward and the competitive advantage.

Training and development, employee satisfaction and competitive advantage

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

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

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

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

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

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

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

Methodology

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

The researchers applied IBM SPSS AMOS v21 to the data set, undertaking structural equation modeling (SEM) to diagnose the research model and identifying the data set's underlying structure. Before testing the hypotheses, the researchers carried out confirmatory factor analysis (CFA) to assess the structure and properties of the measurement variables, as well as to corroborate convergent, discriminant and construct validity of the variables. More specifically, SEM is useful for evaluating complicated models, especially the ones that have mediation or a moderator. In this study, we have a mediation effect; as such, SEM can help uncover important relationships. This procedure has been used before in studies conducted in the same field (Elrehail, 2018; Abubakar, Namin, Harazneh, Arasli and Tunç, 2017; Abubakar, Elrehail, Alatailat and Elçi, 2017). Other methods, such as regression, cannot uncover measurement error, and thus may result in an inflated outcome (Raykov and Traynor, 2016).

Study instruments

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

Data analysis

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

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

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

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

Note: TL, Turkish Lira

Table I. Demographic distribution

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

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

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

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

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

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

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

Table II. Reliability and validity of the research variables

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

Notes: AVE, average variance extracted; CR, composite reliability; α, Cronbach's α

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

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

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

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

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

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

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

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

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

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

Table III.
Descriptive statistics and correlations between the study variables

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

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

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

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

Table IV. Path analysis for the research model

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

Table V. Effect breakdown and distribution

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

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

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

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

Discussion and conclusion

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

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

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

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

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

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

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

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

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

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

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

Theoretical and practical implications

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

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

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

Research limitations and directions for future research

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

Thus, the researchers caution readers that the findings are only applicable to established hotels and industries. "Longitudinal studies and multilevel analytic approaches to differentiate and disaggregate variance at individual, group and organizational levels can help map the strength of proposed direct and indirect relationships." Further theoretical research is needed to determine how HR practices interact with other variables with an inclusive, competitive advantage in other industries or cultural settings. Fortunately, our model can stimulate and guide future research and promote a greater understanding of the importance of strategically orienting HRM practices to stimulate competitive advantage.

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Anthropomorphized vs objectified brands: which brand version is more loved?

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Abstract

Purpose – The purpose of this paper is to deal with the role of the human metaphor (anthropomorphism) and consumers' liking for the humanized version of the brand as antecedents of three key components of brand love: self-brand integration, positive emotional connection and feelings of anticipated separation distress.
Design/methodology/approach – A sample of 399 consumers provided information about a brand from a stated list of 16 brands of clothing.
Findings – Both anthropomorphism and consumers' liking for the humanized brand have positive effects on specific components of brand love. The results confirm that brand anthropomorphism is only desirable when the humanized version of the brand is attractive for consumers.
Research limitations/implications – A potential shortcoming is the qualitative technique employed to observe anthropomorphic thought. Collecting ratings of anthropomorphic and non-anthropomorphic traits could be viewed as a method more easily applied in market research surveys.
Practical implications – Managers have to control how consumers imagine the brand as a human entity because it affects brand love. For example, by tracking consumers' opinions and traits of those people associated with the brand and brand user stereotypes can condition consumers' imagination of the humanized brand.
Originality/value – Compared to the limited number of studies about the relationship between anthropomorphism and brand love, this study focuses on the effects of anthropomorphism as a process, and not as a personal trait, on brand love. It also relies on consumers' imagination instead of brand personification strategies to stimulate anthropomorphism.

Keywords Brand love, Anthropomorphism, Anticipated separation distress, Emotional connection, Self-brand integration

Paper type Research paper

1. Introduction

Since Fournier (1998) identified love as a distinguishable facet of all strong brand relationships, brand love has been considered an intrinsically interesting construct in research on consumer–brand relationships (Batra *et al.*, 2012; Huber *et al.*, 2015; Karjaluoto *et al.*, 2016; Palusuk *et al.*, 2019). The question of how to make consumers develop love relationships with a brand is still a highly pertinent topic of research. Most of the prior literature on the antecedents of this relationship has mainly focused on the following

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domains: the characteristics of products and brands, consumers' characteristics and identities, and consumers' experiences with brands.

At first sight, product quality (Batra *et al.*, 2012), the hedonic and utilitarian nature of a brand (Huber *et al.*, 2015; Karjaluoto *et al.*, 2016), its symbolic nature or brand personality (Roy *et al.*, 2016), brand prestige and uniqueness (Bairrada *et al.*, 2018) have been found to be antecedents of brand love. Other studies have paid more attention to consumers' characteristics, such as personality traits (Rauschnabel *et al.*, 2013) and age (Rivits-Arkonsuo and Leppiman, 2015). There is also empirical evidence of the positive effects that brand experiences (Bıçakcıoğlu *et al.*, 2018), satisfaction (Carroll and Ahuvia, 2006) and trust (Karjaluoto *et al.*, 2016) exert on brand love. Finally, brands may help to define individuals' identities and connect them with other people. In this sense, brand identification, self-brand connection, self-esteem, self-image, self-congruity, sense of brand community, consumers' self-congruence with Facebook "Likes," and online brand engagement have also been identified as precursors (see Bıçakcıoğlu *et al.*, 2018; Huber *et al.*, 2015; Karjaluoto *et al.*, 2016; Roy *et al.*, 2016; Vernuccio *et al.*, 2015; Wallace *et al.*, 2014, 2017).

To move beyond the current state of the art, an interesting issue is whether the view of brands as social entities would result in a better explanation of brand love. The consumer–brand relationship literature has accepted the idea that consumers may relate to brands as if they were persons (Fournier, 1998) and that for a consumer–brand relationship to exist, a brand has to turn into an appropriate, valuable, human-like relationship partner. A key mechanism that enables a brand to assume the role of an active and personalized agent in a relationship is anthropomorphism (MacInnis and Folkes, 2017). The brand love literature is no exception, and the works of Rauschnabel and Ahuvia (2014) and Hegner *et al.* (2017) proposed that it could foster love. However, these two studies focused on individuals' anthropomorphism tendency, which is a construct that is theoretically and practically distinct from the process of anthropomorphism (Letheren *et al.*, 2016). This process is a cognitive bias of viewing human characteristics in something non-human, while anthropomorphism tendency is the bias of an individual to anthropomorphize something, rather than the process of doing so. Anthropomorphism tendency is a personality trait that may differ between individuals because it is mostly determined by factors such as age, thinking style or personal connections with animals (see Letheren *et al.*, 2016). Therefore, as marketers may exert more influence on the anthropomorphism process (e.g. conferring human characteristics on a brand) than on the anthropomorphism tendency, the primary aim of this study is to analyze whether the brand anthropomorphism process actually exerts stronger effects on brand love than a non-human perspective of a brand.

More specifically, this study moves beyond the current literature because differs from past studies in the following aspects:

(1) It uses as stimuli neutral brands in terms of affection and a broader range of brands in a less anthropomorphic product category (e.g. clothes).

(2) It focuses on different dimensions of the brand love prototype proposed by Batra *et al.* (2012).

(3) Additionally, because consumers' reactions to anthropomorphized brands may be more complex than is typically assumed, the current research takes a further step by also considering how consumers' liking for the anthropomorphized version of a brand affect brand love.

2. Theoretical framework and research hypotheses

2.1 Brand love as a consumer–brand relationship concept

From a consumer–brand relationship perspective, brand love is not a specific and single emotion but an emotionally intense brand relationship (Reimann *et al.*, 2012) that entails a plurality of aspects (Vernuccio *et al.*, 2015). This results in prototype-based definitions of the concept, depending on how consumers experience it (Albert *et al*., 2008; Batra *et al*., 2012). Among these definitions, the one developed by Batra *et al*. (2012) characterized brand love as a subjectively experienced combination of cognitions (self-brand integration), feelings (positive emotional connection, anticipated separation distress, attitude valence and attitude strength) and behaviors (passion-driven behaviors and long-term relationships), which consumers synthesize into a "mental prototype."

Because brand love is composed of a complex constellation of elements, all of them are potential ways of building it because, as suggested by Rauschnabel and Ahuvia (2014, p. 376), "any research on multidimensional construct is an investigation of its dimensions." Furthermore, as these elements are neither synonymous nor interchangeable (Batra *et al*., 2012), a specific cause (e.g. brand anthropomorphism) does not have to affect all the different components of the concept. Therefore, to make the analysis more tractable, this study focuses on three specific dimensions because most previous studies have reached a strong consensus in considering them central aspects of brand love:

(1) Self-brand integration is a cognitive merging of the brand and the individual's self so that brand meanings are experienced as the individual's own (Reimann and Aron, 2009). Past research has agreed that loved brands are an integrated part of the consumer's self (see Albert *et al*., 2008; Batra *et al*., 2012; Vernuccio *et al*., 2015) because through this cognitive merging, brands provide social value to the individual. As such, the individual's goals of self-expansion and identity creation (Ahuvia *et al*., 2009) are accomplished.

(2) Among the variety of elements that characterize brand love, positive emotional connection is perhaps the most important because previous studies (see Batra *et al*., 2012; Langner *et al*., 2016) have demonstrated that consumers are emotionally connected to their loved brands. It is defined as the emotional bond and positive feelings that consumers experience when thinking about or using a brand (Ahuvia *et al*., 2014).

(3) Loved brands are characterized as irreplaceable and unique. Consequently, brand love is also associated with feelings of separation distress when consumers anticipate or experience being distanced from loved brands because they cease to be available to them (Batra *et al*., 2012; Langner *et al*., 2016).

2.2 The brand anthropomorphism process

Research efforts in anthropomorphism have increased recently[1] within the marketing field, especially in the branding literature. Epley *et al*. (2007) define it as an automatic process of attributing human-like characteristics, features, motivations, intentions or emotions to non-human agents (e.g. animals, natural and supernatural phenomena, material states, or abstract concepts). It is not only attributing life (animism) to something non-living but also perceiving a non-human object as being "like us" as a result of having human-like features, personality characteristics and a human-like mind (Epley *et al*., 2008; MacInnis and Folkes, 2017).

The anthropomorphism process in the case of brands goes beyond brands' observable actions and behaviors (e.g. Tesla sells electric-powered cars and clean-energy-generation products) to make inferences about their unobserved personalities, intentions and motivations (e.g. Tesla is concerned with the environment and the zero-emission future that most people want). Research on the formation of person impressions may explain this elaboration process to the extent that observed behaviors are translated into traits, which form the basis for the evaluative concept of a person (Srull and Wyer, 1989). Therefore, anthropomophized brands have to do with the perception of brands as if they were actual human beings in terms of their physical appearance, their personality, intentions and emotions.

The interest in anthropomorphism resides in the fact that viewing non-human objects in human-like terms entails important differences in consumer attitudes and behaviors. The information that comes to mind in the elaboration process is relevant in how people react to and treat such objects (Chandler and Schwarz, 2010). Therefore, individuals make social judgments if they use the self or the concept of "human" as a frame of reference (Fiske, 1982), while they make non-social judgments when the human frame is absent.

Based on this idea, it is reasonable to think that consumers' reactions to anthropomorphized vs objectified brands may be different. In what follows, this paper analyses these reactions in terms of three specific dimensions of brand love.

2.3 The effects of brand anthropomorphism

Previous research on anthropomorphism has found that it triggers cognitive, affective and motivational responses in individuals. Specifically, empirical evidence show that:

(1) It has positive effects on consumers' brand and product evaluations (Aggarwal and McGill, 2012; Delbaere *et al.*, 2011; Hart *et al.*, 2013). For example, when consumers are unfamiliar with a technology, anthropomorphizing the experiences renders them more likely to have a positive brand attitude (van Esch *et al.*, 2019).

(2) It increases consumers' emotional connections to the object (Delbaere *et al.*, 2011; Wang *et al.*, 2007) and consumer–brand identification (Tuškej and Podnar, 2018).

(3) It diminishes intentions to replace the brand (Chandler and Schwarz, 2010).

(4) It triggers perceptions of an entity as mindful, thoughtful and intentional (Waytz *et al.*, 2010), with which people can potentially build social relationships.

These results grounded in the idea that when people anthropomorphize objects, they automatically activate human schemas and apply knowledge about the social world to the inanimate world, creating some degree of perceived similarity of the objects to humans (MacInnis and Folkes, 2017). This implies that the mental processes involved in thinking about human beings govern cognition regarding objects (Epley *et al.*, 2007), prompting people to treat these entities as moral agents worthy of respect and empathy (Chandler and Schwarz, 2010).

Several authors anticipate that brand anthropomorphism stands in relation to brand love because anthropomorphizing non-human entities makes them be perceived as "social entities" (Chandler and Schwarz, 2010; Chen *et al.*, 2017). Thereby, it qualifies them as legitimate and reciprocal relationship partners (Waytz *et al.*, 2010).

As far as brand anthropomorphism is the process of perceiving a brand as "like us" (i.e. human), it can foster self-brand integration through conferring social meanings and particular human-like traits to the brand (Ahuvia *et al.*, 2009). This helps consumers to signal aspects of their own identities and to communicate to others the types of people they are or would like to be (Escalas and Bettman, 2005), in comparison to the situation where the anthropomorphism process does not occur and a brand is evaluated based on its attributes. Therefore, as a cognitive and perceptual strategy that endows a brand with a social meaning, this process facilitates the integration of the brand into the self. Thus, we hypothesized the following:

H1. Consumers exhibit higher levels of self-brand integration for anthropomorphized brands (vs objectified brands).

It may also create a stronger emotional brand connection. Fiske's (1982) schema-triggered affect theory states that some schemas or categories are associated with affective tags. When an object matched against a category, the stored affective or evaluative component associated with that category is cued. Generally, the human category is more positively evaluated and viewed as superior compared to non-human entities (i.e. objects) (Rauschnabel and Ahuvia, 2014). Thus, positive emotions like affect and kindness (Schoefer and Ennew, 2005) are available immediately upon this categorization, as they are inherent to human beings. Therefore, according to schema-triggered affect theory, when a brand is placed into the human category positive emotions emerge because they are associated with that category. More formally put:

H2. Consumers exhibit higher levels of positive emotional connections for anthropomorphized brands (vs objectified brands).

This study also predicted higher levels of anticipated separation distress when a brand is anthropomorphized. Judgments of non-social (e.g. products) and social entities (e.g. people) are dominated by different considerations (Chandler and Schwarz, 2010). While the interpretation and evaluation of social entities depend on inferred, abstract, psychological and social information, non-social entities are primarily evaluated with more-pragmatic reasons, such as their functions and concrete attributes.

Based on this reasoning, the anthropomorphism process makes product attributes less relevant, with consumers paying more attention to those aspects (e.g. feelings and type of relationship) that characterize the interpersonal or social realm. Therefore, it moves consumers' attention away from pragmatic considerations and makes relational and psychological features more salient.

In the social realm, people are reluctant to replace close others (Chandler and Schwarz, 2010) and have a sense of personal loss and distress when these close others are absent (Thomson *et al*., 2005). Therefore, it is hypothesized that consumers are less willing to replace anthropomorphized brands because they may feel more reluctance and distress about being separated from them compared to objectified brands. Specifically:

H3. Consumers manifest higher levels of anticipated separation distress for anthropomorphized brands (vs objectified brands).

Despite the general finding that consumers' assessments of products with anthropomorphic features are positive, empirical evidence has identified factors that condition the effect of anthropomorphism. These include the congruity between the features associated with products (human-like vs non-human-like) and the schemas under which products are presented (human or non-human) or the affective tags associated with human schemas (Aggarwal and McGill, 2007, 2012).

This is an important consideration because accepting that the effect of anthropomorphism is not universally positive implies that the inferred human-like features associated with a brand, whether positive or negative, could benefit or harm the brand (Aggarwal and McGill, 2007, 2012). Therefore, it may trigger stronger or weaker consumers' reactions to the anthropomorphized brands.

2.4 Effects of consumers' liking for the anthropomorphized brand on brand love

In the context of interpersonal relationships, individuals' judgments of others affect the courses and natures of their relationships. In the same line, the quality, traits or characteristics of anthropomorphized brands also affect the brand relationships (Lau and Lee, 1999). In this sense, Fournier and Alvarez (2012) proposed the "brands as intentional agents frame" to suggest that the ratings of a particular brand as a relational partner determine the brand relationships experienced by consumers.

Accordingly, several studies have found that when people anthropomorphize a brand, they may view it as having both positive and negative human-like features (e.g. name, gender and physical characteristics), personality traits (e.g. warm, cold-hearted and intelligent) and intentions (e.g. trustworthy and unfair) (Fournier and Alvarez, 2012;

Sweeney and Brandon, 2006). Based on these perceptions, an anthropomorphized brand is judged as a more- or less-likeable person.

Liking for the human version of a brand, as an evaluative global assessment of the type of person the brand has become (Anselmsson *et al.*, 2008), denotes a certain fondness that people have toward it because it is thought to be a well-liked, pleasant and agreeable person. It is an attraction to the human version of the brand such that the consumer would desire to "be around" it because liking has long been believed to be a powerful human motivator for relationship development and maintenance. For example, people attempt to achieve physical closeness and move toward those they like and move away from those they dislike (Lott and Lott, 1972). Consequently, liking the anthropomorphized brand version might condition consumers' reactions because positive/negative evaluations produce immediate approach/avoidance behavior, respectively (Chen and Bargh, 1999).

Building on the above, those who like the human version of a brand will manifest higher levels of self-brand integration, positive emotional connection and anticipated separation distress. However, those who dislike it will manifest a pattern of contrast to facilitate getting away from the human version of the brand. It is proposed that:

H4a. Consumers manifest higher levels of self-brand integration the higher their liking for the anthropomorphized version of a brand.

H4b. Consumers manifest higher levels of positive emotional connections the higher their liking for the anthropomorphized version of a brand.

H4c. Consumers manifest higher levels of anticipated separation distress the higher their liking for the anthropomorphized version of a brand.

Puzakova *et al.* have recently demonstrated that, in specific circumstances, the anthropomorphized versions of brands have a more detrimental impact on consumers' impressions, judgments and evaluations than the non-anthropomorphized ones. This occurs when humanized brands undergo negative publicity or product wrongdoing (Puzakova *et al.*, 2013a), they require sensitive personal information from consumers (Puzakova *et al.*, 2013b), they increase prices or are associated with situations of distributive injustice (Kwak *et al.*, 2013, 2017).

Taken together, these studies assert that negative brand information is perceived as more relevant when the brand is anthropomorphized because anthropomorphic representations trigger perceptions of the brand as a living agent with its own intentions, motivations and emotions (Aggarwal and McGill, 2007). This intentional nature leads to the perception that anthropomorphized brands are more responsible for their actions than the non-anthropomorphized ones, resulting in less-favorable consumers' reactions.

Thus, it seems that the human versions of brands that consumers dislike generate lower levels of the three key components of brand love than non-anthropomorphized brands do:

H5a. Consumers manifest lower levels of self-brand integration when they dislike the anthropomorphized version of a brand compared to the objectified version.

H5b. Consumers manifest lower levels of positive emotional connection when they dislike the anthropomorphized version of a brand compared to the objectified version.

H5c. Consumers manifest lower levels of anticipated separation distress when they dislike the anthropomorphized version of a brand compared to the objectified version.

3. Method

3.1 Study design and data collection

An experimental study with a one-factor between-subjects design was designed. The factor manipulated was the anthropomorphism process: individuals anthropomorphize the brand (anthropomorphism condition); or they objectify it (no anthropomorphism condition). A web-based experiment was used to test the hypotheses. Participants were contacted through an online panel and were randomly assigned to one of the experimental conditions. A sample of 399 individuals participated (50.9 percent females, 56.1 percent workers, average age of 40.66 years).

3.2 Procedure

To establish a focal brand, participants were instructed to indicate the fashion brands they had bought in the past from a default set of 16 brands (this set was composed of the most-purchased fashion brands in Spain). Among the subset of brands bought by each individual, a specific brand was randomly and automatically selected by the system and assigned to the individual to later conduct the anthropomorphism task. By doing so, this procedure guaranteed that individuals' answers were not focused on their favorite brands.

In the anthropomorphism condition, participants had the instruction to imagine the brand coming to life as a person and to describe the sort of person the brand would be (personality, physical appearance, opinions, emotions and so on). In the condition where the individuals objectified the brand, the instruction was to describe the brand as a product (features, benefits, design, quality and so on).

3.3 Measures

Multi-item scales from the literature were used in a Likert format, scaled from 1 (= totally disagree) to 7 (= totally agree).

The scales used to measure the three dependent variables are the ones proposed by Batra *et al.* (2012). Specifically, self-brand integration was a second-order construct of 12 items reflected by current self-identity, desired self-identity, life meaning and frequent brand thoughts. Positive emotional connection was also conceived as a multidimensional construct that comprised intuitive fit (three items), emotional attachment (three items) and positive affect (three items). Finally, anticipated separation distress was assessed by four items.

The scale of liking for the human version of the brand consist on three items (Aggarwal and McGill, 2012) that were adapted to the purpose of this study.

As a manipulation check for anthropomorphism, and based on Waytz *et al.* (2010), the participants rated on a one-item seven-point semantic differential scale the degree with which they attributed human-like characteristics, behaviors and capacities to the assigned brand.

Brand love tendency was included as a covariate. It was assessed by asking the participants to name all the brands they loved in an open question (Rauschnabel and Ahuvia, 2014). An independent coder coded the number of mentioned brands. This number was used as a single indicator of the respondents' general brand love tendency. Finally, a few demographic measures were included. Table AI shows the wording of all items included in each measure scale.

4. Results

4.1 Validation of scales and manipulation checks

Because the measurement of self-brand integration and positive emotional connection as second-order constructs was too complex for the purpose of this study, parcels as indicators of the sub-dimensions of these concepts were used (Little *et al.*, 2002; Malär *et al.*, 2011; Rauschnabel *et al.*, 2013). By doing so, the multiple facets comprising both self-brand integration and positive emotional connection were preserved. Specifically, the average of each sub-dimension was estimated, and these values were used as indicators of the two higher-level constructs.

Table I provides summary statistics, reliabilities and fit indices that prove that all the scales were statistically reliable. Discriminant validity was also confirmed, as in all cases, the value of 1 did not fall within the confidence intervals of the correlations between the factors and because each latent variable shared more variance with its respective indicators (i.e. the average variance extracted) than with its other correlated latent variables (i.e. the squared correlations between the latent variables) (Fornell and Larcker, 1981).

The suitability of the anthropomorphism manipulation was also verified. One-way ANOVA conducted across the two conditions of the experimental factor showed that significant differences existed across the two conditions ($M_{anthro} = 4.88$, $M_{no\ anthro} = 2.70$; $F(1, 397) = 131.790$, $p < 0.00$), confirming the appropriateness of the manipulation. To ensure that there were no differences in engagement with the task of describing the brand across both conditions, the word counts were compared. No differences existed between them ($M_{anthro} = 41.92$, $M_{no\ anthro} = 44.89$; $F(1, 397) = 3.67$, $p = 0.056$, $p > 0.05$).

Regarding brand love tendency, on average, the respondents named 4.79 (SD = 3.3) brands, and no significant differences existed across the two experimental conditions ($M_{anthro} = 4.86$, $M_{no\ anthro} = 4.59$; $F(1, 397) = 0.503$, $p = 0.479$).

4.2 Effects of brand anthropomorphism

A MANCOVA test followed by univariate comparisons was used to test *H1*–*H3* because the dependent variables were correlated. Brand anthropomorphism was used as a fixed factor, and the general tendency to love brands was included as a covariate.

The results indicated the existence of homogeneity of covariance (Box's M was not significant) and that the two levels of the fixed factor yielded significant differences across all dependent variables ($F(3, 394) = 3.021$, $p < 0.05$ (Wilks' $\lambda = 0.978$)). The Levene's test results supported the assumption of equal variance for the three dependent variables, and the effect of this relation was small at $\eta^2 = 0.022$ (Cohen, 1988). The univariate tests revealed that significant differences existed only for (self-brand integration and positive emotional connection) at $p < 0.05$ between the conditions of the fixed factor (see Table II). Therefore, these results gave support to *H1* and *H2*. However, we could not find support for *H3*.

Construct	No. of items	M (SD)	Cronbach's α	SCR	AVE
Self-brand integration	4	3.7 (1.4)	0.94	0.94	0.80
Positive emotional connection	3	3.6 (1.4)	0.90	0.90	0.75
Anticipated separation distress	4	3.4 (1.8)	0.95	0.93	0.83
Liking for anthropomorphized brand	3	4.1 (1.6)	0.95	0.94	0.84

Notes: $\chi^2(84) = 517.85$, $p = 0.000$; GFI = 0.85; SRMR = 0.04; CFI = 0.98; NNFI = 0.98

Table I. Summary statistics and reliabilities for the scales

	Self-brand integration Mean	Positive emotional connection Mean	Anticipated separation distress Mean
Anthropomorphism	3.8	3.71	3.45
No anthropomorphism	3.3	3.37	3.36
F	6.474*	4.333*	0.128
η^2	0.016	0.011	–

Notes: MANOVA results: Wilks' $\lambda = 0.978$; $F(3, 394) = 3.02$*. *$p < 0.05$

Table II. Effects of brand anthropomorphism (*H1*–*H3*)

The levels of anticipated separation distress were similar when individuals anthropomorphized or objectified the brand.

4.3 Effects of liking for the anthropomorphized version of the brand

To test *H4*, another MANCOVA was conducted with only those respondents assigned to the anthropomorphized condition ($n = 300$). The sample was first split at the median on the liking score (4.25 on a seven-point scale). This resulted in a low liking group of 156 individuals and a high liking group of 144 ($M_{low\ fit\ group} = 2.82$ $M_{high\ fit\ group} = 5.44$ $F(1, 298) = 580.665$, $p < 0.00$). To test *H4*, the median-split liking factor was used as a fixed factor.

The assumption of homogeneity of covariance was not satisfied (Box's *M* was significant at $p < 0.05$). The results indicated that the two levels of the liking variable yielded significant differences across the three dependent variables ($F(3, 295) = 64.701$, $p < 0.00$ (Pillai trace = 0.397), $\eta^2 = 0.397$).

As depicted in Table III, the ANOVA test showed significance differences between the two media groups in terms of all dependent variables. Because the data violated the homogeneity assumption in the case of two of them (self-brand integration $F(1, 298) = 6.323$, $p < 0.05$; anticipated emotional distress $F(1, 298) = 8.873$, $p < 0.05$), Welch and Brown–Forsythe tests were used to further examine the significance of the results. The results were still significant for both dependent variables. These results gave empirical support to *H4a–H4c*. Thus, consumers manifest higher levels of self-brand integration, positive emotional connection and anticipated separation distress when they have a higher liking for the anthropomorphized version of the brand.

To further examine the effects of brand anthropomorphism on the three dimensions of brand love, a one-way ANOVA with *post hoc* tests was conducted to analyze the differences between the three conditions (see Figure 1): the non-anthropomorphized brand, and low or high liking for the anthropomorphized version of the brand.

Table III. Effects of liking the anthropomorphized versions of brands (*H4a–H4c*)

	Self-brand integration Mean	Positive emotional connection Mean	Anticipated separation distress Mean
Low liking	2.94	2.90	2.69
High liking	4.71	4.58	4.29
F	177.15***	170.79***	68.970***
η^2	0.38	0.36	0.19

Notes: MANOVA results: Pillai trace = 0.397; $F(3, 295) = 64.701$. ***$p < 0.000$

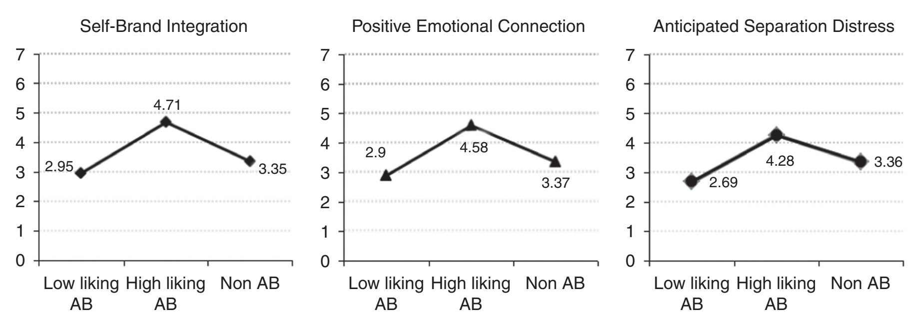

Figure 1. Key results across conditions

With self-brand integration as a dependent variable, Games–Howell *post hoc* testing was used because of the inequality of variances. The ANOVA test showed significant differences between the three media groups ($F(2, 396) = 82.595$, $p < 0.00$). The data violated the homogeneity assumption, but the Welch and Brown–Forsythe tests indicated that the result was still significant (see Table IV). The same pattern of results was found for both positive emotional connection and anticipated separation distress. Taken together, these results provided empirical support for *H5a–H5c*.

5. Conclusions

5.1 Theoretical implications

Past research dealing with the antecedents of brand love has considered the brand as an object that provides hedonic and utilitarian value and that satisfies self and social expression needs. The central shortcoming of this approach is that it neglects the view that the brand can surpass an object nature and be regarded as a human entity. By taking this view, the quality of the consumer–brand relationship could be improved as suggested by the anthropomorphism literature.

Despite its importance, few studies have focused on the relationship between brand anthropomorphism and brand love (see Hegner *et al.*, 2017; Rauschnabel and Ahuvia, 2014). The current research differs from these studies in three ways. First, they focused on brands for which consumers had strong preferences, while this study analyzed more-neutral brands in terms of affection. Second, they analyzed anthropomorphic tendency, which is an individual trait that varies among individuals, but it differs from the anthropomorphism process (Letheren *et al*, 2016). While the latter is a cognitive bias of assigning human traits to an object, the former is the tendency to do that. Third, in contrast to the current research, they did not analyze the superior benefits of the humanization of a brand for brand love compared to the view of a brand as a non-social entity.

In addition, compared to past studies that have focused on the passionate dimension of brands (see Albert and Merunka, 2013; Huber *et al.*, 2015), this research emphasized other specific dimensions of brand love such as self-brand integration, positive emotional connection and feelings of anticipated separation distress.

Furthermore, the empirical evidence was obtained from a broader range of brands in a product category (clothing) less complex compared to other products. For example, consumer electronics and technological products have a very interactive nature because they are highly responsive to their users, making them somewhat anthropomorphic (Aggarwal and McGill, 2007), which may favor brand love.

In keeping with prior work on anthropomorphism, this study found converging evidence that if the human version of a brand is not positively evaluated, the process of brand anthropomorphism may not necessarily produce the kinds of consumer reactions expected.

Table IV. *Post hoc* results for self-brand integration, positive emotional connection and anticipated separation distress

Variable	Groups		Mean difference	SE	*p*
Self-brand integration	High liking AB	Non-AB	1.36	0.17	0.000
		Low liking AB	1.76	0.17	0.056
	Low liking AB	Non-AB	−0.41	0.19	0.054
Positive emotional connection	High liking AB	Non-AB	1.21	0.15	0.000
		Low liking AB	1.68	0.13	0.000
	Low liking AB	Non-AB	−0.46	0.15	0.005
Anticipated separation distress	High liking AB	Non-AB	0.928	0.243	0.001
		Low liking AB	1.597	0.188	0.000
	Low liking AB	Non-AB	−0.668	0.224	0.009

Note: AB, anthropomorphized brand

For example, the results show that anthropomorphizing a brand is not always beneficial. Brands that are imagined as human but lack attractiveness are evaluated less positively on the three dimensions of brand love compared to those brands that are imagined as products.

Taken together, these results suggest that, consumers' reactions toward a brand depend not only on the schemas with which consumers imagine the brand but also on the affective evaluation associated with the humanized brand. In general, the social or human schemas of the brand exert a stronger positive effect on consumers, surpassing the effect of non-human schemas only when consumers like the human version of the brand.

Finally, the current research focused on imaginative anthropomorphism, in which imagination plays a central role. The concept of imagination is widely used in consumer research, but Huang and Mitchell (2014) highlighted that there is a scarcity of literature regarding its role in brand personification and brand relationships.

5.2 Managerial implications

The issues addressed also have managerial implications to build and maintain brand love relationships with consumers. First, brand managers have traditionally stimulated brand anthropomorphism by specific brand personification strategies using visual stimuli and specific product designs. The current research suggests that another way to encourage the humanization of a brand is by prompting consumers' imaginations. The empirical findings show that inducing consumers to imagine a brand as a person can be strategically important because they integrate more of the brand into the self and develop stronger emotional connections compared to a situation in which a brand is imagined as a product. One way to encourage consumers' imaginations could be with brand storytelling, which is viewed as a powerful communication tool to bring brands to life and provide them with personalities (Delgado-Ballester and Fernandez-Sabiote, 2016). Embedding the brand in a real or fictional story in which it adopts specific archetypal figures in the story (e.g. the hero, the antihero or the mother of goodness) gives the brand a voice to express its story to consumers, helping them to humanize it. Another way is using a brand personification strategy to activate the anthropomorphism process. This strategy consists of attributing certain human characteristics to the brand (Epley *et al.*, 2007) in such a way that the brand is presented in marketing campaigns in an anthropomorphized form (Delbaere *et al.*, 2011).

Second, brands differ in how naturally they are humanized because the interactive nature of certain products makes some brands more anthropomorphic than others (Batra *et al.*, 2012). Therefore, for brands in less-anthropomorphic product categories, it would be interesting to favor brand interactions with consumers, for example, through social media. Channels such as Twitter, Facebook or Instagram allow direct brand interactions with consumers, making brand behavior a crucial attribute to infer human brand traits.

Third, consumers' judgments of humanized brands lead to even stronger consumer–brand connections if these judgments are positive. Consumers show higher feelings of heartbreak and distress when anticipating being distanced from a humanized brand. These impressions of a brand as a person can be based on the many observed behaviors of the people associated with the brand (e.g. celebrity endorsers, the company's employees, the CEO and the actual people who buy and consume it). As a general recommendation, managers might track consumers' opinions about the behavior, performance and traits of those who act on behalf of a brand. This is especially relevant when consumers have to interact with brand employees (e.g. branded retailers, hotels, airlines and hairdressers). Managers are also advised to analyze stereotypes about brand users because they may serve as reference points to form impressions about a brand's personality and, consequently, to facilitate the integration of the brand into consumers' self and to strengthen their emotional links with it. In case of the existence of negative stereotypes about brand users, it would be better not to depict them on advertisements but to emphasize the functional characteristics of the brand as a product. Meanwhile, managers should create desired stereotype perceptions as part of their strategic brand positioning.

5.3 Limitations and further research

This study had some limitations. It adopted a static approach in addressing the effect of anthropomorphism by not considering the idea that consumer–brand relationships inevitably change over time. For example, Huber *et al.* (2015) demonstrated that, over time, utilitarian aspects become more substantial because a relationship subtly evolves into a more rational partnership. This being so, the effect of the human brand schemas on brand love (compared to product schemas) may decrease as the relationship matures. This question awaits further research.

Finally, this study focused on three dimensions of brand love. However, these three aspects might also exist in various other relationships that are not necessarily love relationships.

Beyond these limitations and the associated research avenues, several open questions suggest promising routes. First, future studies could take brand stereotypes into account. Ivens *et al.* (2015) and Kim and Kramer (2015) demonstrated that brand roles (warmth vs competence, servant vs partner) shape consumers' feelings and behaviors toward a brand. It would be interesting to analyze whether humanizing a brand is a more effective mechanism to transmit these brand roles and to influence subsequent consumer behavior via behavioral priming. In other words, do different brand roles operate in a similar manner for humanized and objectified brands?

Second, the product category (clothing) used was not complex. As Hart *et al.* (2013) demonstrated that the more complex the product, the more inclined consumers are to anthropomorphize it, complexity may also condition the relationships analyzed.

Third, brand anthropomorphism was encouraged by a task based on participants' imagination to think about a brand in human terms. As recent studies (see Huang and Mitchell, 2014) have recognized that not all individuals have the same imagery ability, this ability may moderate the relationships analyzed. Furthermore, as far as some brands have stronger and clearer brand personalities than others, brand personification may also exert a moderating effect. Connected to this idea, further research may explore whether brand humanization would be more beneficial for functional products than for symbolic products. Huang and Mitchell (2014) suggest that symbolic products do not require as much imagination as utilitarian products to personify a brand. This being so, it seems that for utilitarian products, brand anthropomorphism would be more beneficial than for symbolic products.

Another worthwhile research avenue would be to examine other moderators such as individual traits and consumer goals. Recently, Ghuman *et al.* (2015) suggested the existence of cross-cultural differences in people's tendencies to anthropomorphize, with consumers in collectivist societies more likely to anthropomorphize brands because they have more-accessible human knowledge. In addition, Puzakova and Aggarwal (2018) found that anthropomorphism has a detrimental effect on evaluations of a distinctive brand when consumers' distinctiveness goals are heightened.

Finally, imagination is a form of mental representation that expresses unreality and involves creativity (Huang and Mitchell, 2014); as past research has suggested that interpretations of imagination differ as a function of age, it would be desirable to learn the extent to which the results obtained could be replicated across different age groups.

Note

1. For example, the *Journal of Marketing Management* devoted issue 1–2 in 2013 to anthropomorphic marketing, and the *Journal of Psychology & Marketing* had a special issue on brand personification in January 2014.

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Appendix

Construct	Constituent items	
Self-brand integration (Batra *et al.*, 2012)	Desired self-identity	1. The brand makes you look like you want to look 2. The brand makes you feel like you want to feel 3. The brand helps you present yourself to others as the kind of person you want to be
	Current self-identity	1. The brand says something about who you are 2. When others seeing you using the brand get a sense of who you are 3. The brand matches your personal identity
	Life meaning	1. The brand makes life meaningful 2. The brand makes life worth living 3. The brand represents values that are important to you
	Frequent thoughts	1. I find myself thinking about the brand 2. I find myself thinking about wearing the brand 3. I find the brand keeps popping into my head
Positive emotional connection (Batra *et al.*, 2012)	Intuitive fit	1. The brand meets needs perfectly 2. The brand fits tastes perfectly 3. The brand is what you have been looking for
	Emotional attachment	1. The brand is like an old friend 2. You feel emotionally connected to the brand 3. You feel a bond with this brand
	Positive affect	1. The brand is fun 2. The brand is exciting 3. The brand is pleasurable
Anticipated separation distress (Batra *et al.*, 2012)		If the brand were to go out of existence I would feel anxiety If the brand were to go out of existence I would feel worry If the brand were to go out of existence I would feel apprehension If the brand were to go out of existence I would feel fear
Liking for anthropomorphized brand (Aggarwal and McGill, 2012)		The anthropormophized brand is a kind of person I like The anthropormophized brand is a kind of person I admire The anthropormophized brand is a kind of person that fits with me

Table AI. Constituent items of each measure scale

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Estimating the price range and the effect of price bundling strategies

An application to the hotel sector

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Abstract

Purpose – The purpose of this paper is to investigate and identify the price sensitivity of consumers of three- and five-star hotels and to determine the impact of bundling strategies on consumers' price sensitivity.
Design/methodology/approach – To calculate price sensitivity, authors apply the van Westendorp's price sensitivity meter (PSM). To understand the impact of bundling strategies, univariate and bivariate techniques are applied.
Findings – PSM results reveal the optimal prices and the range of acceptable prices for three- and five-star hotel. The bundling strategy results reveal that five-star customers are less sensitive to mixed-leader bundling. Regarding mixed-joint bundling, managers could improve sales through bundling strategies if they selected an attractive service (e.g. restaurants).
Practical implications – Findings assist hotel managers to understand the different price sensitivities, according to the hotel typology. Managers can manage prices without the risk of losing market share or revenue. The results help managers in deciding which bundling strategies they can create, as well as the services to be included to achieve highest profitability.
Originality/value – No research to date to the best of the authors' knowledge has attempted to understand and compare the role of bundling strategies in three- and five-stars hotels. Moreover, no research has attempted to measure and compare customers' price sensitivity of three- and five-stars hotels.

Keywords Hospitality management, Price, Price sensitivity, Bundling strategies, Pricing strategies

Paper type Research paper

1. Introduction

Price has a significant role in all industries, including in the tourism and hospitality industries (Espinet-Rius *et al.*, 2018; Moro *et al.*, 2017, 2018). As a core of any marketing strategy (Moro *et al.*, 2017), the importance of pricing is reflected in firms' profitability

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(Danziger *et al.*, 2006). Despite its relative importance, pricing is one of the most difficult strategies to define (Danziger *et al.*, 2006; Hung *et al.*, 2010). While over-pricing can lead to loss of market share, under-pricing may result in loss of revenue (Danziger *et al.*, 2006).

The intangible, inseparable and perishable nature of services (Eddin *et al.*, 2013) makes the pricing process an arduous responsibility for managers (Bojanic, 1996; Martin-Fuentes, 2016; Xu *et al.*, 2017). The tourism market is known for its uncertain demand and for its heterogeneity (Taher and El Basha, 2006), which makes the pricing process an even more complicated responsibility for managers (Hung *et al.*, 2010).

Managers must understand consumer evaluations and reactions to price to achieve their profitability goals (Ramirez and Goldsmith, 2009; Zeithaml, 1998). For firms to better determine their pricing, they must know their market and its responses to pricing and price changes (Nicolau, 2009). As Pigou (1920, cited in Nicolau, 2009) stated, "a firm is always better off if it can price discriminate between consumers with varying price sensitivities". Optimal pricing plays a significant role in firms' profitability (Kim *et al.*, 2004).

Despite the variety of strategies, the effectiveness of pricing strategies depends on how well managers know consumers' price sensitivity (Maderno and Nicolau, 2012). According to Nagle *et al.* (2014), developing an effective pricing strategy requires an understanding of product value and setting profit-maximising prices that should be accepted within target segments.

There are numerous pricing strategies that firms can use according to their sales objectives (Collins and Parsa, 2006; Rao and Kartono, 2009) and brand image (Collins and Parsa, 2006). Rao and Kartono (2009) confirmed that several companies applied more than one pricing strategy for one product. In their survey of 199 companies, almost 50 per cent (96 companies) used five or more pricing strategies for the same product while only 10 per cent used only one strategy.

In the case of hospitality, it is difficult to define the optimal pricing strategies (Boz *et al.*, 2017) due to the nature of services, e.g., perishability and intangibility (Abrate and Viglia, 2016; Boz *et al.*, 2017), uncertain market characteristics and fluctuating demand (Hung *et al.*, 2010) and diversity in tourists' price sensitivities.

In this context, one popular strategy among firms in general, and tourism in particular, is bundling. Bundling benefits firms as well as consumers (Kim *et al.*, 2009). This strategy enables firms to sell their products and services as a package for a special price (Guiltinan, 1987). One of the main advantages of using bundling is selling products for a price that can be accepted by several consumers who would otherwise not purchase them (Gourville and Soman, 2001; Kim *et al.*, 2009; Petrick, 2005).

This strategy led to a change in travel packaging, as all types of firms in the tourism industry, from hotels and airlines to car hire and restaurants, encouraged customers to purchase packages rather each element separately (Kim *et al.*, 2009; Rauch *et al.*, 2015; Repetti *et al.*, 2015).

However, no research to date to the best of our knowledge has attempted to understand and compare the role of bundling strategies in three- and five-stars hotels. Furthermore, no research has attempted to measure and compare customers' price sensitivity of three- and five-stars hotels.

This study adds new theoretical knowledge to the existing literature by investigating price sensitivity considering the star rating (three- and five-stars hotels). Moreover, the results provide information regarding the range of acceptable prices for both hotel typologies (higher in five-star-hotel customers). Managers of hotels may use the mixed-leader bundling to increase their sales and improve revenue, especially in five-star hotels. Managers of three- and five-stars hotels must carefully consider the elements that constitute the bundle. The results show that the restaurant service is more valuable than the massage service.

2. Theoretical framework

2.1 Pricing and price sensitivity

Pricing is one of the most important strategies for firms but also one of the most difficult to define (Collins and Parsa, 2006; Rao and Kartono, 2009). While over-pricing can lead to loss of market share, under-pricing may result in loss of revenue (Danziger *et al.*, 2006). For firms, pricing performs a significant role in revenue and profitability (Dominique-Ferreira *et al.*, 2016; Rodríguez-Algeciras and Talón-Ballestero, 2017).

Price is a multidimensional construct that has a significant impact on consumers' purchasing decisions (Correia *et al.*, 2011; Maderno and Nicolau, 2012; Nicolau, 2009; Petrick, 2005). Price has a dual effect on consumers' decisions (Maderno and Nicolau, 2012): as a constraint; and as a product attribute (Nicolau, 2009). As a constraint, price represents the sacrifice a consumer must make to buy the product and/or service (Nicolau, 2009; Oh, 2003). As an attribute, price represents the level of quality that individuals may expect (Ceylana *et al.*, 2014; Kim *et al.*, 2014; Nicolau, 2009). Knowledge of how consumers respond to price and price changes is essential for firms making decisions concerning the price (Goldsmith and Newell, 1997; Kim *et al.*, 2004). Price is the only element of the marketing-mix that generates direct revenue for a company (Eddin *et al.*, 2013). Even if the other elements are fundamentals for improving sales and, consequently, improving profitability, they are related to expenditures (Eddin *et al.*, 2013). Pricing is also the strategy that can be most easily adjusted in response to market changes (Chen and Chang, 2012).

According to Boz *et al.* (2017), pricing in tourism is a complex phenomenon due to its characteristics and factors, such as perishability of the product, intensive capital investment, high fixed costs, tourists' characteristics and various price sensitivities, the uniqueness of the product, intense market competitiveness and uncertain demand. Due to the complexity of pricing, for managers to set effective pricing strategies, they need to understand and measure consumers' price sensitivities before establishing prices (Kim *et al.*, 2004). As consumers react differently to price, the more managers know about consumer evaluations and reactions to price, the more successfully they achieve their profitability goals (Ramirez and Goldsmith, 2009). A consumer with high price sensitivity will manifest much less demand as price goes up and a consumer with low price sensitivity will not react as strongly to price changes (Goh and Han, 2015; Goldsmith and Newell, 1997).

Each customer has a certain range of price acceptability (Al-Mamun *et al.*, 2014). It is important that managers understand which elements influence consumers price sensitivity (Dominique-Ferreira *et al.*, 2016; Dominique-Ferreira, 2017) to allow them to increase product attractiveness without reducing the price (Ramirez and Goldsmith, 2009). Ramirez and Goldsmith (2009) proposed four elements to measure price sensitivity: brand parity (e.g. Iyer and Muncy, 2005, cited in Dominique-Ferreira *et al.*, 2016); innovativeness (e.g. Aroean and Michaelidou, 2014; Peña *et al.*, 2016; Valls *et al.*, 2012); product involvement (e.g. Seabra *et al.*, 2014); and brand loyalty (e.g. Al-Mamun *et al.*, 2014; Ercis *et al.*, 2012; Fuentes-Medina *et al.*, 2018; Kozak and Martin, 2012; Shu *et al.*, 2015 cited in Galiano *et al.*, 2018). Bundled discounts increase consumer willingness to recommend and repurchase intention (Johnson *et al.*, 1999; O'Loughlin and Szmigin, 2005).

2.1.1 Revenue management. Yield management (YM) and, more recently, revenue management (RM) are pricing techniques that have become popular in the tourism industry in sectors such as airlines, lodging industries, car-rental companies, restaurants, spas, resorts and entertainment events (Cetin *et al.*, 2016). YM appeared first and is a discriminatory pricing procedure that involves setting different prices for different segments of the market to maximise revenue (Kim *et al.*, 2014). RM is seen as a development of, and more strategic than, YM as it is a strategy of selling the right service, to the right client, at the right price, at the right time, using the right channels (Cetin *et al.*, 2016;

Kimes, 2009). RM has become critical for hotels to compete strategically on price (Kimes, 2009). Due to the characteristics of tourism services, such as perishability and intangibility (Abrate and Viglia, 2016; Boz *et al.*, 2017), uncertain market characteristics and fluctuating demand (Hung *et al.*, 2010) and diversity in tourists' price sensitivities, it is difficult to define the optimal pricing strategies in hospitality (Boz *et al.*, 2017).

The development of new technologies enables hotels to maintain their presence globally (Moro *et al.*, 2017) and sell their rooms easily through the online travel agencies. The internet makes hotels' prices more transparent (Nagle *et al.*, 2014) and customers can easily compare the prices offered for similar services (Moro *et al.*, 2017) and they are more informed about products and services alternatives, benefits, qualities and prices (Al-Mamun *et al.*, 2014).

The star rating generally constitutes the reputational variable, although online reviews have recently become more relevant (Abrate *et al.*, 2012; Abrate and Viglia, 2016). The star-rating classification is internationally recognised, from one to five stars (Martin-Fuentes, 2016). It classifies hotels according to national or local governmental law, applying criteria such as infrastructure, services, amenities and the size of the rooms and common spaces (Martin-Fuentes, 2016). The star-rating system has a significant impact on price dispersion and flexible rates (Martin-Fuentes, 2016). Also, star ratings have a significant impact on price levels and quality expected; the higher the star rating, the higher the prices and the quality (Martin-Fuentes, 2016; Zhang *et al.*, 2011).

2.2 Pricing strategies

Setting the optimal price strategy is an important tool but is also a complex and arduous task for managers (Kim *et al.*, 2004). There are few managers that have training in how to make strategic pricing decisions (Nagle *et al.*, 2014), means that many firms make pricing decisions in reaction to market changes (Rao and Kartono, 2009). In the specific case of hospitality, dynamic pricing plays a critical role (Abrate *et al.*, 2019; Viglia *et al.*, 2016). Furthermore, dynamic price variability leads to higher hotel revenues, as well as strategic room unavailability and review ratings (see Abrate *et al.*, 2019).

Therefore, setting the optimal pricing strategies is essential to a firm's long-term success (Danziger *et al.*, 2006). If managers apply the wrong strategy, it can lead to loss of market share and a decrease in profitability (Danziger *et al.*, 2006; Hung *et al.*, 2010). There are many pricing strategies and Noble and Gruca (1999) organised them into four pricing situations: new-product pricing; competitive pricing; cost-based pricing; and product-line pricing. In addition to these strategies, there are many other possible pricing strategies, including break-even pricing, price signalling, image pricing, premium pricing, second-market discount, periodic or random discounts, geographic pricing, perceived value pricing and internet pricing (Rao and Kartono, 2009). Therefore, bundling strategies can play an important role in RM.

2.3 Bundling strategies

Bundling is a pricing strategy applied by some firms that has received growing attention in the marketing literature (Stremersch and Tellis, 2002). Bundling is used in many sectors, including telecommunications, automobile, electronic tools, chemicals, restaurants and travel companies (flights, car hire and accommodation) (Kim *et al.*, 2009).

Given the various and ambiguous definitions, Stremersch and Tellis (2002) presented a new definition: "bundling is the selling of two or more separate products in one package". The term "separate" is innovative in this definition because it integrates selling products and/or services from different markets that can be purchased individually or as packages, e.g. banking and an insurance products or flights and car hire (Stremersch and Tellis, 2002). Stremersch and Tellis (2002) presented a clear between two different bundling strategies:

(1) Product bundling: "as the integration and sale of two or more separate products or services at any price".

(2) Price bundling: "as the sale of two or more separate products in a package at a discount, without any integration of the products".

Managers typically apply two types of price bundling (Adams and Yellen, 1976). First, pure bundling is a strategy in which products are only available in packages at one given price and buyers cannot purchase them individually (Bojamic and Calantone, 1990; Stremersch and Tellis, 2002; Xu *et al.*, 2016). Second, mixed bundling allows customers to purchase the goods either in a bundle or separately (Stremersch and Tellis, 2002) at a discounted price (Bojamic and Calantone, 1990; Xu *et al.*, 2016). Usually, there is a price incentive for purchasing the bundle (Guiltinan, 1987). In the mixed-bundling context, Guiltinan (1987) presents different approaches to mixed bundling: mixed-leader bundling; mixed-joint bundling.

According to Dominique-Ferreira *et al.* (2016), bundling is very important to firms for: price discriminations; cost reduction of trade; and creating entry barriers for competitors. The products that constitute these packages are essential to the bundles' success (Nalebuff, 2004). Both complementary (e.g. a computer and a printer) and substitute (e.g. regular Coca-Cola and Coca-Cola Zero) products may be sold in bundles (Chung *et al.*, 2013).

Bundling benefits firms as well as consumers (Kim *et al.*, 2009). It allows firms to sell products or services they could not sell in other ways (Gourville and Soman, 2001; Kim *et al.*, 2009). Economically, bundling is important for companies because it increases profits by generating more revenue per customer transaction and increasing the frequency of purchases (Mitchell *et al.*, 2013). According to Nagle *et al.* (2014), the key to improving revenue is to create packages with elements that are valued distinctively through different segments, encouraging more customers may purchase the bundles.

Firms sometimes use price bundling as a temporary strategy to adjust products' prices: when managers need to adjust the main product price but are concerned that the adjustment may affect perceived quality, they create a special offer using a bundle with complementary products (Arora, 2008) In the tourism industry, even if customers pay lower prices for bundles, their purchase volume may be profitable, especially during off-peak periods (Nagle *et al.*, 2014).

For consumers, bundling represents a reduction in transaction costs (Harris and Blair, 2006; Tanford *et al.*, 2011) and increased savings (Kwon and Jang, 2011) because, usually, the total cost of purchasing the items separately would be more expensive than the buying them in a bundle (Arora, 2008; Heeler *et al.*, 2007; Yan and Bandyopadhyay, 2011). Bundling alone may not create added value for the consumer, so a discount should be offered to motivate consumers (Stremersch and Tellis, 2002). However, in some cases, a bundle may not offer a discount to the consumer because, in the practice of quantity surcharge, a large package may mean a higher price than a smaller package; here, managers take advantage of the consumer's erroneous reference-price information (Heeler *et al.*, 2007). Other research has demonstrated that bundling increases the purchase likelihood and reduces consumers' price sensitivity (Drumwright, 1992; Gourville and Soman 2001; Stremersch and Tellis, 2002; Yadav, 1994).

Based on the above, this study proposes the following hypotheses:

H1. Mixed-leader bundling decreases price sensitivity in five-star hotels.

H2. Mixed-joint bundling decreases price sensitivity in three-star hotels.

3. Methodology and data analysis

3.1 Study 1

The purpose of Study 1 is to understand and measure price sensitivity in the hospitality market, comparing customers from three- and five-stars hotels. In order to achieve this goal, the van Westendorp's price sensitivity meter (PSM) is applied.

3.1.1 Sample. The sample comprises 90 respondents (44 women and 46 men). Regarding age in years, 12.22 per cent are 20 or less; 50 per cent are between 21 and 30; 24.44 per cent are between 31 and 40; 10 per cent are between 41 and 50; and 3.33 per cent are between 51 and 60.

The profile of hotel-booking habits was also gathered. Only 24 per cent of respondents had not made any reservations in the last 24 months. Of the 68 respondents who made reservations, 50 per cent had made one or two reservations, 32.35 per cent had made between three and five reservations, 10.29 per cent had made between six and nine reservations and 7.35 per cent had made ten or more.

3.1.2 Data collection. The information was collected using an *ad hoc* questionnaire developed specifically for this research, between June and July 2017.

3.1.3 Procedure. Study 1 uses PSM (a psychological-price-modelling tool) to find an acceptable price as a quality indicator based on answering four questions (Lipovetsky *et al.*, 2011):

(1) At what price would you consider this product so expensive that you would not consider buying it? (Too expensive).

(2) At what price would you consider the price of this product so low that you would question its quality? (Too cheap).

(3) At what price would you consider the product is starting to get expensive; not out of the question, but you would need to give some thought to buying it? (Expensive).

(4) At what price would you consider the product to be a bargain; a great buy for the money? (Cheap).

These PSM questions were adjusted for the hospitality setting. The questionnaire was designed to obtain information about pricing for three- and five-star hotels. The questionnaires presented a small description and photos of the selected hotels. As hotels' geographic location influences pricing (Moro *et al.*, 2017; Zhang *et al.*, 2011), as do additional services offered (Abrate and Viglia, 2016), the hotels selected are all located in the same city's periphery and all have a restaurant and a well-being centre as additional services. SPSS software (v. 24) was used to determine the cumulative distributions necessary to graph the responses.

3.1.4 Results. Through the cumulative responses, the results are presented using three graphs. To make sure that curves should intersect in the graphs, the too cheap and cheap respond's cumulative percentages are reversed.

3.1.4.1 Three-stars hotel. Figure 1 shows the PSM results for three-stars hotels. The intersection of the "cheap" and "expensive" distribution curves represents the indifference price point (IPP). In this study, the IPP is €47.00, representing the point where the number of respondents viewing the product as good value equals the number of the respondents viewing it as expensive. The indifference price percentage, the corresponding cumulative distribution percentage at the IPP, is similarly determined (32 per cent). The lower the indifference price percentage, the higher the level of price consciousness (Ceylana *et al.*, 2014; Lewis and Shoemaker, 1997).

The intersection of the reversed "too cheap" and "too expensive" curves defines the optimal price point (OPP), the point where the same percentage of customers feel that the price is too expensive for the quality of the product or service. The OPP is €45.00, representing the price at which resistance (too expensive or too cheap) is smallest. The cumulative percentage at the OPP is 8 per cent, i.e. 92 per cent of participants considers the price (€45.00) neither too expensive nor too cheap.

Finally, the distance between the "point of marginal cheapness" (the intersection of the cumulative distribution of "too cheap" with "expensive") and the "point of marginal expensiveness" (the intersection of the "too expensive" and "cheap" curves) represents the "range of acceptable prices". The point of marginal cheapness is €40.00, and the point of marginal expensiveness is €53.00, giving a range in acceptable prices of €13.00.

3.1.4.2 Five-stars hotel. Figure 2 represents the PSM results for five-star hotels. The IPP here is €98.00 and the indifference price percentage is approximately 26 per cent. The OPP is €99.00 and the cumulative percentage is 9 per cent. The point of marginal cheapness is €87.00, and the point of marginal expensiveness is €117.00, giving a range in acceptable prices of €30.00.

3.2 Study 2

The aim of Study 2 is to study and compare possible differences in the use of bundling strategies in three- and five-star hotels.

3.2.1 Sample. Data were collected from 142 hotel customers (71 women and 71 men). The sample is divided into three- and five-star-hotel customers (70 three-star-hotel customers and 72 five-star-hotel customers). Regarding age in years, 1.4 per cent are 20 or less; 46.5 per cent are between 21 and 30; 30.3 per cent are between 31 and 40; 12.7 per cent are between 41 and 50; 7.7 per cent are between 51 and 60; and 1.4 per cent are 61 or more.

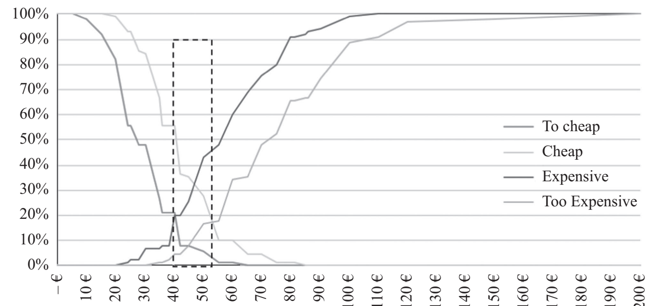

Figure 1.
van Westendorp's price sensitivity meter (three-star hotels)

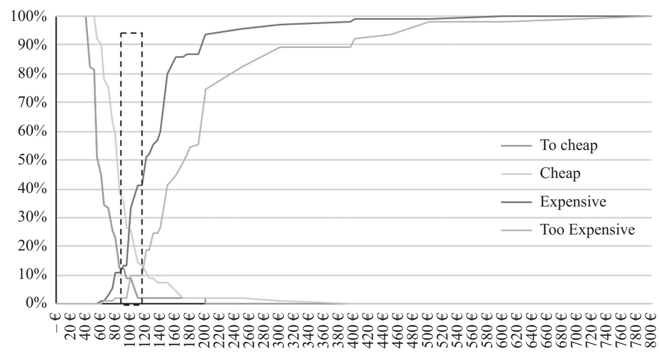

Figure 2.
van Westendorp's price sensitivity meter (five-star hotels)

Regarding booking frequency in the last 24 months, 31.7 per cent made one or two hotel reservations, 30.3 per cent made between three and five, 17.6 per cent made between six and nine; and 20.4 per cent made ten or more.

3.2.2 Data collection. Data were collected using an *ad hoc* questionnaire. As the primary focus of the research is a comparison between three- and five-star hotels, a separate questionnaire was developed for each category. Questionnaires were administered between April and July 2017.

3.2.3 Procedure. Regarding mixed-leader bundling, respondents had to choose between booking just the room at one given price or booking a bundle with a higher price, but with discounts for other services (see Table I for details).

Regarding mixed-joint bundling, respondents had three possible packages offers. The offers for five- and three-star hotels were the same and the prices were adjusted according to the star rating. Respondents had to choose one of the three available packages or none of them. To identify possible statistical differences, the Mann-Whitney *U*-test was performed.

3.2.4 Results. 3.2.4.1 Mixed-leader bundling. The results show statistically significant differences between the booking preferences of three- and five-star-hotels customers. Of the 70 three-star-hotel respondents, only 34.28 per cent preferred the package available while of the 72 five-star-hotel respondents, 68.06 per cent preferred the package offer. This suggests that mixed-leader bundling decreases price sensitivity in five-star-hotel customers. Using Fisher's exact test, we can reject the null hypothesis (Table II). Thus, *H1* is supported.

3.2.4.2 Mixed-joint bundling. For three-stars hotels, 40 per cent of respondents chose Pack 1, 10 per cent Pack 2, 22.86 per cent Pack 3 and 27.14 per cent none of the available packs. For five-stars hotel, the figures were 37.5 per cent, 11.11 per cent, 38.89 per cent and 12.5 per cent, respectively. A Mann-Whitney *U*-test (significance = 2,378.500) was performed, and the results indicated statistically significant differences ($p = 0.000$).

Considering the 114 respondents who considered booking one of the three available packages (Mann-Whitney *U*-test (significance = 1,379.00)), the results demonstrate statistically significant differences ($p = 0.012$). Additionally, the respondents had to

	Package	Room
	Bed and breakfast 15% Discount in the spa 10% Discount in the restaurant	Bed and Breakfast
Three-star hotel	€65.00	€50.00
Five-star hotel	€235.00	€220.00

Table I.
Description of options

χ^2 tests	Value	df	Asymptotic significance (2-sided)	Exact sig (2-sided)	Exact sig (1-sided)	Point probability
Pearson χ^{2a}	16.203	1	0.000	0.000	0.000	
Continuity correction[b]	14.880	1	0.000			
Likelihood ratio	16.525	1	0.000	0.000	0.000	
Fisher's exact test				0.000	0.000	
Linear-by-linear association	16.089[c]	1	0.000	0.000	0.000	0.000
No. of valid cases	142					

Notes: [a]0 cells (0 per cent) have an expected value less than 5. The minimum expected count is 34.01; [b]computed only for a 2×2 table; [c]the standardized statistic is −4.011

Table II.
Fisher's exact tests (*H1* is supported, i.e. mixed-leader bundling decreases price sensitivity in five-star hotels)

answer regarding the probability of buying each presented package. A five-point Likert scale was employed (1 = totally improbable; 5 = totally probable).

Table III shows respondents' probability of package purchasing for three-star hotels. From the mean results, Package 1 is the most likely to be bought and Package 2 is the least attractive. The variance values related to the choice of Packages 1 and 2 is much more uniform on three-star-hotel customers ($\text{Variance}_{\text{Pack1}} = 1.584$, vs $\text{Variance}_{\text{Pack1}} = 1.576$; $\text{Variance}_{\text{Pack1}} = 1.881$).

Using the rule of thumb for the skewness values, we can conclude that the data are fairly symmetrical. It is possible to observe a low kurtosis, i.e., a lack of outliers. Furthermore, it is possible to perceive that the kurtosis is platykurtic.

Five-stars hotel results (Table IV) show that Package 1 is also the most attractive although Package 3 has a similar purchase probability. As in the three-star-hotels' results, Package 2 has the smallest purchase probability.

The variance values related to the choice of Packages 2 and 3 is much more uniform on five-star-hotel customers ($\text{Variance}_{\text{Pack2}} = 1.468$, and $\text{Variance}_{\text{Pack3}} = 1.791$ vs $\text{Variance}_{\text{Pack1}} = 1.877$).

In the case of five-star-hotel customers, we can conclude by the skewness values that the data are rather symmetrical. It is possible to observe a low kurtosis, i.e., a lack of outliers. Furthermore, it is possible to perceive that the kurtosis is platykurtic.

Respondents were asked to state their preference only between Packages 1 and 3. Package 1 is the least expensive and Package 3 the most expensive. Results show that approximately 59.86 per cent of the total number of respondents prefers Package 1 (68.75 per cent of the three-star-hotel respondents and 51.39 per cent of five-star-hotel respondents).

4. Discussion

Defining the optimal price and recognising the elements that affect customers' price sensitivity are critical issues for hotel managers. Several elements influence the hotels' room rates, such as the star rating, location, facilities, brand image, etc. In this study, only the star rating is considered as a price-influencing factor to analyse differences in price sensitivity and the effect of bundling strategies between three- and five-star hotels.

In the hotel industry, the star rating is universally recognised as a quality indicator for consumers (Martin-Fuentes, 2016; Zhang *et al.*, 2011). The results demonstrate that the higher the star rating, the higher the prices (similar to the results of Martin-Fuentes, 2016; Zhang *et al.*, 2011).

Table III.
Package purchase probability for three-star hotels

Three-star-hotels	Pack 1	Pack 2	Pack 3
Mean	3.19	2.21	2.47
SD	1.277	1.261	1.391
Variance	1.584	1.576	1.881
Skewness	−0.471	0,306	0.302
Kurtosis	−0.666	−1.101	−1.183

Table IV.
Package purchase probability for five-star hotels

Five-stars hotels	Pack 1	Pack 2	Pack 3
Mean	3.21	2.56	3.19
SD	1.342	1.149	1.360
Variance	1.877	1.468	1.791
Skewness	−0.396	−0.238	−0.525
Kurtosis	−0.816	−0.824	−0.639

In Study 1, the range of acceptable prices reveals that five-star hotels had a higher range of acceptable prices (€30.00) than three-star hotel (€13.00). Therefore, higher star ratings allow hotels a higher dispersion of prices (in line with Martin-Fuentes, 2016).

Without comparable studies, we cannot conclude whether these are large or small ranges for each hotel typology. However, according to Lewis and Shoemaker (1997), the smaller the range of prices is, the higher the price sensitivity. Thus, one can assert that the three-star-hotel customers are more price-sensitive than five-star-hotel customers.

For three-star hotels, the IPP is €47.00 and the OPP €45.00, indicating some stress over price in the market since the price that they would most like to pay (OPP) is lower than the price they perceive as cheap (IPP).

For five-star hotels, the IPP is €98.00 and the OPP €99.00, which are very close. According to Raab *et al.* (2009), the closeness between the IPP and the OPP represents respondents' lower price consciousness (in line with the results of Harris and Blair, 2006; Nagle *et al.*, 2014; Dominique-Ferreira *et al.*, 2016).

Setting the optimal pricing strategy is crucial for firms to increase their profitability. Managers can use many pricing strategies, including bundling strategy, and Study 2 investigates both mixed-leader-bundling and mixed-joint-bundling strategies. The mixed-leader results reveal statistically significant differences between the hotel typologies. According to Yan and Bandyopadhyay (2011), consumers are willing to pay a higher price for a bundle. These results confirm that consumers of five-stars hotel are willing to pay more for a bundling than the regular price of the main service (in this case, the room). Thus, this bundling strategy reduces five-star-hotel customers' price sensitivity, in line with Drumwright (1992), Tellis and Gaeth (1990) and Yadav (1994). However, this is not the case for three-star-hotel customers, as they prefer to pay the regular room price, regardless of possible bundle discounts.

The results demonstrate that the mixed-leader bundling is more attractive to five-star-hotel customers. The higher price of the luxury hotels' services might explain this attractiveness of mixed-leader bundling for five-star-hotel customers as the discount they obtain could significantly outweigh the extra cost. Facilities in three-star hotels, however, are cheaper, and the discount that customers get might not compensate the extra cost. According to the results, one can state that the discount offered motivated five-star-hotel customers to purchase the bundling offer, in line with Stremersch and Tellis (2002).

Results for mixed-joint bundling show that 80.3 per cent of respondents would accept the proposed bundles, with the main product being the room and dinner and massage the services of that would receive the discount. For consumers, bundling can be considered as a means of obtaining a price reduction (Harris and Blair, 2006). Therefore, in this context, the higher acceptance of the bundle offer suggests that consumers understand bundling as a purchase with associated savings and positive (in line with Repetti *et al.*, 2015).

Regarding price sensitivity, results suggest that five-star-hotel customers are less price-sensitive than three-star-hotel customers, in line with Gourville and Soman (2001), Drumwright (1992), Tellis and Gaeth (1990) and Yadav (1994) (cited in Stremersch and Tellis, 2002). Package 1 is the cheaper package and has the highest purchase probability (mean = 3.19), since 40 per cent of three-star-hotel customers would choose this package. However, five-star-hotel customers have a similar purchase probability for Package 1 (mean = 3.21) and Package 3 (mean = 3.19). This demonstrates that five-star-hotel customers are less price-sensitive. Related to *H2*, mixed-joint bundling decreases price sensitivity. However, it has a greater impact on five-star-hotel customers than on three-star-hotel customers.

Regarding bundling success, price plays a significant role. However, for success, managers should also pay attention to the elements to be included, as they should be valuable for consumers (Nagle *et al.*, 2014). Package 2 is the least attractive in both hotel typologies, supporting the importance of the elements that constitute the bundling for its success. Even if significant statistical differences are not achieved, the results demonstrate that firms may be likely to be more successful in increasing their revenue through bundling strategies than by merely increasing prices, in line with Dominique-Ferreira *et al.* (2016).

5. Implications for hospitality management

5.1 Theoretical implications

In recent decades, different studies have been conducted to examine how managers should set prices. The existing theoretical framework examines the elements that affect consumers' perceptions of price and price sensitivity. However, this study adds new knowledge to the existing literature by investigating price sensitivity considering the star rating, specifically of three- and five-stars hotels. Moreover, the results provide information regarding the range of acceptable prices for both hotel typologies. Notably, five-star-hotel customers have a greater range than three-star-hotel customers.

Another contribution of this research relates to bundling strategy. Bundling has also received special attention in the marketing literature (Stremersch and Tellis, 2002; Dominique-Ferreira *et al.*, 2016; Dominique-Ferreira, 2017). This research specifically examined price-bundling strategy by investigating the effect of mixed-leader and mixed-joint bundling in the hospitality industry. The findings provide new knowledge related to the impact of different strategies on three- and five-star-hotel customers.

The results show the importance of mixed-leader bundling in reducing consumers' price sensitivity, which is important in generating revenue. The findings add new knowledge by demonstrating the impact of mixed-leader bundling in decreasing five-star-hotel customers' price sensitivity (in line with Kim *et al.*, 2009; Chung *et al.*, 2013; Mitchell *et al.*, 2013; Dominique-Ferreira *et al.*, 2016; Xu *et al.*, 2017). Results also demonstrate the impact that the elements of the bundle have in bundling success and which elements each hotel typology valued most.

5.2 Managerial implications

Pricing has a critical role in the hospitality industry as it has a direct impact on profitability and demand. Hotel managers must understand consumers' price sensitivity to achieve their profitability goals. The results of this study provide useful information on consumers' price sensitivity for three- and five-star-hotel customers.

First, the results of Study 1 reveal that three-star-hotel customers are more sensitive to price changes than five-star-hotel customers. When setting or increasing prices, managers of three-star hotel should do so carefully as their customers are very price-sensitive. However, five-star-hotel customers have a larger range of acceptable prices, so managers can increase prices with less risk of losing market share.

In Study 2, mixed-leader bundling proves to be an effective strategy for five-star-hotel customers. Managers of luxury hotels may use the mixed-leader strategy to increase their sales and improve revenue. Even if this strategy has a lower acceptance in three-star hotels, this does not mean that managers should reject it. Manager may use this strategy to satisfy other customer segments; however, they need to create other strategies that can generate more revenue.

Mixed-joint bundling impacts revenue generation in both hotel typologies. Based on the results, five-star-hotel managers may design bundles with various elements. Even if this increases the prices considerably compared to the room only, customers will consider purchasing them if they are perceived as valuable. Three-star-hotel managers, however, need to carefully design their offers as consumers are more price-sensitive regarding additional services.

Managers in both hotel typologies must carefully consider the elements that constitute the bundle. The results demonstrate that the restaurant service was more valuable than the massage service. Thus, managers may perceive that some services are more valuable to customers than others and are fundamental to the success of the bundle offer.

6. Limitations and further research

The small size of both samples is the main limitation in better determining customers' price sensitivity and the effects of bundling strategies. Future research needs a larger sample to make more general conclusions. Furthermore, in order to overcome the limitations from direct questioning since it is not optimal for customers who will tend to stick to low prices, authors suggest using an experimental approach.

A limitation in Study 1 is that the respondents answered only based on the star rating, the location and the available services of each hotel, which makes obtaining definitive answers difficult. It was also difficult to obtain optimal prices from the respondents because they might not be predisposed to actually indicating the price they actually consider right (Hung *et al.*, 2010).

It would be interesting, therefore, to extend the questionnaires to other countries, especially with an increased sample size that included international tourists, to compare national and international tourists and understand their different price sensitivities.

It would also be valuable to include other elements that affect consumers' price sensitivity, e.g. brand prestige, online reviews, etc., as well as analysing the answers according to the consumer segment and their past booking habits, because some of the respondents may have no price reference for three- and five-star hotels. Furthermore, it would be important to consider other dimensions, such as brand parity, innovativeness, product involvement and brand equity.

The restricted months in which the questionnaires were administered resulted in a small number of international tourists. To distinguish the impact of bundling according to nationality, an increased sample size, including international tourists would be needed. It would be thus possible to support managers in creating bundling offers according to the desired market (national and/or international).

The customers received only the total package prices with the associated cost savings. Even if the respondents had access to the regular price of services during their stay, they may not have seen them before answering the questionnaires. To gain a better understanding of the results of both studies, therefore, it would be worthwhile including restaurant and spa regular prices in the questionnaire.

Further investigations would be also be of value to assess which complementary services hotel customers identified as more valuable to help managers design bundles attractive to more customers. It would also be important to simultaneously test the impact of intertemporal price discrimination. Finally, as only three- and five-star hotels were studied, extending the same methodologies to other hotel segments are recommended.

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How corporate governance and ownership affect banks' risk-taking in the MENA countries?

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Abstract

Purpose – The purpose of this paper is to explore the relationship between corporate governance and risk-taking behaviour of banks operating in the Middle East and North African (MENA) countries.
Design/methodology/approach – In doing so, the authors use a data set covering 165 banks located in 13 MENA countries over the period 2005–2012 and apply dynamic panel data methodology.
Findings – The results show that good governance acting in the interests of shareholders could lead to excessive risk taking; in this sense, a conflict of interest between the stakeholders, interested in the solvency of the financial system, and shareholders, trying to maximise their benefit, may occur. The greater risk can be reinforced by the governance of the country and a strong macro governance framework can incentivise a higher risk exposure in banks, showing the influence of bank regulation and law enforcement on the risks taken by banks.
Originality/value – To the best of the authors' knowledge, this is the first paper showing that corporate governance is relevant for explaining risk taking at the country and bank levels in MENA countries.

Keywords Banks, Corporate governance, Ownership, Risk taking, Property rights

Paper type Research paper

1. Introduction

Current governance practices are based on the principle that corporate governance mechanisms are designed to protect shareholders' interests through the control of managers' decisions (Becht *et al.*, 2011; Mehran *et al.*, 2011; Srivastav and Hagendorff, 2016). Under shareholder-oriented governance (SOG), it is expected that banks take on a higher level of risk with the aim of maximising their profits and in turn the returns for shareholders, thereby increasing their probability of financial distress. Moreover, such gambles have historically been linked to long-term economic growth (Barro, 1991; De Long and Summers, 1991). Nevertheless, in the case of the banking sector, the recent financial crisis showed the need to control bank dealings such as these more effectively by improving corporate governance mechanisms (Basel Committee on Banking Supervision, 2014; Federal Reserve System *et al.*, 2010). At the same time, Garriga (2017) shows that in countries which delay applying prudential regulations, banks are less cautious. Thus, it seems necessary to design new governance control mechanisms which take the interests of other stakeholders into consideration so as to lower the chances of failure more effectively (Srivastav and Hagendorff, 2016). At the same time, it is necessary to consider country-level governance and regulation because a macro governance framework can act as a substitute for

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corporate governance at the firm level (Berglof, 2011; Safiullah and Shamsuddin, 2018). Recently, Haque (2019) investigates how ownership structure and bank regulations influence risk taking in the Middle East and North African (MENA) region. However, little is known about the interaction between either firm- or country-level dimensions.

In this paper, we analyse the effect of governance at the country and firm level, and ownership on banks' exposure in the MENA countries. The special interest arises from the fact that in this area there are banks operating in some countries under risky environments and, in general, with varying standards of governance, investor protection and ownership (Otero *et al.*, 2017; González *et al.*, 2017). Another curious feature is the presence of Islamic banks (Daher *et al.*, 2015), these being different from conventional ones in terms of sources and uses of funds. For example, Islamic banks constitute 17 per cent of the market share in the United Arab Emirates, 53 per cent in Saudi Arabia and 24 per cent in Qatar (World Islamic Banking Competitiveness Report, 2013–2014).

In this regard, there is a gap in the literature regarding the effect of the "macro" governance system and their "micro" mechanisms on banks´ risk taking in countries with risky environments and different economic and financial conditions, like in the MENA region.

This paper contributes to the existing literature in several important ways. As far as we know, this is one of the few papers that have shown that corporate governance is relevant, explaining exposure at the country and bank levels in MENA countries. More specifically, we consider an index at the firm level, proposed by Lel (2012), to be a measure of SOG. In addition to the firm-level features of banks, we have also considered country governance, in line with Aggarwal *et al.* (2011) and Berglof (2011), who explained the importance of considering the interdependence between the "macro" system and its "micro" level. Property rights and the presence of multiple large shareholders like families, institutional investors and institutions are also considered, in line with Boubaker *et al.* (2016). The focus on MENA countries is another contribution of the paper. As we mentioned, research on the effect of corporate governance on banks' risk taking has traditionally paid little attention to emerging countries, except some contributions like Srairi (2013) and Haque (2019), which are more focussed on ownership and regulation. Moreover, our results could be a guide for bank regulators and supervisors.

Our results support the necessity of taking the country-level governance into account because a global framework can act as a substitute for corporate governance at the firm level. Additionally, a policy acting in the interests of shareholders could lead to looser investment rules. In terms of ownership, we found that banks with high state ownership or institutional investors´ stakes take more risks. Finally, Islamic banks are greater risk takers than their conventional counterparts.

The structure of this paper is organised as follows: after this introduction, Section 2 discusses the pertinent theoretical and empirical reviews, as well as the conceptual framework while developing corresponding hypotheses; Section 3 presents the data source and describes the methodologies used in the paper; and Section 4 explains the descriptive and empirical analysis. Finally, the main conclusions are presented.

2. Related literature and hypotheses development

Corporate governance at the bank level

Banks have a set of mechanisms to control management in order to protect their interests. Under the agency theory (Jensen and Meckling, 1976), managers are expected to be less willing to take risks because they may care more about their reputation and job security (Angkinand and Wihlborg, 2010). Banks usually adopt a SOG. This implies that shareholders' objectives have a heavy influence on managers' incentives and their structures try to protect the shareholders' interests (Srivastav and Hagendorff, 2016; Orozco *et al.*, 2018). As a result, if bank governance is shareholder-oriented, it is expected for the company to accept a higher level of risk to maximise the profits and returns. But the alignment of interests between managers and shareholders can result in higher risk taking at the expense of creditors and taxpayers (the risk-shifting problem), as John *et al.* (2001) recognise. Bolton *et al.* (2015) show that shareholders do not have incentives to control risk taking in order to take advantage of government guarantees. We propose the following hypothesis based on the above explanation:

H1. Shareholder-oriented corporate governance has a positive effect on banks' risk taking.

The nature of ownership influences bank performance and risk taking. According to traditional corporate governance literature, the largest blockholders make the most of their power to obtain the private benefits available to them (Kumar and Zattoni, 2017). Previous research establishes a relationship between the way the bank is organised and its risk-taking behaviour (Cordell *et al.*, 1993; García-Marco and Robles-Fernández, 2008). Iannotta *et al.* (2007) shows that government-owned or controlled banks usually pursue industrial policies and provide loans that may not be profitable enough for the private sector. According to Berger *et al.* (2005), Cornett *et al.* (2010) and Iannotta *et al.* (2007), state-owned banks have poorer loan quality and higher default risk than privately-owned banks. This is consistent with the view that government-owned banks are run by political bureaucrats and their decisions are dictated by political interests (Iannotta *et al.*, 2007). Eichler and Sobański (2012) argue that state ownership increases the moral hazard incentives of banks:

H2. State ownership has a positive effect on banks' risk taking.

Family firms may avoid risk taking because their main objective is to transfer the control of a firm to their next of kin. As Gomez-Mejia *et al.* (2007) explain, family owners take into account not only financial interests but also non-economic goals like identity, reputation (Berrone *et al.*, 2012), employment for family members (Kellermanns *et al.*, 2008) and a long-term view that involves the transmission of the business to future generations and the perpetuation of the family dynasty (Wilson *et al.*, 2013). Consequently, they put more interest in firm survival rather than in wealth maximisation. As a result, family firms only make risky investments when it is important to sustain the firm in the future (Miralles-Marcelo *et al.*, 2014) and, in general, they present a lower level of long-term investment compared to non-family firms (Anderson *et al.*, 2012; Miller *et al.*, 2011). The results of Srairi (2013) reveal that family-owned banks appear to assume lower-level risks. The results suggest that Islamic family banks have a lower level of credit risk compared to conventional or commercial banks. Additionally, it shows that conventional family banks tend to have relatively higher levels of credit risk compared to Islamic family banks. However, other studies (Laeven, 1999; Nguyen, 2011; Villalonga and Amit, 2006) found that family-controlled banks are associated with significantly higher risk:

H3. Family ownership has a negative effect on banks' risk taking.

Institutional investors tend to be active participants in a corporation's governance; they can monitor a firm's strategies to ensure responsiveness and exercise significant voting power, and they can exert a significant positive influence over risk taking. The presence of institutional investors and venture capital firms were found to exert pressure on family managers to take on more risk to enhance performance (George *et al.*, 2005). In contrast, Setiyono and Tarazi (2014) argue that the presence of institutional investors as a second stage block holder tends to reduce risk taking and improve performance. Stemming from previous arguments, we propose the following hypothesis:

H4. Institutional ownership has a positive effect on banks' risk taking.

Corporate governance at the country level

Country-level governance reflects the quality of each environment, which affects its standard at the firm level. A strong macro governance framework can act as a substitute for corporate governance at said level (Berglof, 2011). Ben Naceur and Omran (2011) pointed out that law enforcement significantly affects a bank's performance and risk. The protection of shareholders by the legal system should not be overlooked and shareholders' rights are a measure of their legal protection in any country (Srairi, 2013). The banking theory suggests that effective legal shareholder protection serves as a substitute for the existence of a large shareholder monitoring management (Magalhaes *et al.*, 2010) and affects owners' ability to adjust bank risk (Laeven and Levine, 2009). However, the relationship between investor protection and risk taking is still controversial. Even though a positive association has been found by many authors (Paligorova, 2010; Roe, 2003; Stulz, 2005; Tirole, 2001), there is also evidence of a negative one between investor protection and risk taking (Burkart *et al.*, 2003; John *et al.*, 2008; Morck and Steier, 2005; Shleifer and Vishny, 1986; Stulz, 2005); consequently, based on previous literature, we propose the following hypotheses:

H5. Country-level governance has a positive effect on MENA banks' risk taking.

Deposit insurance

Deposit insurance can stimulate moral hazards, and bank managers may be encouraged to take more risks in the hope of gaining higher profits, since they know that in the case of a default, a large part of the bank's debts will be covered by it. In addition, it may exacerbate agency problems, since it increases the shareholders' incentive to engage in excessive risk taking (Macey and O'Hara, 2003; Prowse, 1997). Such behaviour implies a wealth transfer from creditors to shareholders (Angkinand and Wihlborg, 2010). Based on the above discussion, our hypothesis is as follows:

H6. Deposit insurance has a positive effect on banks' risk taking.

Islamic vs conventional banks

The distinct nature of the relationship with clients and the different kinds of financing and investing activities on offer entails unique risks for Islamic banks which arise from the specific features of Islamic contracts: *Shariah* non-compliance risk, rate-of-return risk, displaced-commercial risk, equity-investment risk and inventory risk (Helmy, 2012). According to the agency theory, an Islamic bank acts as an agent in that it invests depositors' funds, while the latter are the principals. The moral hazard problem arising from this relationship will give the bank an incentive to increase exposure (Bashir, 1999). Safiullah and Shamsuddin (2018) indicate that Islamic banks operate under a set of prohibitions, and internal governance mechanisms (*Shariah* supervisory board), which can lead to differences in behaviour between Islamic and conventional banks. At the moment, the findings are mixed. In this sense, Srairi (2013) found that state-owned Islamic banks tend to be more stable than state-owned conventional banks. Islamic banks have less exposure to credit risk than conventional banks. Abedifar *et al.* (2013) and Mollah *et al.* (2017) found that Islamic default risk is not different from that of conventional banks. Čihák and Hesse (2010) and Beck *et al.* (2013) found that large conventional banks tend to be more stable than large Islamic banks.

These arguments lead us to propose the following hypothesis:

H7. Being an Islamic bank has a positive effect on banks' risk-taking.

Table I summarises the hypotheses considered in this paper.

3. Data and methodology

The sample

Data were collected at the bank level from BankScope International Bank Database for the period of 2005–2012, and hand-collected from the annual reports of banks from their public websites. At the country level, we obtained data from different sources: the Access Database

Argument	Hypothesis
Corporate governance bank level	
H1	Shareholder-oriented corporate governance has a positive effect on banks' risk taking
H2	State ownership has a positive effect on banks' risk taking
H3	Family ownership has a negative effect on banks' risk taking
H4	Institutional ownership has a positive effect on banks' risk taking
Governance country level	
H5	Corporate governance at the bank level has a positive effect on banks' risk taking
The moral hazard	
H6	Deposit insurance has a positive effect on banks' risk taking
Islamic vs conventional banks	
H7	Being an Islamic bank has a positive effect on banks' risk-taking

Table I.
Proposed and tested hypotheses

of the World Bank, Heritage Foundation's Index of Economic Freedom, World Governance Indicators (WGIs) compiled by the World Bank, the worldwide database on deposit insurance (Demirgüç-Kunt *et al.*, 2005), the IFC Doing Business Database and the International Financial Statistics provided online by the IMF. The data sample comprised 165 banks gathered from MENA countries classified as pure conventional banks (106), pure Islamic banks (48) and mixed-banks (11), which present both conventional and Islamic banking services. The final sample contains about 1,320 bank-year observations from 13 countries, and it is a balanced panel set of 165 banks.

Variables

Our primary measure of bank risk taking (the dependent variable) is *Z*-score. The *Z*-score has become a popular measure of bank soundness (see e.g. Boyd and Graham, 1986; Boyd and Runkle, 1993; Čihák and Hesse, 2010; Worrell *et al.*, 2007; Otero *et al.*, 2016). A higher *Z*-score indicates that the bank is less risky. This measure is calculated as:

$$Z \equiv (\mu + k)/\sigma,$$

where μ is the return on average assets (ROAA), k is the balance of capital relative to the total assets of the entity (equity/total assets) and σ is the standard deviation (volatility) of the ROAA.

As proxies for country-level governance, we used the indicators obtained from the WGIs like in the studies of Beltratti and Stulz (2009), Čihák and Hesse (2010), Erkens *et al.* (2012) and Kaufmann *et al.* (2009). The WGI measures the quality of governance provided by a large number of enterprises, citizens and experts. We follow Kaufmann *et al.* (1999) and consider the mean of the six variables for each country[1].

For the firm-level governance, or corporate governance firm level (CGFL), we follow Lel (2012) in measuring the firm-level internal governance index. This index is comprised of seven widely-used governance measures hand-collected from the banks´ annual reports[2].

Following Chang (1998), we define a block holder or large shareholders as a beneficial owner of 5 per cent or more of the outstanding shares. This index ranges from 0 to 7. Consistent with the literature, it is expected that the extent of managerial monitoring increases the values of this index. For measuring the property rights (ProRigIndex), we follow Hassan *et al.* (2011), who used these from the Heritage Economic Freedom Index to measure country-level investor protection and construct the variable with this name. To measure the ownership structure (owners' nature and identity), we constructed a set of variables by hand-collecting data from annual reports. Blockholders are shareholders that own at least 5 per cent of a company's total outstanding shares. We also considered the presence of large blockholders

(Largeblock) when there were at least two important owners. For measuring the Islamic Banks (Islbank), we used a dummy variable, which has a value of 1 when a bank is Islamic and 0 if it provides conventional banking services. Another variable is the ratio of the deposit insurance coverage limit per capita GDP (DIClim) expressed as a percentage and based on the statutory coverage limit (Demirgüç-Kunt *et al.*, 2014; Barth *et al.*, 2006). Concerning control (macroeconomic) variables, we included GDP growth (GDPgrowth). Regarding firm level control variables, we controlled for various traditional bank characteristics that can affect their levels of risk taking, such as firm size (Logtotass), growth gross loans (GrowGroLoans), net loans (NetLoanTotA), efficiency (CosToInc) and capital (EquAss) (Table II).

Descriptive analysis

Table III provides the descriptive statistics for the main variables used in the regressions. We have obtained around 1,320 bank-year observations using the natural logarithm of *Z*-score in the regressions because its distribution is highly skewed. An average bank in the sample

Variable	Prediction *Z*-score	Definition	Source
Dependent variables			
Total Risk of default [*Z*-score]	Dependent variable	Ratio of the sum of equity capital to total assets and ROAA regarding the standard deviation of ROAA (sdROAA)	Bankscope, authors' calculation
Explanatory variables			
Islamic bank [Islbank]	+/−	Dummy takes the value 1 if the bank is Islamic	Bankscope, authors' calculation
Corporate governance at firm level [CGFL]	−	Sum seven widely-used governance measures	Authors' calculation from Annual Reports
Governance country level [WGI]	−	Quality of governance at the country level	World Bank
Property Rights Index [ProRigIndex]	−	Property rights protection	Heritage economic freedom index
Family ownership [BanImpFamSt]	+	Dummy takes the value 1 if the bank has an important family stake	Authors' calculation from Annual Reports
Government ownership [BanImpGovSt]	−	Dummy takes the value 1 if the bank has an important government stake	Authors' calculation from Annual Reports
Institutional ownership [BankImpInsInvSt]	−	Dummy takes the value 1 if the bank has an important institutional stake	Authors' calculation from Annual Reports
Large blockholders [Largeblock]	−	Dummy takes the value 1 if the bank has at least two important owners	Authors' calculation from Annual Reports
Deposit insurance [DIClim/GDPperCapita]	−	Statutory coverage limit expressed as a percentage	Authors' calculation from IMF
Control variables			
Equity ratio [EquAss]	+	Equity/total assets ratio	Bankscope
Growth of loans [GrowGroLoans]	−	Annual loan growth rate	Bankscope
Bank size [Logtotass]	−	Logarithm of total assets; controls for bank's size	Bankscope
Extent of bank's lending [NetLoanTotA]	−	Net loans/total assets; control for extent of bank's involvement in lending activity	Bankscope
Eficiency ratio [CosToInc]	−	Cost/Income	Bankscope
GDP growth as macroeconomics variable [GDPgrowth]	−	Annual GDP growth rate	International Monetary Fund (IMF) database
Years [Year]		Year dummies	

Table II. Summary of variables and predictions

Variable	Obs.	Mean	SD	Min.	Max.
Bank level					
Z-score	1,203	24.39	25.26	−7.76	238.36
LogZscore	1,196	2.82	0.91	−2.08	5.47
CGFL	1,319	5.80	0.75	4	7
BanImpFamSt	1,320	0.34	0.47	0	1
BanImpGovSt	1,320	0.22	0.41	0	1
BanImpInsInvSt	1,320	0.86	0.35	0	1
IslBank	1,224	0.32	0.47	0	1
TotAss (mil)	1,203	8,355.31	13,894.40	28.35	100,784.00
NetLoaTotA (%)	1,137	44.30	21.51	0	98.19
CosToInc (%)	1,111	46.02	18.36	15.69	120
GrowGroLoa (%)	1,037	17.98	25.55	−39.31	126.88
EquAss (%)	1,203	0.22	0.21	0.1	0.99
Country level					
WGI	1,320	−0.19	0.62	−1.62	0.79
ProRigIndex	1,064	46.94	12.79	10	70
DIClim/GDP per capita (time)	640	3.67	5.23	0.32	36.24
GDPgro (%)	1,306	5.54	7.93	−62.08	104.48
GDPperCap ($)	1,306	22,280.17	22,376.16	751.42	99,731.10
Infl (%)	1,306	6.13	5.59	−4.87	35.55

Source: Authors' calculations based on BankScope data, annual reports, WGIs, Property Rights from Heritage Economic Freedom Index and IMF publications

Table III.
Descriptive statistics of main regression variables

has a logZscore of 2.82, similar to Anginer *et al.* (2014). CGFL shows that the banks in our sample have a high score and on average are shareholder-oriented. WGI is a variable obtained from the Worldwide Governance Indicators as a country-level governance measure. Its average value is −0.19, with a standard deviation of 0.62, which shows that there are many differences between countries. The same happens with the Property Rights Index (PRI), with values ranging between 10 and 70. This reflects the differences across countries in the main pillars included in the index, like the rule of law, regulatory efficiency and open markets. Important differences can be seen in deposit insurance coverage levels. In addition, in 34 per cent of the sample, the presence of family or state ownership is of note, since, in 22 per cent of the sample, public participation is significant. Moreover, institutional investors have a strong presence (86 per cent). What is more, the presence of Islamic banks in the whole sample is worthy of mention (32 per cent), although with sharp differences among countries. This situation arises because, in some countries, all the banks are Islamic (such as Iran and Sudan), whereas in other cases, like in Saudi Arabia, they are both conventional and Islamic. Finally, there are some nation states without any Islamic banks, like in Lebanon and Libya.

Cross-country comparisons of fundamental variables are listed in Table IV. Concerning the governance at the country level, most of the Arab Spring countries have a negative WGI (Egypt, Libya and Syria), whereas most of the Arab Gulf countries have a positive index value (Bahrain, Kuwait, Oman, Qatar and Emirates), Saudi Arabia being an exception. Regarding the CGFL, Saudi Arabia has the highest score, with 6.5, and Libya has the lowest, with 5, while the values of the remaining countries fell between these two parameters. The different scores for Saudi Arabia between GCL and CGFL are consistent with the Berg and Di Benedetta (2009) report on the corporate governance country assessment for Saudi Arabia (2009), where many of the laws and regulations are still comparatively new and untested. In addition, the PRI (ProRigIndex) shows that Bahrain has the highest score with 62 and Libya and Iran are in the joint last position. Finally, seven countries do not have a deposit insurance system. There are a high percentage of banks with important family

Country	WGI	CGFL	Property rights	Deposit insurance	Family	Government	Institutional
Bahrain	0.090	5.745	62.143	1.841	0.35	0.15	0.81
Egypt	−0.393	5.605	42.143	–	0.21	0.21	0.89
Iran	−1.074	5.688	10	–	–	0.50	0.50
Jordan	−0.020	6.008	52.857	7.045	0.44	–	0.94
Kuwait	0.181	6.078	50.714	–	0.13	0.13	1.00
Lebanon	−0.664	5.250	29.286	0.431	0.75	0.08	0.75
Libya	−1.038	5	10	20.928	0.00	1.00	0.25
Oman	0.228	6.111	50	2.946	0.44	0.11	0.89
Qatar	0.589	5.800	55	–	0.10	0.30	0.90
Saudi Arabia	−0.353	6.505	46.429	–	0.17	0.00	0.92
Sudan	−1.564	5.538	–	1.373	0.31	0.54	0.85
Syria	−1.040	6	30	–	0.57	0.14	1.00
Emirates	0.494	5.737	46.429	–	0.53	0.42	0.84

Source: Authors' calculations based on BankScope data, annual reports, the Worldwide Governance Indicators (WGI), Property Rights from Heritage Economic Freedom Index, IMF publications

Table IV. Corporate governance shareholder rights and deposit insurance by country

stakes in countries like Lebanon, Syria, Emirates, Qatar and Jordan, while none of the Iranian and Libyan banks in the sample have any important family stakes. In turn, all Libyan banks have a noteworthy government share, while Jordanian ones reflect the opposite case. In addition, about half of the banks in the Emirates and Sudan have a considerable government ownership share. Finally, in Kuwait and Syria, all banks have an institutional investor, which is also common in most of the other countries.

Methodology

The Generalised Method of Moments (GMM) estimation was formalised by Hansen (1982) and became one of the most widely-used techniques in testing empirical economic and financial models. The GMM estimators developed by Arellano and Bond (1991), Arellano and Bover (1995), Blundell and Bond (1998) and Holtz-Eakin *et al.* (1988) are designed for samples with "small T, large N" panels such as ours. In addition, dynamic models are useful when the dependent variable depends on its past values as is the case with liquidity transformation. System GMM is designed for dynamic models and is well suited to tackling the endogeneity problem. GMM estimates are dealt with well in the presence of autocorrelation and heteroscedasticity, both of which one would expect to find in this type of data. Then we applied system GMM estimations using Stata 14 package software. In examining the impact of corporate governance on risk taking, we estimate the first model as follows:

$$
\begin{aligned}
[logZscore]_{it} = {} & \alpha + \beta 1[logZscore]_{it-1} + \beta 1[Islbank]_{it} + \beta 2[CGFL]_{it} + \beta 3[WGI]_{it} \\
& + \beta 4[DIClim]_{it} + \gamma 1[Logtotass]_{it} + \gamma 2[EquAss]_{it} \\
& + \gamma 3[NetLoanTotA]_{it} + \gamma 4[GrowGroLoans]_{it} + \gamma 5[CosToInc]_{it} \\
& + \delta 1[GDPgrowth]_{it} + \sum_{t=1}^{8} Year_t + \varepsilon_{it}, \qquad (1)
\end{aligned}
$$

where LogZscore is the logarithm of the *Z*-score of bank *i* in period *t*; Islbank is a dichotomic variable for Islamic banks; CGFL is a corporate governance "bank" firm-level measure; the WGI index is a corporate governance country level measure "CGCL"; Logtotass is the natural log of total assets as a measure of bank size; EquAss is the equity-to-assets ratio; NetLoanTotA is the net loans/total assets ratio; GrowGroLoans refers to the growth of gross loans; CosToInc is the cost-to-income ratio; and GDPgrowth is a macroeconomic variable.

4. Results

Table V presents the regression results of different estimated models using the GMM. Our results show that CGFL has a significant and negative impact on the risk taking measured by *Z*-score. This result is consistent with *H1*, supporting that under-SOG banks accept a higher level of risk to maximise the profits and returns for shareholders. This implies that shareholders' objectives have clout in managers' incentives and the governance structures try to protect the formers' interests (Srivastav and Hagendorff, 2016). This finding is in accordance with Hassan and Mollah (2018), who found that corporate governance is the main driving force for risk taking in Islamic banks. The results suggest that good governance acting in the interests of shareholders could lead to excessive risk taking. The results also show that both banks with considerable government stakes and those with similarly institutional investor stakes are significant, supporting *H2* and *H4*. This result is consistent with the fact that, in these kinds of banks, managers' decisions are influenced by political interests, have a greater moral hazard and a poorer loan quality, thus increasing the level of risk taking. These findings agree with previous empirical research, which found a higher level of risk taking in government-owned banks (La Porta *et al.*, 2002; Iannotta *et al.*, 2007; Eichler and Sobański, 2012; Srairi, 2013; Zheng *et al.*, 2017). At the same time, from Model 2, we observed that institutional investors have a positive influence on risk taking, in line with George *et al.* (2005). Finally, family ownership has not been significant, despite the sign being in line with *H3*.

The same happens with WGI, which is significant in all the models with a negative impact on *Z*-score and, thus, a positive effect on risk taking, supporting *H5*. In this sense, the strong macro governance framework can act as a substitute for corporate governance at the firm level and shows the influence of bank regulation and law enforcement on

	Model 1	Model 2	Model 3	Model 4
logZscore (*t*−1)	0.6482***	0.5825***	0.6653***	0.6388***
IslBank	−0.3153***	−0.4172***	−0.6286***	−0.3356***
CGFL_	−0.1750*	–	–	−0.1495*
WGI_	−0.1460**	−0.2409***	–	−0.1634**
DIClim_	0.0070	0.0025	0.0083	0.0059
–ProRigIndex_	–	–	−0.0046	–
BanImpFamSt	–	0.1251	0.1334	–
BanImpGovSt	–	−0.0800*	−0.4294*	–
BanImpInsInvSt	–	−0.5083**	−0.2738	–
Largeblock	–	–	–	−0.1056
Logtotass	0.0803*	0.1149*	0.0899*	0.0888*
EquAss_	0.4593*	0.6474**	0.4299	0.4559*
NetLoamTotA_	0.0020	0.0041	0.0046*	0.0018
GrowGroLoa~_	−0.0006***	−0.0008**	−0.0013***	−0.0006**
CosToInc_	−0.0015***	−0.0019***	−0.0008*	−0.0015***
GDPgro_	0.0015	0.0012	0.0007	0.0013
_cons	1.3561**	0.5971	0.6869	1.2227**
n	802	802	644	802
Hansen (*p*-value)	0.978	0.907	0.382	0.994
AR 2 (*p*-value)	0.972	0.911	0.254	0.959

Notes: This table reports the panel data estimates for the System GMM where the dependent variable is the log of *Z*-score [logZ] and GMM style lag limits (1, 3) and estimates are robust. Year dummies are included. Hansen is a test for over-identifying restrictions, asymptotically distributed. The models avoid combining related variables. Thus, in Model 2, CGFL is excluded and the property dummies are considered instead. In Model 3, WGI is deleted and the Property Rights Index (PorRigInde) is incorporated instead. Finally, Model 4 includes the large block variable instead of property dummies. *,**,***Significant at 1, 5 and 10 per cent levels, respectively

Table V.
Regression model results for the period 2005–2012

the level of risk taken by banks. The protection of shareholders by the legal system is also notable and shareholders' rights are a measure of their legal protection in a country (Srairi, 2013). Concerning the PRI, the sign in the model is negative but not of great importance.

Islamic banks have a significant and negative impact on *Z*-score, increasing the level of risk taking, a finding that is consistent with Čihák and Hesse's (2010) study. They found that large Islamic banks are less stable (and therefore riskier) than conventional banks. This finding supports *H7*, which establishes a positive relationship between Islamic banks and risk taking. According to this result, we think that risk in Islamic banks could increase due to many factors: lower capital stability (Zheng *et al.*, 2017), the complexity of the Islamic business model (Srairi, 2013), the limited default penalties, the moral hazard incentives caused by profit-and-loss share contracts, or the operational limitations on investment and risk management activities. All these factors could make them less stable than conventional banks (Abedifar *et al.*, 2015).

Finally, concerning the deposit insurance coverage level, we found that it is neither significant for the *Z*-score nor therefore for risk taking either. Other significant variables were size and equity, with a positive sign, while the growth of loans and the level of inefficiency increase the risks taken by MENA banks.

Table VI summarises the results of the tested hypotheses. There is a significant and positive impact of both bank- and country-level governance on risk taking. The same happens with government-owned banks and those with an important presence of institutional investors. Finally, Islamic banks are greater risk takers in general.

5. Robustness

In order to check the robustness of our findings, we included Table VII to cover the global financial crisis period. This has had a significant impact on the banking industry's worldwide levels of risk taking and has perhaps affected the significance of the explanatory variables. We can see that the models are almost exactly the same and the variables remain significant, showing the importance of these factors to explain risk taking, regardless of the period considered.

We find that WGI has a significant and positive effect on risk taking, reducing the value of *Z*-score. This result confirms that the WGI is essential all the time, which implies that good governance at the country level will affect risk taking in all the contexts and has a significant and positive effect on risk taking. It also occurs with the CGFL Index when the

Hypothesis		All countries
H1	Sign	(+)
Corporate governance bank level	Significant	Yes
H2	Sign	(+)
State ownership	Significant	Yes
H3	Sign	(−)
Family ownership	Significant	No
H4	Sign	(+)
Institutional ownership	Significant	Yes
H5	Sign	(+)
Corporate governance country level	Significant	Yes
H6	Sign	(+)
Deposit insurance	Significant	No
H7	Sign	(+)
Islamic	Significant	Yes

Table VI. Summary results of testing hypotheses

	Model 1	Model 2	Model 3	Model 4
logZscore (t−1)	0.6244***	0.6013***	0.6408***	0.6242***
IslBank	−0.3097**	−0.3770**	−0.6413*	−0.3333**
CGFL_	−0.2918**	–	–	−0.2809*
WGI_	−0.1285**	−0.2064**	–	−0.1229*
DIClim_	0.0067	0.0032	0.0188	0.0065
ProRigIndex_	–	–	−0.0059	–
BanImpFamSt	–	0.3122	0.5225	–
BanImpGovSt	–	0.0841	−0.8038*	–
BanImpInsI~t	–	−0.5341*	−0.4559	–
Largeblock	–	–	–	−0.0129
Logtotass	0.0895	0.0928	0.1682	0.0884
EquAss_	0.7212**	0.8673*	1.5918*	0.6751*
NetLoamTotA_	0.0026	0.0060	0.0067	0.0025
GrowGroLoa~_	−0.0006**	−0.0008***	−0.0014***	−0.0006**
CosToInc_	0.0022	0.0020	0.0038	0.0022
GDPgro_	−0.0018***	−0.0021***	−0.0015	−0.0018***
_cons	1.9462**	0.5058	−0.0419	1.9126**
n	584	584	436	584
Hansen (p-value)	0.688	0.709	0.289	0.805
AR 2 (p-value)	0.158	0.221	0.774	0.155

Notes: See Table V. *,**,***Significant at 1, 5 and 10 per cent levels, respectively

Table VII.
Regression model results for the crisis period (2008–2012)

crisis period is considered. The results show that good governance acting in the interests of shareholders could lead to excessive risk taking even during crisis periods. This is possibly owing to banks adopting more aggressive policies in times of expansion that could increase their risk profile and generate the least favourable results in crisis periods.

We also estimate the models only bearing conventional banks in mind. The different nature of the relationship with clients and the contrast in products could entail another type of risk taking, therefore affecting the estimations. The new models show that corporate governance is important for explaining risk taking in conventional banks operating in MENA countries even when they are evaluated in isolation. The models estimated also maintain the signs of the relationship observed for the main model.

Finally, we have recalculated the models using OLS estimates (Table VIII). The results are consistent and corporate governance, both at country and bank level, seems to be noticeable for risk taking. Moreover, in general, the variables that are significant in the dynamic model remain thus so in the new estimated ones. In addition, the signs of the latter's coefficients are unchanged from the former's.

6. Conclusions

The main conclusions of this study are of great interest to supervisors, stakeholders and corporate governance researchers wishing to learn about the effect of corporate governance and regulation on the level of risk taken by banks. Overall, our study contributes to the existing literature, combining bank- and country-level corporate governance, shareholder protection and ownership and their effects on financial stability.

One main result achieved in this paper is that under SOG, the intermediaries accept a higher level of risk. Acting in the interests of shareholders could lead to excessive risk taking. In this sense, a conflict of interest between the stakeholders, concerned about the solvency of the financial system, and the shareholders, looking to maximise their profits, may occur. Greater levels of risk can be reinforced by the governance of the country and a strong macro governance framework can give incentive to a bank's higher risk exposure,

Variable	Model 1	Model 2	Model 3	Model 4
logZscore (t−1)	0.9027***	0.9017***	0.9166***	0.9030***
IslBank	−0.0856***	−0.0901***	−0.1091***	−0.0860***
CGFL_	−0.0246*	–	–	−0.0248*
WGI_	−0.0784***	−0.0857***	–	−0.0793***
DIClim_	0.0012	0.0011	0.0031	0.0011
ProRigIndex_	–	–	−0.0024***	–
BanImpFamSt	–	0.0058	−0.0089	–
BanImpGovSt	–	−0.0188	−0.0344	–
BanImpInsInvSt	–	−0.0197	−0.0006	–
Largeblock	–	–	–	−0.0166
Logtotass	0.0116*	0.0133*	0.0092	0.0111*
EquAss_	0.1616**	0.1754**	0.0964	0.1558**
NetLoamTotA_	0.0007	0.0006	0.0001	0.0007
GrowGroLoa~_	−0.0021***	−0.0020***	−0.0015***	−0.0021***
GDPgro_	0.0007	0.0007	−0.0011	0.0006
CosToInc_	−0.0006**	−0.0006**	−0.0005**	−0.0006**
_cons	0.3540**	0.2224	0.3442**	0.3646**
n	802	802	644	802

Notes: This table reports OLS panel data estimates where the dependent variable is the log of Z-score [logZ]. Year dummies are included. The models avoid the combination of related variables. Thus, in model 2, CGFL is excluded and the property dummies are considered instead. In Model 3, WGI is deleted and the Property Right Index (PorRigInde) is incorporated instead. Finally, Model 4 includes the large block variable instead of property dummies. *,**,***Significant at 1, 5 and 10 per cent levels, respectively

Table VIII. OLS Regression estimates for all the period considered (2005–2012)

showing the influence of bank regulation and law enforcement on the level of risk. Thus, our results support the necessity of considering country-level governance because a macro governance framework can act as a substitute for corporate governance at the firm level (Berglof, 2011).

The results also show that both banks with substantial government stakes and those with important institutional investors take more risks, in line with previous research (La Porta *et al.*, 2002; George *et al.*, 2005; Iannotta *et al.*, 2007; Eichler and Sobański, 2012; Srairi, 2013). Moreover, Islamic banks are riskier than conventional banks, in line with Abedifar *et al.* (2015). This result is explained by the complexity of the Islamic models and contracts of finance (Srairi, 2013), the limited default penalties and moral hazard incentives caused by profit and loss contracts or operational limitations on investment and risk management activities. All these factors could make them less stable than conventional banks. This must lead to the need to establish higher capital requirements in order to guarantee solvency, especially in countries where there is a considerable presence of Islamic banks.

Our conclusions agree with Srivastav and Hagendorff (2016), who put forward the design of new control governance mechanisms that consider the interest of other stakeholders. Such proposals have the aim of controlling the risks more effectively and preventing large blockholders from using their position to act in their own interests (Kumar and Zattoni, 2017). Moreover, the paper also supports the recent regulatory reforms focussed on the control of bank risk, like Basel III and the Federal Reserve, which propose the improvement of corporate governance mechanisms. In doing so, it is important to consider that such modifications (e.g., executive compensation, board independence and the market for corporate control) may not be effective without the consideration of other complementary mechanisms (Lee and Chung, 2016). Finally, central banks should consider the characteristics of corporate governance and ownership and to establish higher capital requirements.

Notes

1. Voice and accountability; political stability and absence of violence/terrorism; government effectiveness; regulatory quality; rule of law; and control of corruption.
2. A firm earns a point when there is a non-duality of CEO and chairman; no stocks are with different voting rights; no wedge is between cash flow and voting rights; there are large shareholders (non-managerial and non- institutional); and there is no high family ownership and no state ownership.

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Predictors of knowledge transfer between expatriates and host country nationals

Shared vision as mediator

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Abstract

Purpose – The purpose of this paper is to investigate the influences of cultural intelligence, feedback-seeking behavior and shared vision as a mediator on bi-directional knowledge transfer involving expatriates and host country nationals (HCNs).

Design/methodology/approach – This paper integrates the signaling theory, the social capital theory and the anxiety and uncertainty theory in investigating the relationships between predictors and knowledge transfer in a bi-directional manner. The participants of the study were 125 expatriate-HCN pairs of MNCs and local organizations in the areas of Klang Valley, Malaysia.

Findings – Shared vision was found to significantly mediate the influences of cultural intelligence and feedback-seeking behavior on knowledge transfer as perceived by the respective respondents.

Originality/value – Co-existence between expatriates and HCNs leads to many organizational outcomes including knowledge transfer. This paper additionally provides theoretical and practical implications to human resource practices.

Keywords Shared vision, Expatriate, Cultural intelligence, Bi-directional knowledge transfer, Feedback-seeking behaviour, Host country national

Paper type Research paper

1. Introduction

Literature indicates that knowledge transfer is a phenomenon contributing to organizational outcomes that involve both internal and external resources in developed and developing countries (Cassiman and Veugelers, 2006). Among the internal resources are individual and social factors of employees. It is commonly accepted that organizations vary widely in their capability to develop and understand these internal resources (Ismail *et al.*, 2018). Thus, the focus of this research, i.e. the determinants of knowledge transfer (individual and social capital factors) is relevant to Cohen and Levinthal's (1989) idea of firms' absorptive capacity that should be capitalized on (Comeig *et al.*, 2018) in addition to the benefit obtained from external resources.

Knowledge transfer constitutes processes at individual, departmental and organizational level (Argote, 2012; Nery-Kjerfve and McLean, 2012). However, authors have been specifically silent on the role of expatriate–HCN relationships in knowledge transfer with the presence of shared vision as a mediator, particularly in the context of a developing country. Additionally, past studies focused on the unidirectional form of knowledge transfer from expatriates to HCNs, failing to unravel the bi-directional form of knowledge transfer

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from expatriates to locals and vice versa (Chang *et al.*, 2012). Nonetheless, the available literatures have been focusing on the general mechanisms of knowledge transfer and expatriations (Minbaeva and Michailova, 2004; Smale and Suutari, 2011) with less concern on the process occurred within an organization through the involvement of both groups of professionals. Internationally, a study by Hsu (2012) was conducted to empirically prove the bi-directional form of knowledge transfer between expatriates and HCNs involving different theoretical and methodological scope with samples from wider geographical coverage (USA, Taiwan, China, Vietnam, South Korea, Thailand, Malaysia and India). To our knowledge, there has been no study focusing on specific bi-directional knowledge transfer between expatriates and HCNs using internal resources, which are also known as individual and social capital variables based on Malaysia context.

The research questions of this study are:

RQ1. Do individual factors of cultural intelligence and feedback-seeking behavior significantly influence knowledge transfer between expatriates and HCNs, bi-directionally?

RQ2. Does shared vision mediate the relationship between individual factors and knowledge transfer between expatriates and HCNs, bi-directionally?

Therefore, the objectives of this research are: to examine the influence of cultural intelligence and feedback-seeking behavior on knowledge transfer between expatriates and HCNs, bi-directionally; and to identify the mediating role of shared vision in the relationships of cultural intelligence and feedback-seeking behavior on knowledge transfer between expatriates and HCNs, bi-directionally. Shared vision is chosen because it is a mechanism that embodies the collective goals and aspirations of members in an organization to integrate or combine resources (Tsai and Ghoshal, 1998). Furthermore, shared vision is a reflection of cognitive dimension of social capital that is unifying in nature (Expósito-Langa *et al.*, 2010).

Vision refers to a clear anticipation of future outcome. Shared vision is a connecting mechanism that helps different groups of employees (such as expatriates and HCNs) to unite and work together harmoniously. Upadhyayula and Kumar (2004) assert that shared vision facilitates the role of individual's internal resources and social capital factors, and shared vision could mediate the influence of internal resources on knowledge transfer. Shared vision is a cognitive dimension of social capital other than its strength (relational or ties). It is also related to collective objective and aspiration. Under these relational conditions members of the organization thus have more opportunities for a freedom to exchange ideas and resources.

The notion of shared vision was used widely in the field of organizational development. Shared vision is related to the traditional concept of goal-oriented implementation and consensus building in strategy and leadership literatures (Expósito-Langa *et al.*, 2010). Other literature on organizational learning also emphasized the concept of consensus building, and calls for better understanding of shared vision as a transformational mechanism of a learning organization (Senge, 2006). Wang and Rafiq (2009) highlight that shared vision is one of the predictors of organizational outcome that emphasizes bottom-up approach of management. This implies shared vision is an important construct used in managing human resources.

Thus, this paper empirically studies expatriates and HCNs in MNCs and organizations in the most vibrant Malaysian industrial areas, Klang Valley, and its new expansion area of Greater Kuala Lumpur. MNCs and organizations choose Klang Valley and Greater Kuala Lumpur as their Asia-base as these areas are powerful magnet attracting investors for investment opportunities in the country (Deng, 2012). Klang Valley is ranked as a mega world city in 2018 due to its economic, financial and cultural achievement, other than having a high Human Development Index in terms of life expectancy, education and income per capita (Department of Statistics Malaysia, 2018). In Malaysia, there is a total of 921 MNCs and organizations comprising of both international based and local based (www.malaysiaplc.com/directory/listed-companies/). Following that, a sample of 30 MNCs and organizations were randomly selected out of the 921 MNCs population and it was found that 28 of them (93.33 percent) resides in the Klang Valley, Malaysia. This implies the significance of Klang Valley as the location of this research.

The number of expatriates in Malaysia in 2016 (Department of Statistics Malaysia, 2018) was 133,108, an increase from 90,000 in 2014 recorded by the Department of Immigrant, Malaysia (Pinto, 2014). Their presence in the country (with a population of 32.4min 2018 is), helps to improve the total number of skilled human resources from whom the local employees may gain benefits through mutual knowledge transfer. This is one of the country's strategies to call for stronger involvement of private sector in the economic transformation initiatives as stipulated in the New Economic Model of Malaysia (NEAC, 2010) toward achieving a high-income status nation by 2020 and beyond. In 2018, Kuala Lumpur has been crowned sixth best city in the world for expatriates, according to Expat City Ranking 2018 (*New Straits Times*, 2018).

Ismail *et al.*'s (2016) research supports the significant role played by shared vision as a mediator between the determinants of knowledge transfer, bi-directionally. Thus, this study is imperative to MNCs and organizations where there are co-existence of expatriates and HCNs, which adds to workplace diversity (Ismail and Arokiasamy, 2008). The next section presents the theoretical framework of this study, followed by research hypotheses, methodological procedures, conclusions as well as theoretical and practical implications of the study.

2. Theoretical justification and literature review

Three theories were used to support the research framework of this study. First is the signaling theory (Spence, 2002; Connelly *et al.*, 2011) that investigates communication between individuals or parties. Primarily, signaling theory is concerned with the reduction of information asymmetry between the provider and receiver of knowledge. Information asymmetry refers to different levels of knowledge accessed and possessed by two parties. Typically, one party, the sender, must choose whether and how to communicate (or signal) that information, and the other party, the receiver, must choose how to interpret the signal. Scholars in the field of management have applied signaling theory to enlighten the influence of information asymmetry including knowledge transfer. In order to have an equilibrium between the two parties, knowledge needs to flow or transfer from one party to another. In the context of this study, this theory highlights the bi-directional transfer of knowledge from expatriate to HCN and vice versa.

The anxiety and uncertainty management theory (Gudykunst, 1998) is the second theory, which deliberates the personal qualities such as cultural intelligence and feedback-seeking behavior of individuals in organizations. Anxiety occurs when a person faces problem while he/she interacts with others of dissimilar socio-cultural backgrounds (Yoshitake, 2002), and it is emotionally correspondent with uncertainty. Cognitively, uncertainty is a dimension that effects the way one person understands the other, while anxiety tends to decrease as people familiarize themselves with each other. In cross-cultural setting, anxiety and uncertainty are critical determinants influencing the nature of intergroup communication. Absence of communication from the inability to culturally compromise due to personal qualities might hinder knowledge transfer (Oddou *et al.*, 2009). Thus, this theory supports the investigation of the relationship between cultural intelligence as well as feedback-seeking behavior and knowledge transfer.

The social capital theory (Nahapiet and Ghoshal, 1998; Lin, 1999), on the other hand, describes resources available and derived from the network of relationships possessed by members in a social entity. These social resources include social ties, trusting relations and value system, that promote interactions and bi-directional communication between expatriates and HCNs (Song *et al.*, 2003; Ismail, 2015). Bi-directional relationship is also emphasized by previous scholars as one of the predictors of successful knowledge transfer (Van Wijk *et al.*, 2008; Ismail *et al.*, 2019), which includes shared vision. Song *et al.*'s (2003) inter-firm knowledge transfer study in the USA highlights the importance of two-way knowledge transfer i.e. from the hired employees to the hiring firm and vice versa. From these arguments, it is justifiable that the social capital theory and the other two theories support the mediating role of shared vision in the relationship between cultural intelligence and feedback-seeking behavior within the two-way knowledge transfer process involving expatriates and HCNs.

2.1 Hypothesis development: determinants of knowledge transfer

2.1.1 Cultural intelligence and knowledge transfer. Cultural intelligence is the intercultural competence that requires one to be socially sensitive within a cross-cultural work environment setting (Hsu, 2012; Nery-Kjerfve and McLean, 2012). In the context of this study, cultural intelligence in knowledge transfer process is regarded as the ability of expatriates as both learners (Feitosa *et al.*, 2014) and players (Tsang, 2001; Kodwani, 2012) to adapt with different cultural settings. In other words, high level of cultural intelligence allows expatriates or HCNs to be more content when interacting with people from different cultures, and to effortlessly share organizational goal together. This implies that expatriates must be willing to cope with cultural challenges in their social interactions with HCNs and vice versa. A study in Taiwan indicates that meaningful interactions between expatriates and HCNs are expected from high level of cultural intelligence and therefore, should facilitate bi-directional knowledge transfer process between them (Chang *et al.*, 2012). Thus, we hypothesize that:

H1a–b. Cultural intelligence influences knowledge transfer between expatriates and HCNs in bi-directional form.

2.1.2 Feedback-seeking behavior and knowledge transfer. In a study among medical doctors, feedback-seeking behavior is referred as proactive personal behavior that helps self-growth of professionals in adapting, learning and performing (Crommelinck and Anseel, 2013). This can also be applied in the context of expatriates, repatriates and top management personnel in international firms to promote cross-border assignments (Crowne, 2009). Krasman's (2010) in-depth investigation regarding feedback-seeking behavior among part-time university business students who work full-time in the USA has found that the students portray their feedback-seeking behavior as a partial attribute of his or her personality, which then influences knowledge transfer between two or more people. Feedback-seeking behavior empowers individuals to assess themselves and learn through mistakes as evaluated by others. Feedback-seeking behavior is also associated with opportunity seeking as one of the predictors of knowledge received by subsidiary and subsequently its performance (Chang *et al.*, 2012).

A theoretical model has associated feedback-seeking behavior to three psychological variables: task information; self-efficacy; and feedback utilization (VandeWalle's, 2004). In this paper, task information requires feedback from both expatriates and HCNs to one another in order for them to correct work-related errors. Self-efficacy nonetheless, is the ability of oneself to execute a course of action that is fundamentally required in producing certain desired outcome such as knowledge transfer. Feedback utilization is the extent to which expatriates and HCNs in organizations are able to make specific changes according to the feedback they received from one another. A supervisor–employee dyads study in the USA (De Stobbeleir *et al.*, 2011) and a reverse knowledge flow study in MNCs in Sweden

(Kumar, 2013) explain that employees who perform skillfully at work are those who constantly sought after feedbacks. Thus, we hypothesize that:

H2a–b. Feedback-seeking behavior influences knowledge transfer between expatriates and HCNs in bi-directional form.

2.1.3 Shared vision and knowledge transfer. Inkpen and Tsang (2005) referred to shared vision, a vital cognitive element of social capital, as the extent to which different people share one common, long-term goals and visions. Social exchanges between expatriates and HCNs are specifically crucial in transferring tacit knowledge as tacit knowledge is intangible in nature. A study conducted among Bank Loan Managers in Chicago, USA, revealed that learning through knowledge transfer is also located in the relationships among individuals (Uzzi and Lancaster, 2003), which is through shared vision. Bonache and Zárraga-Oberty's (2008) study show the role of collaborative interpersonal relationships between international and local employees in achieving fruitful knowledge transfer in MNCs and organizations. Shared vision promotes mutual understanding and acts as a crucial bonding mechanism that supports different parties to incorporate knowledge transfer as expatriates and HCNs cover a diverse cultural background (Hsu, 2012). This implies the significance of bi-directional flow of knowledge transfer between expatriates and HCNs. Thus, it is hypothesized that:

H3a–b. Shared vision influences knowledge transfer between expatriates and HCNs in bi-directional form.

2.1.4 Shared vision as a mediator. Lin's (2017) social capital theory asserts that a mediator is essential in any communication process involving senders and receivers. The anxiety and uncertainty management theory postulates that cultural intelligence and feedback-seeking behavior help to reduce distant relationship among expatriates and HCNs. In order to achieve common sets of goals, collective collaboration is needed. Ado *et al.*'s (2016) study involving 12 Africa-China joint ventures indicates that collaboration between Africans and their local co-workers hinders due to the lack of cultural intelligence. Feedback-seeking behavior is considered as a self-regulatory constructive behavior (Krasman, 2010) because individuals adjust their behavior based on feedback that they gained from others in order to become more acceptable to others and consequently shared vision is achieved (Ashford *et al.*, 2003). Feedback-seeking behavior facilitates the performer to achieve better clarification pertaining to his/her vision, in terms of what he/she could do in an organization because individuals normally strive toward excellence in work when goal and what to do are clear (Robert *et al.*, 2005).

Scholars emphasize shared vision as a psychological determinant of social bonds, which entails familiarity and confidence in a relational exchange (Roueche *et al.*, 2014). An intra and inter-firm study in western MNCs' subsidiaries in China revealed that shared vision is a mandatory requirement in the manifestation of exchange process (Li, 2005). Shared vision among diverse cultures promotes mutual understanding, which influences knowledge transfer. Absorptive capacity in knowledge acquisition and transfer among high-tech firms located in the UK was found to expand due to shared vision established in expatriate-HCN pairs (Yli-Renko *et al.*, 2001). It was also found that shared vision was significant in knowledge transfer involving highly culturally-diverse interaction (Bresman *et al.*, 1999). Thus, it is hypothesized that:

H4a–d. Shared vision mediates the relationship between cultural intelligence as well as feedback-seeking behavior and knowledge transfer between expatriates and HCNs in bi-directional form.

2.1.5 Bi-directional analysis of knowledge transfer. An expatriate and HCN pair maintains a sociologically significant relationship in a workplace. The expectation on mutual gain and reciprocity in the responses of the members caused an interdependency between expatriates and their HCNs counterparts (Kashy and Kenny, 2000). Realizing that past studies have been disregarding the vital contributions made by HCNs in order to advocate an effective bi-directional knowledge transfer process within organizations (e.g. Smale and Suutari, 2011; Minbaeva and Michailova, 2004), albeit HCNs are indeed as important as expatriates because they complement each other in the bi-directional knowledge flow (Caligiuri and Cascio, 1998). In this study, it is proposed that the reciprocity between the pairing members leads to the process of bi-directional knowledge transfer. The relevant social factor is mutual shared vision at workplace. Based on the above literature arguments, the framework of this study is shown in Figures 1 and 2 from the perspectives of expatriates and HCNs, respectively.

3. Methodology

3.1 Subject of research

The research subjects of this study are expatriate-HCN pairs. We identified expatriates by various means as follows: organizations with expatriate employees were traced through Companies Commission of Malaysia (CCM) database; the HR division of each organization was contacted through emails, followed by phone calls inviting them to participate in the study; and a set of online questionnaire was emailed and linked with the Google Form. In addition, the researchers met several international consultants, to get assistance from them to introduce the researchers to expatriates in their network. Each identified expatriate was then required to recommend one HCN that s/he works best with, in an MNC or company to establish an expatriate-HCN pair. These expatriate-HCN pairs whom the researchers contacted were employees in MNCs and private companies in the areas of Klang Valley and its vicinity of Greater Kuala Lumpur. The total respondents obtained with complete questionnaires were 125 expatriate-HCN pairs involving 36 MNCs categorized under 10 different industries, including airlines, engineering, oil and gas, education, consultancy, automotive, insurance, online retailing, retailing and hospitality industries. As a whole, the respondents were obtained using simple random sampling technique, in which each expatriate in the population has equal chance of being selected as study sample. Mohd Tahir

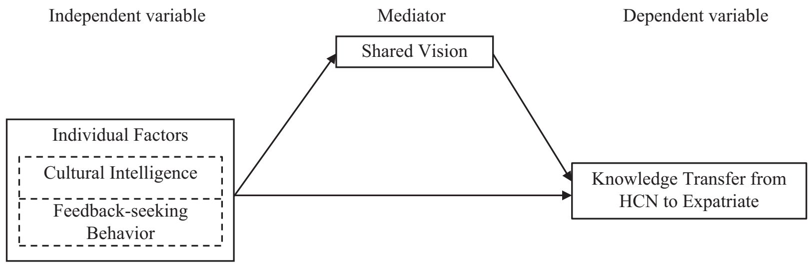

Figure 1.
Research framework of expatriate-HCN knowledge transfer (from expatriate's perspective)

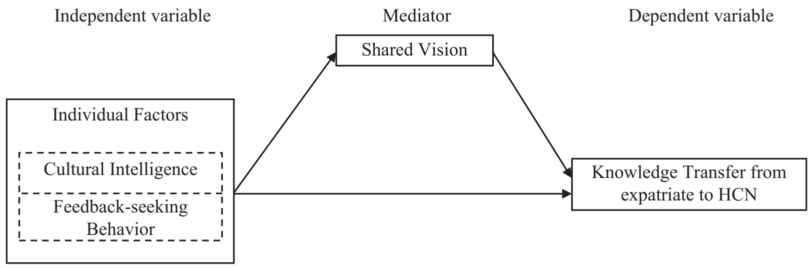

Figure 2.
A research framework of expatriate-HCN knowledge transfer (from HCN's perspective)

and Ismail's (2007) research findings on work adaptation of expatriates in the Klang Valley were appropriately used for generalization. It is therefore believed that the sample used in this study justifies the representativeness of expatriate-HCN pairs in Malaysia.

3.2 Study instrument and data collection

We used validated survey questionnaire to gauge knowledge transfer, cultural intelligence, feedback-seeking behavior and shared vision. Knowledge transfer construct was measured using the instrument by Dhanaraj *et al.* (2004) consisting a six-item questions with a seven-point Likert-type scale. This instrument requires the expatriates and HCNs to evaluate the extent to which they have learnt tacit knowledge such as "new marketing skill," knowledge about foreign cultures and tastes, as well as "managerial techniques" from their respective counterparts. The expatriates and HCNs are also required to evaluate the extent to which they have learnt explicit knowledge such as "written knowledge about firm's technology," "procedural or technical information," and "written knowledge about management techniques" from their expatriate/HCN colleagues.

Cultural intelligence was measured using instrument from Ang and Van Dyne (2015), which consists of a nine-item questionnaire with a five-point Likert-type scale. Expatriates and HCNs are required to rate the extent to which they agree with statements such as "I know the values and religious beliefs of other cultures." Feedback-seeking behavior is measured using the instrument from Ashford (1986). The measurement consists of a seven-item questionnaire with a five-point Likert-type scale where expatriates and HCNs are required to rate the extent to which they agree with statements in the instrument such as "I would like to get feedback on what behaviors will help me advance within the company." Shared vision was measured using the instrument developed by Gutiérrez *et al.* (2009). It consists of a six-item questionnaire with a five-point Likert-type scale to measure the extent to which respondents have engaged in shared vision. For this item, expatriates and HCNs are required to rate the extent to which they agree with statements in the instrument such as "My HCN/expatriate colleague and I share a clear vision guiding the strategic goals and missions of the organization." Cronbach's α values of the constructs in the instrument ranged from 0.78 to 0.92.

3.3 Data analysis

A research is considered exploratory when researcher believes that certain research is worth discovering, even though there is little or no scientific knowledge about the group, process, activity or situation to be examined (Stebbins, 2001). Confirmatory research approach in contrast, seeks to test and confirm hypotheses based on previous research on the subject matter, which in this case is knowledge transfer, using existing theories (Jaeger and Halliday, 1998). In the context of this paper, the hypotheses were derived by integrating three existing theories in investigating the bi-directional approach of knowledge transfer. Thus, it is confirmatory in nature. Data were analyzed using IBM SPSS 24 to produce descriptive and inferential results. The descriptive analysis reports the mean, standard deviation, percentage and range for the demographic and professional profiles of the respondents. The inferential statistics were used to test the hypotheses of the study. They include Pearson's product–moment correlation prior to multiple linear regression analyses.

The mediation role of shared vision on the relationship between the antecedents and knowledge transfer was analyzed using PROCESS IBM SPSS 24 by Hayes (2013) as suggested by Preacher and Hayes (2004, 2008). This method examines the total direct effect and the indirect effect of specified shared vision as mediator in the relationship between the independent variables and knowledge transfer, controlling for the other antecedents. It is considered superior relative to others such as that by Baron-Kenny (1986) in mediation testing (Molina *et al.*, 2013). It was previously used by Molina *et al.* (2013) in their cancer research, Lazuras *et al.* (2013) in their cyberbullying among adolescence research, Manzi *et al.* (2018) in their cross-cultural and cross-generational study, Jawahar and Schreurs (2018) in their supervisor-subordinate study, Peraza *et al.* (2019) in their distress tolerance and cessation-related cannabis research, as well as Caniëls' (2019) proactivity and supervisor support in creative process engagement research. Hayes (2013) verified that PROCESS OLS regression coefficients and standard errors were found to be extremely similar as compared to other SEM programs.

3.4 Profile of respondents

The sample of expatriate consists of 75.20 male and 24.80 percent female respondents. They represent 26 nationalities in which Indian expatriates make up the largest group (18.40 percent), followed by Japanese and Indonesian (16.00 percent, respectively), and British (12.00 percent), as well as American (4.80 percent). German, Filipino and Singaporean each makes up to 4.00 percent, while Italian and Thailand constitute 2.40 percent. The rest are Palestinian, Irish and Australian each makes up to 1.60 percent and other nationalities include Canadian, Chinese, Danish, Sri Lankan, French, Iranian, Nepalese, Nigerian, Russian, Serbian, Spanish, Turkish and Uzbek. Most of the expatriate respondents are in the age range from 35.1 to 45 years (36.00 percent, mean = 41.42, SD = 9.31). While for the HCNs, they consist of 64.40 percent male and majority (44.80 percent) are 35 years old and below (mean = 37.65, SD = 8.39). The demographic and nationality profiles of the respondents are shown in Tables I and II, respectively.

A total of 29.60 percent of the expatriate-HCN pairs work in the engineering sector, followed by 17.60 percent in consulting services, 16.80 percent in airlines, 15.20 percent oil and gas, 8.80 percent education, 4.80 percent automotive, insurance and online retailing (2.40 percent each), 1.60 percent in retailing and only 0.80 percent in hospitality industry. These industries are important contributors toward Malaysia's economic growth by 2020 and beyond (Tan and Yap, 2015).

The expatriates and HCNs have been working for their companies for an average of 3.60 years (SD = 2.59) and 7.11 years (SD = 5.34), respectively. Expatriation is an essential approach in facilitating cross-border knowledge transfer, which requires them to live in foreign business areas for several years for them to collect and share the necessary experiences (Webb, 1996). Therefore, expatriates are expected to use the experiences they gained from abroad in their organizations upon their return. This is one of the reasons for expatriates do not work at a certain foreign country for a long period of time.

4. Results and discussion

Table III shows paired sample *t*-test results. The level of cultural intelligence shows a significant difference between expatriates and HCNs. The mean of expatriates (4.103) is

	Expatriate			HCN		
Variables	Freq.	Percent (%)	Mean (SD)	Freq.	Percent (%)	Mean (SD)
Gender						
Male	94	75.20		78	62.40	
Female	31	24.80		47	37.60	
Age (year)			41.42 (9.31)			37.65 (8.39)
25.0–35.0	40	32.00		56	44.80	
35.1–45.0	45	36.00		44	35.20	
45.1–55.0	34	27.20		23	18.40	
55.1–65.0	3	2.40		2	1.60	
65.1 and above	3	2.40		0	0.00	

Note: $n = 125$ pairs

Table I.
Demographic profile of respondents

Variables	Expatriate Freq. (f)	Percent (%)
Countries in Asia	86	68.80
India	23	18.40
Japan	20	16.00
Indonesia	20	16.00
The Philippines	5	4.00
Singapore	5	4.00
Thailand	3	2.40
Palestine	2	1.60
Others (China, Iran, Nepal, Nigeria, Sri Lanka, Turkey, Uzbekistan)	8	6.40
Countries outside Asia	39	31.20
UK	15	12.00
USA	6	4.80
Germany	5	4.00
Italy	3	2.40
Ireland	2	1.60
Australia	2	1.60
Others (Canada, Denmark, France, Russia, Serbia, Spain)	6	4.80

Note: $n = 125$ pairs

Table II. Country of origin of expatriates

Variables	Mean	SD	t	p
Knowledge Transfer			1.582	0.116
Expatriate	4.490	1.381		
HCN	4.282	1.235		
Shared vision			0.306	0.760
Expatriate	3.937	0.754		
HCN	3.960	0.631		
Cultural intelligence (CQ)			3.357	0.001
Expatriate	4.103	0.566		
HCN	3.883	0.535		
Feedback-seeking behavior (FSB)			0.118	0.907
Expatriate	3.880	0.788		
HCN	3.869	0.691		

Notes: $n = 125$ Pairs. $p < 0.05$

Table III. Paired sample t-test for difference in the levels of variables

higher than that of HCNs (3.883). This implies that expatriates are more sensitive and prepared about intercultural competence in their task of transferring knowledge with the locals. This difference may suggest variation in the potential influence of the predictors of knowledge transfer in this study.

Pearson product–moment correlation analysis results from expatriate sample (Table IV) indicate the highest value is shared vision ($r = 0.473$, $p = 0.000$), followed by feedback-seeking behavior ($r = 0.324$, $p = 0.000$) and cultural intelligence ($r = 0.299$, $p = 0.001$). Similarly, the highest value for HCN sample (Table V) is shared vision ($r = 0.388$, $p = 0.000$), followed by feedback-seeking behavior ($r = 0.300$, $p = 0.001$) and cultural intelligence ($r = 0.255$, $p = 0.004$). The results validate that both expatriate and HCN respondents experience high level of individual factors i.e. cultural intelligence and feedback-seeking behavior and these variables have predictive potential to knowledge transfer.

Only shared vision ($\beta = 0.408$, $p = 0.000$) significantly influences knowledge transfer from HCNs, as perceived by expatriates (Table VI). Cultural intelligence and feedback-seeking behavior however, do not significantly influence knowledge transfer from HCNs, as perceived by expatriates. Therefore, *H3a* is supported in this study while *H1a* and *H2a* are not supported. Similarly, only shared vision ($\beta = 0.308$, $p = 0.001$) significantly influences knowledge transfer from expatriates as perceived by HCNs. Cultural intelligence and feedback-seeking behavior were not found to have significant influence on knowledge transfer. Thus, *H3b* is supported while *H1b* and *H2b* are not supported. The respective adjusted R^2 values of 0.222 and 0.159 for expatriates and HCNs imply that shared vision explains 22.20 and 15.90 percent of the variance in knowledge transfer as perceived by expatriates and HCNs, respectively. However, when the regression analysis was re-run, the new adjusted $R^2 = 0.218$ and $R^2 = 0.144$ were obtained for the respective expatriates and HCNs (Table VII). This shows that the direct influence of shared vision on knowledge transfer is with the explanatory power of 21.80 and 14.40 percent for the respective expatriate and HCN samples.

The PROCESS procedure (Hayes, 2013) was used for the bootstrapping analysis. PROCESS can construct bias-corrected percentile and Monte Carlo Confidence Interval (CI)

Table IV. Matrix of correlation of variables (expatriate sample)

	Knowledge transfer r (p)	Shared vision r (p)	Cultural intelligence r (p)	Feedback-seeking behavior r (p)
Knowledge transfer	*0.888*			
Shared vision	0.473 (0.000)	*0.921*		
Cultural intelligence	0.299 (0.001)	0.382 (0.000)	*0.828*	
Feedback-seeking behavior	0.324 (0.000)	0.590 (0.000)	0.440 (0.000)	*0.932*

Note: Diagonal figures are the reliability values of the variables

Table V. Matrix of correlation of variables (HCN Sample)

	Knowledge transfer r (p)	Shared vision r (p)	Cultural intelligence r (p)	Feedback-seeking behavior r (p)
Knowledge transfer	*0.863*			
Shared vision	0.388 (0.000)	*0.915*		
Cultural intelligence	0.255 (0.004)	0.414 (0.000)	*0.814*	
Feedback-seeking behavior	0.300 (0.001)	0.379 (0.000)	0.502 (0.000)	*0.945*

Note: Diagonal figures are the reliability values of the variables

Table VI. Results of multiple linear regression

Variables	*B*	*SE* (*B*)	β	*t*	*p*
Expatriate					
Constant	0.058	0.854		0.068	0.946
Shared vision	0.747	0.182	0.408	4.097	0.000
Cultural intelligence	0.321	0.218	0.132	1.470	0.144
Feedback-seeking behavior	0.045	0.180	0.026	0.250	0.803
HCN					
Constant	0.364	0.844		0.432	0.667
Shared vision	0.604	0.181	0.308	3.326	0.001
Cultural intelligence	0.109	0.229	0.047	0.476	0.635
Feedback-seeking behavior	0.285	0.174	0.160	1.637	0.104

Notes: Expatriate → $p < 0.05$; $F = 12.781$; Sig. $F = 0.000$; $R = 0.491$; $R^2 = 0.241$; Adjusted $R^2 = 0.222$. HCN → $p < 0.05$; $F = 8.837$; Sig. $F = 0.000$; $R = 0.424$; $R^2 = 0.180$; Adjusted $R^2 = 0.159$

for indirect effects. Table VIII presents results of mediating effect of shared vision on the relationships between cultural intelligence as well as feedback-seeking behavior and knowledge transfer between expatriates and HCNs bi-directionally. The determination of mediation effect of shared vision is based on "zero" (0) value location in confidence interval (CI) (Hayes, 2009, p. 412) in which if CI does not contain "zero" (0) value, it means the indirect or mediation effect is statistically significant.

Table VIII further indicates that the bias-corrected 95% percentile of CI ($\beta = 0.392$, CI = 0.205, 0.659, $p < 0.05$) does not include zero value. These findings revealed that the indirect effect of cultural intelligence on knowledge transfer through the mediator (shared vision) as perceived by expatriates is statistically significant. As for feedback-seeking behavior, the bias-corrected 95% percentile of CI ($\beta = 0.447$, CI = 0.242, 0.729, $p < 0.05$) does not include zero value. Similarly, shared vision mediates significantly the relationship between feedback-seeking behavior and knowledge transfer, as perceived by expatriates. Therefore, *H4a* and *H4c* are supported.

Results also show that the bias-corrected 95% percentile of CI ($\beta = 0.326$, CI = 0.121, 0.594, $p < 0.05$) does not include zero value. These findings show that shared vision mediates the influence of cultural intelligence on knowledge transfer as perceived by HCNs. Likewise, the bias-corrected 95% percentile of CI ($\beta = 0.217$, CI = 0.079, 0.438, $p < 0.05$) does not include zero value, which indicates the significant mediation of shared vision on the influence of feedback-seeking behavior on knowledge transfer, as perceived by HCNs. Thus, *H4b* and *H4d* are supported as well.

Based on the findings of the study, the results of the overall testing of hypotheses are summarized as illustrated in Table IX.

This study shows the importance of shared vision in the knowledge transfer process involving expatriates and HCN employees. This is an advantage to the organizations as it

Variables	*B*	*SE* (*B*)	β	*t*	*p*
Expatriate					
Constant	1.078	0.583		1.848	0.067
Shared vision	0.867	0.145	0.473	5.958	0.000
HCN					
Constant	1.453	0.617		2.355	0.020
Shared vision	0.715	0.155	0.373	4.622	0.000

Notes: Expatriate → $p < 0.05$; $F = 35.497$; Sig. $F = 0.000$; $R = 0.473$; $R^2 = 0.224$; Adjusted $R^2 = 0.218$. HCN → $p < 0.05$; $F = 21.849$; Sig. $F = 0.000$; $R = 0.388$; $R^2 = 0.151$; Adjusted $R^2 = 0.144$

Table VII. Results of simple linear regression for shared vision on knowledge transfer

	Point estimate (β)	SE	Bootstrapping BC percentile 95% CI Lower	Upper
As perceived by expatriates				
Cultural intelligence (CQ)	0.392	0.113	0.205	0.659
Feedback-seeking behavior (FSB)	0.447	0.123	0.242	0.729
As perceived by HCNs				
Cultural intelligence (CQ)	0.326	0.118	0.121	0.594
Feedback-seeking behavior (FSB)	0.217	0.089	0.079	0.438

Notes: BC, bootstrap confidence; CI, Confidence interval. Indirect effect is significant if 0 value falls outside the lower bound and upper bound of BC Percentile 95% CI

Table VIII. Results of process method for mediation analysis

Hypothesis	Result
H1a: cultural intelligence influences knowledge transfer involving expatriates and HCNs as perceived by expatriates	Not supported
H1b: cultural intelligence influences knowledge transfer involving expatriates and HCNs as perceived by HCNs	Not supported
H2a: feedback-seeking behavior influences knowledge transfer involving expatriates and HCNs as perceived by expatriates	Not supported
H2b: feedback-seeking behavior influences knowledge transfer involving expatriates and HCNs as perceived by HCNs	Not supported
H3a: shared vision influences knowledge transfer involving expatriates and HCNs as perceived by expatriates	Supported
H3b: shared vision influences knowledge transfer involving expatriates and HCNs as perceived by HCNs	Supported
H4a: shared vision mediates the relationship between cultural intelligence and knowledge transfer involving expatriates and HCNs as perceived by expatriates	Supported
H4b: shared vision mediates the relationship between cultural intelligence and knowledge transfer involving expatriates and HCNs as perceived by HCNs	Supported
H4c: shared vision mediates the relationship between feedback-seeking behavior and knowledge transfer involving expatriates and HCNs as perceived by HCNs	Supported
H4d: shared vision mediates the relationship between feedback-seeking behavior and knowledge transfer involving expatriates and HCNs as perceived by HCNs	Supported

Table IX.
The overall results of hypotheses

concurs with the powerful statement by Hitt *et al.* (2010) that in any organizational development, employees are supposed to act on the vision that has been informed by their managers and created by their leaders.

5. Conclusion and implications

Vision that is being shared concludes the critical importance of inter-employee social interaction involving expatriates and HCNs. Individual qualities of cultural intelligence and feedback-seeking behavior increase shared vision, which then become determinants of knowledge transfer. Furthermore, positive cultural intelligence and feedback-seeking behavior that characterize both groups of employees allow bi-directional knowledge transfer involving expatriates and HCNs to take place. Additionally, the coexistence of expatriates and HCNs adds to the dynamism of knowledge transfer as an interactive process. This further highlights the value of workplace diversity, which according to Ismail and Arokiasamy (2008) workplace diversity leads to the improvement of organizational performance in Malaysia.

In the bi-directional perspective of expatriates and HCNs, this research has theoretically supported the significant capacity of shared vision as an enhancer to knowledge transfer, making use of the two individual qualities as the predictors. This is further verified by considering the signaling theory, the social capital theory and the anxiety and uncertainty theory altogether, which were commonly found separately in past studies. The bi-directional analysis used in this study has yielded some empirical evidence of the two-way manner of knowledge transfer (i.e. as perceived by expatriates and HCNs), and this certainly adds to the dynamic nature of knowledge transfer based on Malaysian context.

This study suggests several practical implications for MNCs and other organizations. At the beginning of expatriate assignment, involvement in special team building solutions are suggested with the purpose to encourage positive relationships between knowledge partners and to establish shared vision. In relation to this, six step-procedures should be considered to strengthen mission statement (www.emeraldgrouppublishing.com/learning/managementthinking/articles/pdf/hitt.pdf): identify the needs of the stakeholders; identify a direction of the unit/department; draft preliminary statement of vision; solicit inputs from team members and boss; do revision to the preliminary mission statement; incorporate the vision into the unit's plan. Some of the suggested human resource activities are: mentoring program, best practice meetings, job shadowing, and knowledge fair (showcases the best practices). This is to capitalize on the spirit of sharing together of what to be desired and attained in the organization.

The study is insightful to managers and leaders of MNCs and other organizations as shared vision among employees provides direction for action at unit or departmental level even at times it is challenging. An effective leader has three interrelated attributes: the ability to create a vision, the ability to communicate the vision to others, and the ability to motivate and inspire employees to work toward the vision. Shared vision is evident to be powerful in both directions of knowledge transfer involving expatriates and HCNs, therefore MNCs and other organizations should put a great emphasis on this fact regardless of the type of employees, as vision utters an engaging future of the organization. This also suggests that in any vision monitoring and re-assessment, expatriates and local employees should be consulted equally.

Local organizations should imply certain quota in their employment policy for expatriates considering Kuala Lumpur is crowned the most expat-friendly city in Asia in 2017 (Patrick, 2017) and ranked sixth-best city for expatriates, a year later (*New Straits Times*, 2018). Furthermore, in improving overall organizational performance, this study suggests local organizations to consider bi-directional knowledge transfer involving expatriates as one of the criteria in HCNs' annual key performance indicator (KPI). This will create a more satisfactory working climate, and certainly attract more expatriates to work in the country.

Realizing the limitations of this study, future research issuggested as follows: the present framework is limited to internal resources of cultural intelligence, feedback-seeking behavior and shared vision. Other internal resources of firm's absorptive capacity such as shared culture, shared values, and strength of network between parent company and subsidiary in the country should be considered; comparison between the various merits of prior contact of expatriates with HCNs as compared to cross-cultural training of expatriates in knowledge transfer; the specific knowledge gained by expatriate vs HCNs through knowledge transfer using a longitudinal study approach; knowledge transfer using the same framework focusing on other types of pairing such as senior-junior or manager-employee dyads; and it is crucial for future research to include gender issues as expatriation is becoming one of non-traditional career options for women (Hansen, 2016), as well as men and women professionals have different individual and social capital qualities that may affect knowledge transfer differently.

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