

DOES COMPETITIVE STRATEGY MODERATE THE LINKAGE BETWEEN HRM PRACTICES AND COMPANY PERFORMANCE*

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ABSTRACT The purpose of this study is to examine the moderating role of competitive strategies (CS) in the relationship between HRM practices and company performance (CP). Although the existing literature adequately addresses HRM practices and CS, there is limited empirical evidence linking internal resources and strategies with CP. Therefore, using the contingency approach, this study uncovers the role of CS in realizing the potential impact of HRM practices on CP. The data used to test, explore, and develop the moderating role of CS were collected from 157 manufacturing companies and analyzed using hierarchical linear regression. The results show a positive effect of HRM practices and CS on CP. The results also show that cost leadership strategy and differentiation strategy moderate the relationship between HRM practices and CP. The theoretical and managerial implications of these results are discussed.

KEYWORDS: *HRM practices; Differentiation strategy; Cost leadership strategy; Competitive strategies; Company performance*

1. INTRODUCTION

To cope with the high level of market uncertainty, companies today must be equipped with the right skills and resources (Islami & Topuzovska Latkovikj,

2022). A company's human resources department is the undisputed source capable of removing doubts about improving performance and gaining a competitive advantage in the long run (Lee et al., 2010). The resource-based theory assumes that organizational

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success occurs within organizational boundaries and emphasizes that the proper use of HR determines the organization's competitive advantage (see, e.g., Nefke & Henning, 2013; Mulolli et al., 2015). Human resource management (HRM) is "a strategic and coherent approach to the management of an organization's most valued assets - the people working there who individually and collectively contribute to the achievement of its objectives" (Armstrong, 2006, p. 3). The role of HRM and its integration into corporate strategy is the most important "indicator in achieving the long-run sustainability of competitive advantage" (Islami, 2021a, p. 12).

Even though researchers agree that using more than one HRM practice can significantly impact CP due to their complementarity effects (synergy), the boundary of HRM practices is still not consistently defined in the literature. For example, several research papers measure the HRM effect using multiple practices (e.g., Islami, 2021b; Lee et al., 2010; Otoo, 2019). However, empirical classifications of HR practices do not show a consistent pattern, and further research in this area is urgently needed (Wright & Boswell, 2002). To contribute to this issue, this study follows Islami (2021a) and (Islami 2021b) in measuring HRM using five practices: compensation/incentives, performance appraisal, teamwork, participation, training and development, recruitment and selection.

Although several studies have attempted to measure various aspects of HRM (e.g., Hohenstein et al., 2014; Otoo, 2019; Renwick et al., 2013) and CS (e.g., Banker et al., 2014; Islami et al., 2020a; Islami et al., 2020b; Lapersonne, 2017), there are still enough gaps that require empirical testing and theoretical development (Islami, 2021a). In addition, researchers call for measuring and developing the relationship between these two organizational constructs to develop a viable business strategy. For example, the relationship between resource characteristics, sustainable competitive advantage, and CP needs further research (Miles, 2012). Hohenstein et al. (2014) emphasize that different practices and techniques within an organization should be evaluated and compared to find and apply the best practices in HRM. Few studies have examined the role of moderating constructs through which HRM practices influence organizational outcomes. Therefore, the findings of this study will contribute to the management literature by offering a helpful model that incorporates HRM practices, CS, and the linkage of these constructs to CP.

In summary, this study aims to observe, understand, and promote the link between HRM practices and CS and their direct and moderate effects on CP. Specifically, to achieve this goal, this study clarifies and develops HRM practices and their effects on

CP, analyzes the dimensions of CS and their effects on CP, and identifies the conditional role of CS on the link between HRM practices and CP. Thus, the findings of this research may have practical implications for academic researchers and practitioners to understand the importance of integrating HRM practices and CS to improve CP.

Following the literature, the following section conjectures and discusses the relationships between HRM practices, CS, and CP. Then, the methods and process of data analysis are briefly discussed. The final sections discuss the study's results, implications, and limitations.

2. THEORETICAL BACKGROUND AND RESEARCH HYPOTHESES

This section explains the constructs and develops research hypotheses about HRM practices and CS and their impact on CP. The conceptual model is shown in Figure 1. As described in the conceptual model, HRM comprises five practices: compensation/incentives, performance appraisal, teamwork and participation, training and development, recruitment and selection. CS is analyzed by two dimensions: "cost leadership strategy" (CLS) and "differentiation strategy" (DS). Business performance is measured by financial and operational indicators.

2.1. HRM practices background

Recruitment and selection are critical to ensuring a pleasant work environment that helps the organization improve its efficiency. Employers "should pay special attention to the decision-making process for prospective employees that will be hiring" (Islami, 2021a, p. 17). Recruitment and selection aim to classify and select potential employees who are a good fit for the hiring organization (Ahmad & Schroeder, 2002). According to Otoo (2019), selecting employees based on the organization's strategy and in line with the corresponding human resource development policy is a prerequisite for selecting suitable candidates. In this sense, Chen and Cheng (2012) assume that an effective recruitment and selection process can give a company a competitive advantage and improve its performance.

Training and development practices aim to create learning organizations, improve workers' ability to perform their jobs effectively and grow overall CP (Niazzi, 2011). Training and development "refer to the process that obtains or transfers knowledge, abilities and skills. Thus, the benefits for employer and employees are strategic" (Islami, 2021a, p. 19). Therefore, accord-

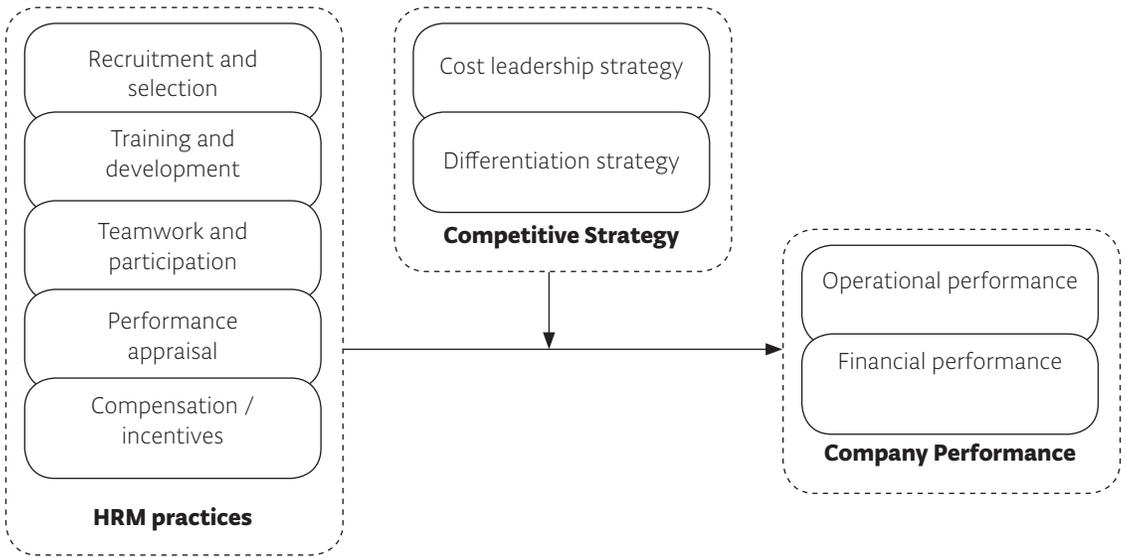


FIGURE 1. Conceptual research model

ing to Dhamodharan et al. (2010), training and development practices are one of the most important dimensions of strategic HRM.

Teamwork and participation are essential to building shared trust and respect in the organization. Adizes (2004) highlights that the level of shared trust and respect in the organization determines the level of teamwork and organizational success. The consolidation of teamwork allows workers to contribute to decision-making, which in turn promotes the implementation of the strategic idea of the company. Ledford and Lawler (1994) state that successful companies encourage workers to contribute to decision-making through various measures such as goal setting, job design, performance feedback, and reward systems. However, Bhuiyan (2010) asserts that employee participation should not be interpreted as just a "postulate." He emphasizes that further research is needed to determine whether participation positively impacts CP or whether the cost of implementing it far exceeds the actual return.

Performance appraisal is a practice within performance management systems that makes employees aware of their job performance. To correct and improve employee performance, performance appraisal aims to improve how goals are set, and feedback is received (Lee et al., 2010) to consciously motivate, develop, and evaluate employees (Islami et al., 2018). Thus, it defines the current state of the employee's capabilities (Shaout & Yousif, 2014). Performance appraisal provides the organization with the needed information about "how well each employ-

ee is performing to identify and reward the good employees or to justify in writing why a poor employee should be disciplined [...]" (Islami, 2021b, p. 209). The role of performance appraisal in HRM is multidimensional, and its outcome can serve as a legitimate reason for top managers to make decisions about disciplining, firing, promoting, or raising their employees' salaries (op. cit.).

Compensation incentives refer to "all extrinsic rewards employees receive in return for their work," such as bonuses, benefits, and wages (Byars & Rue, 2006, p. 249). Compensation is divided into monetary and non-monetary incentives (Lee et al., 2010), which affect employee motivation, morale, commitment, and satisfaction, and increase organizational efficiency (Gulzar, 2017). According to Ghazanfar et al. (2011), bonuses and incentives are designed to attract committed employees and motivate them to perform better by demonstrating more engagement.

2.2. Competitive strategy development

CS is considered an essential part of strategic management theories, which clarify the company's activities in a particular industry (Islami et al., 2020a). This study measures the competitive strategy in two directions, with CLS and DS.

Cost leadership strategy refers to companies that aim to reduce production costs and operate efficiently through their value chain activities (Islami & Topuzovska Latkovikj, 2022). According to Akan et al. (2006), this can be achieved if the company has low-

cost production, fast replacement and product delivery, a low-cost mindset, and dedicated employees who work efficiently. Indeed, Lapersonne (2017) states that companies must offer a simple and limited value proposition to achieve the lowest cost in the industry. Therefore, David and David (2017) claim that CLS is advisable for price-sensitive buyers, and its main objective is to produce standardized products at an affordable price.

The differentiation strategy allows a company to be unique or perceived as unique in its industry by offering several features of its product/service that are highly valued by customers (Tanwar, 2013). Chenhall and Langfield-Smith (1998) point out that the term "uniqueness" should encompass several aspects that could be perceived as valuable by customers because "differentiation strategies require companies to provide products to suit customers' particular needs or product specifications relating to quality, delivery or the products' physical characteristics" (p. 245). In addition, Akan et al. (2006) show that the quality of this "uniqueness" achieved through DS can be natural or perceived depending on the fashion, image, or brand name. According to Tanwar (2013), customers may be required to pay a premium price by companies for their unique products. Uniqueness may be related to customer service, product features, company brand image, product design, or technology. Therefore, a company that applies the DS approach can gain a sustainable competitive advantage (Banker et al., 2014), improving CP (Islami et al., 2020a).

2.3. Company performance dimensions

Spencer et al. (2009) suggest using multiple dimensions as criteria for measuring CP because the criterion for one dimension does not sufficiently represent the entire CP. Previous research has examined the effects of HRM practices and CS dimensions on CP using various performance criteria. For example, several criteria have been used to examine the impact of HRM practices on CP, including operational performance (Lee et al., 2010), financial performance (Huselid et al., 1997; Islami, 2022), customer satisfaction (Koyas, 2003), productivity (Chen et al., 2003), employee productivity, absenteeism, quality (Richard & Johnson, 2001), and employee turnover and efficiency (Huselid, 1995). Similarly, the impact of CS on CP has been measured using financial and operational criteria (see, e.g., Spencer et al., 2009; Islami et al., 2020b; Islami et al., 2020a). In this study, which follows Islami (2021a) and Islami (2021b), CP is measured using financial and operational indicators.

2.4. The effect of HRM practices on CP

In HR, the influence of HRM practices on CP has been the main concern for decades (Minbaeva, 2005). Several studies have empirically found that appropriate HRM practices can determine various aspects of CP. For example, Ahmad and Schroeder (2003) and Lee et al. (2010) have demonstrated a positive relationship between a set of HRM practices and operational performance, while Chang and Chen (2002) and Otoo (2019) have investigated CP. Thus, it can be said that HRM practices can improve CP by influencing work structure and employee motivation and skills (Delaney & Huselid, 1996), in this vein a high level of operational performance can be achieved through HRM practices (Islami & Mulolli, 2021). The usefulness of using HRM practices in an organization significantly impacts its performance (Osman et al., 2011). Therefore, this study hypothesizes that:

H_1 : A company's HRM practices have a positive impact on CP.

2.5. The moderating impact of CS on the relationship between HRM practices and CP

Although several studies have found a positive correlation between CS and CP, the results of this relationship are inconsistent. For example, Islami et al. (2020a) show a positive association between CLS and DS with CP. On the other hand, some studies have found no association between CS and CP (e.g., Thomas & McGee, 1992; McGee & Thomas, 1986) or found that this association is not dominant for certain situational constructs (e.g., Nandakumar et al., 2011). This inconsistency led Allen and Helms (2006) to state that developing strategy and management theories require more research on the relationship between competitive strategy and CP. Measuring the relationship between CS (CLS and DS) and sustainable CP shows that both CS positively influence CP, although DS takes precedence over CLS in this relationship (Banker et al., 2014; Islami et al., 2020a). This study hypothesizes the following:

H_{2A} : A company's CLS has a positive impact on CP.

H_{2B} : A company's DS has a positive impact on CP.

Several research papers claim that appropriate fit constructs between HRM practices and CS can be useful for organizational effectiveness. For example, according to contingency theory (Lee et al., 2010), there should be a close relationship between organizational strategy and HRM practices. Organizations should align their HR practices with corporate strategy (Bam-

berger & Meshoulam, 2000) because an effective relationship between HRM practices and CS can increase the overall CP (Huang, 2001). Several operational dimensions characteristic of companies pursuing a CLS, such as cost reduction, economies of scale (Islami et al., 2020a), routine and repetitive tasks, organization of jobs based on narrow employee specialization, tight control, and strict implementation of procedures (Youndt et al., 1996), can provide positive financial outcomes (Panayotopoulou et al., 2003). On the other hand, the link between DS and HR may be more robust when employees are committed to achieving organizational goals (Sun & Pan, 2011). According to Neal et al. (2005), companies that pursue DS show a positive correlation between HRM and productivity.

In this sense, Richard and Johnson (2001) highlight the moderating role of CS on the relationship between HR practices and CP. For this reason, this research assumes that CS can enhance the effects of HRM practices on CP. Considering "its characteristics and the core benefits [...], CS can function as an agent in transforming HRM practices" into a high CP (Islami, 2021a, p. 93). HRM practices can be better utilized when aligned with CLS or DS requirements. To better understand the relationship between HRM practices and CP by examining the moderating role of CLS and DS, this study hypothesizes the following:

H_3 : *The positive impact of HRM practices on CP is strengthened when companies pursue a CLS.*

H_4 : *The positive impact of HRM practices on CP is strengthened when companies pursue a DS.*

3. RESEARCH METHODOLOGY

3.1. Questionnaire design and measures

See the Appendix (Table A) for the measures and constructs used in this study. The literature was reviewed to adapt the existing items and find valid measures for the constructs. In the pre-test phase, the items were presented to 15 master's and doctoral students in the management department, four academics, and ten companies in face-to-face interviews. Based on the responses, items were modified, deleted, or added to clarify the questionnaire for our respondents.

The measurement items for five HRM practices were taken from the literature (Singh, 2004; Otoo, 2019; Lee et al., 2010; Amin et al., 2014; Ahmad & Schroeder, 2002; Islami, 2021a). In response to the question, respondents were asked to describe how HRM practices were used during the period 2017 - 2020. Measures for two dimensions of CS were adopted from (Huo et al., 2014; Lee et al., 2010; Islami, 2021a;

Danso et al., 2019). Respondents were asked to indicate the importance of CS to their company's overall strategy during 2017 - 2020. The measures for CP were adopted from (Gölgeci & Kuivalainen, 2020; Flynn et al., 2010; Islami, 2021a; Huo et al., 2014; Islami 2021b; Qi et al., 2011). Respondents were asked to indicate their performance on CP for 2019 - 2020 compared to key industrial competitors. All measures were measured on a Likert scale from one to seven.

The control variables used in this study are "company size" and "market competition." Following Danso et al. (2019), company size is calculated as the natural logarithm of the number of full-time employees. To measure market competition, following Acquah (2007), respondents were asked to indicate the extent to which various external activities had taken place in their industry in 2017 - 2020.

All scales were developed in English, translated into Albanian by an English language professional, and reviewed by a Kosovar management expert. The scales were translated back to English by another English language professional and a professor of business strategy to ensure the reliability of the research instrument (Islami, 2021a, p. 108).

3.2. Sampling and data collection

Data were collected by mail survey from manufacturing companies. Senior and mid-level managers of the companies were selected to answer the questions on HRM practices, CS, and operational performance. Financial managers were selected to answer the questions on finance. Following Gölgeci and Kuivalainen (2020), this study uses two respondents from each participating company for the survey.

The sample companies were selected from the "Kosovo Agency of Statistics" (KAS). Of the 10,190 companies registered on KAS, 600 met our selection criteria, with only 447 having updated contact information. The companies had to be in the manufacturing sector. They had to have more than ten employees, with no limit on the maximum number of employees. Data collection was conducted in two waves. First, two responses were obtained from each company on HRM practices, CS dimensions, and operational measures. Two months later, the companies that had correctly completed the questionnaires and returned them were contacted again to obtain the financial managers' opinions on the financial measures.

The cover letter explaining the study's objectives was sent together with the questionnaires. The emails were supplemented by phone calls and messages to increase the response rate. In the following analysis, we used 157 samples, corresponding to an effective response rate of 35%. The main characteristics of the

sample are that most of the respondents were from the food and construction sectors. More than half of the respondents had fewer than 49 employees and annual revenues between one and ten million. About 43 percent of employees had more than 20 years of work experience. In addition, each responding company applied at least one international quality standard.

Furthermore, in line with the procedures recommended by Podsakoff et al. (2003), we accounted for possible non-response in the data collection process. With a 35% response rate, two respondents from each company, and statistical results showing that no single factor explained more than fifty percent of the variance (as measured by the Harman factor), this study had no serious common method bias.

3.3. Reliability and validity

This study used a rigorous process to develop and validate the constructs, such as preliminary data collection, previous studies to support content validity, pilot testing, and interviews with managers. To test the reliability and validity of the constructs, a series of analyses were conducted after data collection.

We used the two-step method to test the reliability of the constructs following Huo et al. (2015). First, confirmatory factor analysis (CFA) was conducted using AMOS to ensure the scales' unidimensionality. Then, Cronbach's α was used to measure reliability. The Appendix (Table A) shows the CFA results for the first-order constructs. The results show that the "Kaiser-Meyer-Olkin" (KMO) measure of sampling adequacy and the "Bartlett's test" of sphericity show that the data are suitable for CFA. The CFA results demonstrate the unidimensionality of the constructs. Maximum likelihood factor analysis with Promax rotation was used to identify the underlying dimensions. According to the thresholds recommended by Hair et al. (2019), only loadings above .45 (> 0.45) are presented. Thus, after low-loading and cross-loaded items were removed from their respective factors, all remaining items loaded to their respective factors above the recommended threshold of .45, and all t-values were higher than 2 (> 2.0) (Hair et al., 2019; Huo et al., 2015). Cronbach's α -values for each construct were above the recommended threshold of .70 (> 0.70) (see Appendix Table A). According to Wu (2005) and Hair et al. (2019), these results were acceptable and ensured the constructs' unidimensionality and reliability.

CFA measurement models were then conducted to estimate first-order construct validity. The results show that the values of CR and AVE showed convergent validity for all constructs, as they exceeded the recommended thresholds of 0.7 and 0.5, respectively (Bagozzi & Yi, 2012; Islami, 2021a). Discriminant va-

lidity was also confirmed as the square roots of AVE on the diagonal were higher than the correlations in all cases (Table 1).

For second-order models, a second condition for convergent validity must be met. To measure this, we used a two-step method in this study. First, the respective first-order factors must significantly contribute to the second-order factors (Huo et al., 2015; Peng et al., 2008). Second, we compare the first- and second-order models using the target coefficient index (Li et al., 2006). Tables 2a and 2b show that the loadings of the second-order factors were higher than .60, and all t-values were higher than 2.0 (Huo et al., 2015), demonstrating convergent validity. The reliability of the measurement constructs was also confirmed, as the reliability for both second-order constructs was higher than the suggested threshold of .70.

In addition, the fit statistics for HRM practices as a second-order construct show a moderate fit of the model to the data (Hu & Bentler, 1999; Hair et al., 2019). The target coefficient index shows that the HRM practices construct explains 99.3 percent of the variation in the five first-order factors, which is strong evidence for the existence of the second-order construct (see Table 2a). On the other hand, the goodness-of-fit statistics for CP as a second-order construct indicate a good model, with the obtained results: $\chi^2/df = 1.921$; $IFI = .97$; $NNFI = .95$; $CFI = .96$; $RMSEA = .07$; $SRMR = .054$. Also, the agreement between the Chi-squares of the first and second models suggests the existence of second-order CP constructs (see Table 2b).

4. DATA ANALYSES AND RESULTS

The means and standard deviations of the primary constructs and their correlations are shown in Table 3. The correlation between the variables was significant and below the value of 0.70. Moreover, there is no reason to be concerned about multicollinearity because the constructs' Variance Inflation Factors (VIFs) were all below 10 (Acquaah, 2007; Hojmosse et al., 2013).

Hierarchical linear regression analyses were used to test the hypotheses of this study. A total of four models were created to test them. In Model I, the control variables of company size and market competition were entered. In model II, the independent variable "HRM practices" was entered. In Model III, CLS and DS were entered as independent variables. In model IV, the interactions between HRM practices and two CS were entered (i.e., two interaction items). The dependent variable was CP. The regression results are summarized in Table 4.

The results showed that "HRM practices" were significantly and positively associated with CP, sup-

TABLE 1. Convergent and discriminant validity of the first-order constructs.^a

Construct	CR ^b	AVE ^c					
<i>HRM practices</i>			1	2	3	4	5
1. "Recruitment and selection."	0.80	0.51	0.71				
2. "Training and development."	0.89	0.67	0.41***	0.82			
3. "Teamwork and participation."	0.88	0.71	0.60***	0.61***	0.84		
4. "Performance appraisal."	0.90	0.64	0.63***	0.57***	0.67***	0.80	
5. "Compensation/incentives."	0.87	0.64	0.57***	0.48***	0.50***	0.73***	0.80
<i>Competitive strategy</i>			1	2			
1. "Cost-leadership strategy."	0.86	0.56	0.75				
2. "Differentiation strategy."	0.87	0.58	0.72***	0.76			
<i>Company performance</i>			1	2			
1. "Operational performance."	0.89	0.66	0.81				
2. "Financial performance."	0.87	0.50	0.64***	0.71			
1. "Market competition"			1				
	0.81	0.42	0.64				

^a Bold values on the diagonal are the square root of the AVE values.

^b Composite reliability.

^c Average variance extracted.

** Correlation is significant at the .01 level (two-tailed);

*** Correlation is significant at the .001 level (two-tailed).

TABLE 2A. CFA results of second-order constructs of HRM practices

"Second-order construct"	"First-order constructs"	Loading	t-value ^a	Reliability
"HRM practices"				0.89
	"Recruitment and selection"	0.72	5.39	
	"Training and development"	0.61	7.20	
	"Teamwork and participation"	0.78	9.08	
	"Performance appraisal"	0.89	10.53	
	"Compensation/incentives"	0.81	9.65	
<i>Chi-square (x²) = 362.13.</i>		<i>Chi-square (x²) = 359.82.</i>		<i>Ratio (359.82/362.13)= 99.3%</i>
The model fit indexes: $\chi^2/df = 2.25$; IFI=.90; NNFI=.88; CFI=.90; RMSEA=.09; SRMR=.06.				

TABLE 2B. CFA results of second-order constructs of company performance

"Second-order constructs"	"First-order constructs"	Loading^a	Reliability
"Company performance"			0.82
	"Operational performance"	0.86	
	"Financial performance"	0.75	
<i>Chi-square (x²) = 76.84.</i>		<i>Chi-square (x²) = 76.84.</i>	
		<i>Ratio (76.84/76.84)=100%</i>	
<i>"The model fit indexes: x²/df = 1.92; IFI=.97; NNFI=.95; CFI= .96; RMSEA= .08; SRMR=.05.</i>			

^aAll t-values are significant at the 0.001 level (***).

TABLE 3. Descriptive statistics and correlation matrix of the primary constructs

Variables	1	2	3	4	5	6
1. "HRM practice."	1					
2. "Cost leadership strategy."	0.36**	1				
3. "Differentiation strategy."	0.49**	0.68**	1			
4. "Company performance."	0.35**	0.65**	0.63**	1		
5. "Market competition."	0.23**	0.27**	0.26**	0.23**	1	
6. "Company size." ^a	0.17*	0.08	0.19*	0.18*	0.09	1
Mean	5.79	5.49	6.11	4.55	4.57	1.57
St. Dev.	0.94	0.96	0.96	0.51	0.90	0.36

*p < 0.05; **p < 0.01. ^a Log of the number of employees

porting H1. CLS and DF were also positively and significantly associated with CP, supporting H2A and H2B, respectively. The addition of the CLS and DF variables to Model III significantly improved the explanatory power of Model II, as shown by the F test for the change in adjusted R² (R² = 31.2%, F > 16.274, p < 0.001). The interaction terms between HRM practices and CS affected CP differently. CLS had a marginally significant negative effect (p<.10) on the relationship between HRM practices and CP, which does not support H3. DF slightly improved the relationship between HRM practices and CP, which supports H4. Table 5 shows the results.

TABLE 4. Regression results analysis on company performance^a

Dependent Variable Variables	Company Performance (CP)							
	Model I		Model II		Model III		Model IV	
	β	(t-value) ^b	β	(t-value)	β	(t-value)	β	(t-value)
Company size ^c	0.17	(2.13)*	0.12	(1.63)	0.09	(1.47)	0.08	(1.33)
Market competition (MC)	0.22	(2.78)**	0.15	(2.01)*	0.03	(.53)	0.06	(0.86)
HRM practices (HRMp)			0.29	(3.77)***	0.05	(.72)	0.08	(1.13)
Cost leadership strategy (CLS)					0.42	(4.33)***	0.35	(3.43)**
Differentiation strategy (DS)					0.25	(2.47)*	0.32	(2.91)**
HRMp_x_CLS							-0.20	(-1.71)*
HRMp_x_DS							0.22	(1.67)*
Mean VIF ^d	1.01		1.06		1.84		2.74	
R ²	0.08		0.16		0.47		0.48	
Adjusted R ²	0.07		0.14		0.45		0.46	
Change in adjusted R ²			0.07		0.31		0.00	
F-test for change in adjusted R ²			14.23***		16.27***		1.55	
the p-value for R ² change	0.002		0.000		0.000		0.22	
Model F	6.74**		9.62***		44.66***		19.82***	

Note: Change in adjusted R² and F-test change in adjusted R² relates to the comparison of Model II with Model I. Model III is compared with Model II. Model IV is compared with Model III.

^a Standardized regression coefficients.

^b Critical values of the t distribution for $\alpha = 0.10$, $\alpha = 0.05$, $\alpha = 0.01$, and $\alpha = 0.001$ (two-tailed test) are * = 1.65, ** = 1.96, *** = 2.58, and **** = 3.30, respectively.

^c Log of the number of employees.

^d Variance inflation factor.

TABLE 5. Hypotheses test results

Hypotheses - (Path)	Results
<i>Direct effects</i>	
H ₁ : "HRM practices" → "Company performance"	Supported
H _{2A} : "Cost leadership strategy" → "Company performance"	Supported
H _{2B} : "Differentiation strategy" → "Company performance"	Supported
<i>Moderating effects</i>	
H ₃ : "HRM practices_x_cost leadership strategy" → "Company performance"	Rejected
H ₄ : "HRM practices_x_differentiation strategy" → "Company performance"	Supported
<i>Control paths</i>	
"Company size" → "Company performance"	Coefficient (t-value) 0.17 (2.13)*
"Market competition" → "Company performance"	0.22 (2.78)**

5. DISCUSSION AND RESEARCH IMPLICATIONS

5.1. The role of HRM practices in influencing CP

Based on the behavioral perspective, this research hypothesizes that a company's HRM practices positively impact its CP. In support of this hypothesis, the results show that the HRM practices adopted by companies directly impact CP and are only slightly dependent on strategic position. Consistent with the findings of previous research (e.g., Islami, 2021b, Otoo, 2019; Lee et al., 2010), this study shows that HRM practices positively impact CP. One possible reason for this relationship could be the use of various HRM practices, such as compensation/incentives, performance appraisal, teamwork and participation, training and development, and recruitment and selection, which can provide the company with better operational performance in terms of speed of delivery, responsiveness to customers, delivery reliability, and product quality. This, in turn, can drive financial performance through market share growth, revenue growth, return on investment, and profit growth.

The fine-grained analysis provides sufficient evidence that "an adequate implementation of the recruitment and selection criteria in hiring employees may be an important element in achieving an organization's convenient work climate" that can improve overall CP (Islami, 2021a, p. 152). Using appropriate training and development methods for employees to increase employee promotability can increase employee motivation and, accordingly, increase CP. Suppose employees have confidence in the appraisal system and clearly understand the appraisal objectives. In that case, this can effectively motivate, develop, and evaluate employees (Islami et al., 2018), which can improve CP. Finally, rewarding employees based on merit and using incentives to encourage them to achieve organizational goals can increase motivation and improve overall performance.

It is worth noting that HRM practices can be influenced by contextual factors, such as HR education, HR availability, the company's position in the industry, the competitive market, and company size. For example, if the skills needed are not readily available or the company is in a highly competitive industry, the level of education and training may be higher. Larger companies may have a greater need for effective management of HR due to the complexity of their tasks. The company's age, size and HR training may influence the level of compensation incentives and performance appraisal practices.

5.2. The moderating effect of CS

The direct relationship between the two dimensions of CS and CP was confirmed, as both CLS and DS positively influence CP. These results strengthen the previous findings of Islami et al. (2020b), Islami et al. (2020a), Danso et al. (2019), and Banker et al. (2014). Therefore, it can be said that companies that pursue a CLS by applying elements of economic efficiency, such as reducing production costs, implementing strict cost control, operating efficiently, and procuring raw materials at lower costs, can offer a better CP. Similarly, companies that apply DS elements, such as offering high product quality in the market, emphasizing effective coordination between different functional areas, ensuring customer satisfaction, improving their products, and offering a product with unique characteristics, may be able to offer a higher CP compared to companies that do not apply these elements.

In addition, it was hypothesized that the positive effects of HRM practices on CP would be enhanced when companies pursue a CLS. The results show the opposite and suggest that CLS weakens the positive relationship between HRM practices and CP (Figure 2a). Thus, using HRM practices is more beneficial for companies that do not pursue CLS than those that do. On the other hand, the results presented in Figure 2b show that a company using DS strengthens the positive relationship between HRM practices and CP.

Although the results do not significantly support both contingency hypotheses, the results do bring exciting things to light. The impact of HRM practices on CP is higher for companies pursuing a DS than for companies pursuing a CLS. This may be because implementing HRM practices requires more investment and resources (Islami & Topuzovska Latkovic, 2022). Therefore, CLS efforts of companies that offer standardized products and reduce unit costs are not in line with HRM practices. Using HRM practices requires increasing the company's expenses, negatively affecting CP. As a result, CLS companies cannot increase their financial performance by leveraging their effectiveness (Huo et al., 2014). DS, in contrast, focuses on delivery, process, and product quality, which is costly but differentiates a company from its competitors. Customers are more willing to pay a premium price when quality is improved, resulting in higher CP (for more research, see Islami et al., 2020a,b).

5.3. Theoretical and managerial implications

A significant contribution to the management and strategy literature can be expected from the results of this study. It provides a contingent view of the relationship between HRM practices and CP. It confirms the strategic involvement of HRM practices as a sec-

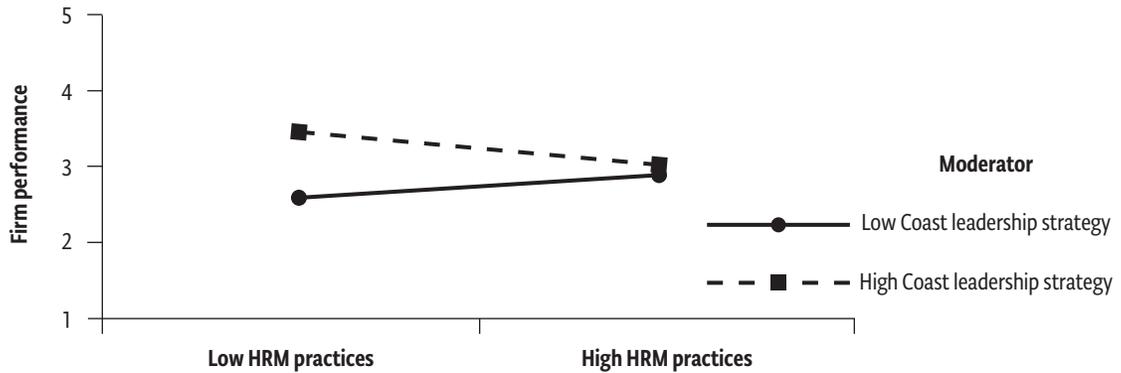


FIGURE 2A. Moderation effects of CLS

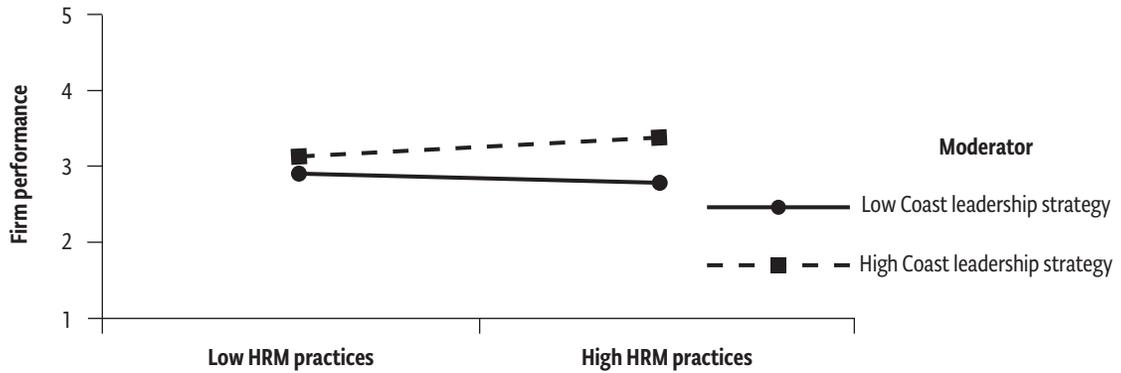


FIGURE 2B. Moderation effects of CLS

ond-order construct and CS dimensions (CLS and DS), which are generally poorly defined. There are many inconsistencies in people’s understanding of them. Similar to Islami (2021a) and Islami (2021b), it provides and validates the second-order construct of HRM practices, which includes five first-order factors: compensation/incentives, performance appraisal, teamwork and participation, training and development, recruitment and selection.

In addition, the study addresses several aspects of previous research that relate to the organization’s strategic direction. Using the contingency approach, this study examines the impact of HRM practices on CP under CLS and DS. It provides two patterns that enrich the existing literature and suggest new directions for future research.

Previous HRM research has largely ignored the role of integrated relationships with other organi-

zational instruments. For example, several strategic components, such as network relationships among HRM practices under different strategic conditions, have been neglected in linking HRM practices and CP. Measuring the moderating role of CS in the correlation between HRM practices and CP in the manufacturing industry extends the work shown in the literature. Therefore, by operationalizing organizational tools more broadly, this study provides the basis for a fine-grained and more comprehensive analysis of the influence of HRM practices under two CS on CP in emerging economies.

In addition to the theoretical contribution, the findings of this study have numerous implications for business management due to an inadequate understanding of what constitutes a comprehensive set of HRM practices and their impact on CP. This study provides top managers with a practical way to under-

stand the value of using HRM practices. Proposing, validating, and developing a multidimensional measure of HRM practices and their value to CP provides an essential instrument for evaluating their employees. Therefore, the results of this study enhance managers' insights into appropriate management HR. It also provides empirical evidence for strategic managers applying HRM practices when choosing CLS or DS.

In addition, the proper application of HRM practices is conducive to CP. Therefore, when planning to implement HRM practices, managers should have the plan to improve employees' knowledge through various HR practices. For example, to improve employees' skills and reduce resistance to implementing organizational tasks, they should organize appropriate training programs and create an atmosphere of continuous employee learning.

Finally, the results of this study recommend a contingent view of HRM practices concerning CP. To improve CP, manufacturing companies that aspire to DS should implement HRM practices comprehensively. Since two dimensions of CS were observed in this study, business managers who choose CLS or DS should refer to the results of this study to identify effective HR practices and realize appropriate integration between these two instruments (HRM practices and CS dimensions) to improve CP. Therefore, the results of this study will help managers to harmonize HRM practices with appropriate CS to enhance their organizations' performance.

6. CONCLUSION AND LIMITATIONS

In conclusion, the results of this research support the contention that the alignment between HRM practices and the CS dimensions (CLS and DS) determines CP. The link between HRM practices and CP is more vital when organizations use DS. However, the interaction between HRM practices and CS has some differences. In general, this study offers a possible explanation for the conflicting results in the existing literature on the effects of HRM on CP. One of the practical implications of this study is that Kosovar manufacturers can improve their HRM capabilities based on their DS. By observing the dependent role of organizational CS alignment on how the value of HRM practices affects CP, this study replicates and extends previous research on HRM, CS, and CP.

Although the current study has important and valuable implications for academic studies and practice, it has some limitations that can be addressed in future research. First, this study used subjective measures to assess HRM practices, CS dimensions, and CP indicators. Due to the issues with obtaining objec-

tive performance measures in Kosovo (Islami, 2021a, p. 166), CP was measured using perceptual measures. Future studies could use objective measures instead of perceptual measures, at least for CP (e.g., financial statements or company records).

Second, this study addresses five HRM practices, but they do not cover all concepts and aspects of the vast field. Future research may expand the HRM field by examining additional practices, such as job security, career planning, clear job description, HR planning, and health and safety, which were left unobserved in this study.

Third, this study only measured the positive dimension of the relationship between HRM practices, CS, and CP. However, CP may impact the implementation of HRM practices and bias the cause-effect relationship demonstrated in this study. Future research examining how CP affects the pursuit of CS and implementing HRM practices could observe reverse causality using an integrative, holistic approach.

Finally, by focusing on manufacturing companies across various company sizes and industries, this study has created a comprehensive picture of the relationship between HRM practices, CS, and CP. These relationships may not be identical for all industries or company sizes. Therefore, in addition to correlations, future studies should also examine the impact of these contextual factors on HRM practices, SC, and CP.

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MODERIRA LI KONKURENTSKA STRATEGIJA POVEZANOST IZMEĐU PRAKSI UPRAVLJANJA LJUDSKIM POTENCIJALIMA I PERFORMANSI PODUZEĆA?

SAŽETAK

Cilj ove studije je istražiti moderacijsku ulogu konkurentskih strategija u odnosu između praksi upravljanja ljudskim potencijalima (ULJP) i performansi poduzeća. Iako se u postojećoj literaturi na odgovarajući način diskutira o praksama ULJP-a i performansama, postoje ograničeni empirijski dokazi kako se ostvaruje odnos između internih resursa i strategija s performansama. Korištenjem kontingencijskog pristupa, ovim se radom želi otkriti uloga konkurentskih strategija u realiziranju utjecaja praksi ULJP na performanse poduzeća. Podaci, korišteni za testiranje, istraživanje i razvoj modela moderacijske uloge konkurentskih strategija, prikupljeni su od 157 proizvodnih poduzeća te su analizirani korištenjem hijerarhijske linearne regresije. Rezultati istraživanja pokazuju da i strategija troškovnog vodstvo, kao i strategija diferencijacije, moderiraju odnos između praksi ULJP-a i performansi poduzeća. Nadalje se diskutiraju teorijske i menadžerske implikacije rezultata istraživanja.

KLJUČNE RIJEČI: *Prahse upravljanja ljudskim potencijalima; strategija diferencijacije; konkurentške strategije; performanse poduzeća.*

APPENDIX

TABLE A. CFA results of first-order constructs

Items	Loading ^a	t-value ^b
Human Resource Management practices. (<i>KMO test =0.858; Bartlett test: Approx. $\chi^2 =2126.035, df =190, Sig. =.000$</i>). "To what extent did your organization use the following practices in last three years 2017 March – 2020 March" (1 – "not at all" to 7 – "to an extreme extent").		
<i>Recruitment and selection (a =0.78)</i>		
"RecSel_1": "Attitude/desire to work in a team as a criterion in employee selection."	0.60	9.43
"RecSel_2": "Problem-solving aptitude as a criterion in employee selection."	0.94	12.47
"RecSel_3": "Work values and behavioral attitudes as a criterion in employee selection."	0.71	10.16
"RecSel_4": "Selecting employees who can provide ideas to improve the manufacturing process."	0.52	6.19
<i>Training and development (a =0.87)</i>		
"TraDev_2": "Activities of the training program provided meet the needs of the employees."	0.68	10.62
"TraDev_3": "Formal training programs are offered to employees in order to increase their promotability."	0.94	12.60
"TraDev_4": "Identifying realistic and useful training needs based on the competitive strategy of the organization."	0.57	11.42
"TraDev_5": "Providing formal training programs to teach new hires the skills they need to perform their	0.75	13.18
<i>Teamwork and participation (a =0.87)</i>		
"TeaPar_1": "During problem solving sessions, an effort to get all team members' opinions and ideas is given before making a decision."	0.57	9.61
"TeaPar_2": "Forming teams to solve problems and in the past 3 years many problems have been solved through small group sessions."	0.84	14.31
"TeaPar_3": "Problem solving teams have helped improve manufacturing processes."	0.93	13.92
<i>Performance appraisal (a =0.90)</i>		
"PerApp_1": "Appraisal system is growth and development oriented."	0.64	11.93
"PerApp_2": "Employees have faith in the performance appraisal system."	0.97	11.93
"PerApp_3": "Appraisal system has influence on individual and team behavior."	0.58	9.53
"PerApp_4": "The appraisal data is used for making decisions like job rotation, training, and compensation."	0.68	12.49
"PerApp_5": "The objectives of the appraisal system are clear to all employees."	0.71	12.89
<i>Compensation/incentives (a =0.85)</i>		
"ComInc_2": "Job performance is an important factor in determining the incentive compensation of employees."	0.79	11.79
"ComInc_3": "The compensation for all employees is directly linked to his/her performance."	0.61	9.64
"ComInc_4": "Incentive system is fair at rewarding people who accomplish an organization objective."	0.70	11.83
"ComInc_5": "Incentive system encourages people to reach organization goals."	0.71	12.92
Competitive strategy. (<i>KMO test =0.89; Bartlett test: Approx. $\chi^2 =855.21, df =45, Sig. =.000$</i>). "Please indicate the importance of the following competitive methods to your organization's overall strategy in last three years 2017 March – 2020 March" (1 – "most unimportant" to 7 – "most important").		

Cost-leadership strategy (a =0.85)

"CosLea_1": "Pursuing cost advantage of raw material procurement."	0.79	9.51
"CosLea_2": "Finding ways to reduce cost of production."	0.95	13.59
"CosLea_3": "Emphasizing an efficient way of operation."	0.64	13.25
"CosLea_4": "Implementing strict control of cost."	0.60	10.99
"CosLea_6": "Pricing below competitors."	0.58	6.04

Differentiation strategy (a =0.86)

"DiffStr_1": "Providing product with unique features."	0.51	9.63
"DiffStr_2": "Emphasizing continuous improvement of products to secure a long-term competitive edge."	0.70	10.79
"DiffStr_4": "Emphasizing product quality via the use of quality circles or work improvement teams."	0.76	12.16
"DiffStr_5": "Emphasizing effective coordination among different functional areas to ensure customer satisfaction."	0.94	11.75
"DiffStr_6": "Advertising and promoting products/services."	0.80	9.46

Company performance. (KMO test =0.85; Bartlett test: Approx. $\chi^2 =1080.78$, $df =55$, Sig. =.000). "Please evaluate your organization's performance for the last year (2019 March – 2020 March) in the following areas relative to your primary/major industrial competitors" (1 – "much worse" to 7 – "much better").

Operational performance (a =0.88)

"OpePer_1": "Overall product quality."	0.68	9.82
"OpePer_2": "Responsiveness to customers."	0.74	11.32
"OpePer_4": "Delivery speed."	0.87	12.66
"OpePer_5": "Delivery dependability."	0.99	14.23

Financial performance (a =0.88)

"FinPer_1": "Return on investment (ROI)."	0.69	8.76
"FinPer_2": "Growth in return on investment."	0.84	9.19
"FinPer_3": "Growth in sales."	0.66	12.69
"FinPer_4": "Return on sales (ROS)."	0.70	7.88
"FinPer_5": "Growth in return on sales."	0.68	6.39
"FinPer_6": "Growth in market share."	0.61	11.26
"FinPer_7": "Growth in profit."	0.72	8.54

Market competition. (KMO test =0.80; Bartlett test: Approx. $\chi^2 =277.81$, $df =15$, Sig. =.000). "Please indicate the degree of the following activities that had taken place in your organization's industry in last three years 2017 March – 2020 March" (1 – "very little" to 7 – "very extensive"). (a = 0.80)

"MarCom_1": "An increase in the number of major competitors."	0.69	8.93
"MarCom_3": "The frequency of technological change."	0.61	6.86
"MarCom_4": "The frequency of new products or service introductions."	0.54	5.57
"MarCom_5": "The rate of change in price manipulations."	0.66	8.69
"MarCom_6": "An increase in the number of companies who had access to the same marketing channels."	0.76	10.28
"MarCom_7": "The frequency of changes in government regulations affecting the industry."	0.58	7.30

Note: a- reliability; ^a The cutoff values suggested by Hair et al. (2019);

^bAll loadings are significant at $p < .001$ (***).