

## **Human Capital Development and Strategic Renewal in Hospitality Industry of Khyber Pakhtunkhwa**

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The current study examines the impact of human capital development (HCD) on strategic renewal (SR) of firms in hospitality industry of Khyber Pakhtunkhwa. In addition, the current study also examined the mediating role of ambidextrous learning (AL) and the moderating role of dynamic capabilities (DC) between HCD and SR relationship. Data were collected from 490 managers/owners of 3-stars and 4-stars hotels through questionnaires operating in the tourist destinations of Khyber Pakhtunkhwa, Pakistan. Data analysis was performed through various statistical techniques which provides some interesting results. The results indicate that HCD is positively associated with SR. Moreover, AL bridges the association between HCD and SR. Furthermore, the results stated that DC has a strong contingent effect on the relationship between HCD and SR. The findings reveal that HCD in presence of AL plays a critical role in SR of the hospitality in Khyber Pakhtunkhwa.

**Keywords:** human capital development, ambidextrous learning, strategic renewal, dynamic capabilities, hospitality industry

The hospitality industry has been working in Pakistan since 1947 (Malik, Akhtar, Raziq & Ahmad, 2018). This industry has provided a significant amount of revenue to the economy in the past (Shah, Jan & Baloch, 2018). Pakistan is a country having a lot of unexplored tourist destinations and has a strong potential to attract thousands of tourists every year. However, the tourism and hospitality industry operating in Pakistan is not strong enough to provide the required services to local and foreign tourists. Therefore, there is a dire need to renew the hospitality industry in a strategic way with a purpose to align the local industry with international standards.

During the last decade, the local tourism is rapidly increasing in Pakistan. However, the growth in the hospitality industry of Pakistan during this period is invisible (Hemdi & Rehman, 2010). There are a lot of reasons behind the low growth rate in the hospitality industry. Some of the reasons

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Contribution of Authors:

1. Muhammad Ali is a PhD research scholar in Department of Management Sciences, Hazara University Mansehra. This research is extracted from his PhD thesis. He has worked on introduction, literature and methodology section as well as on discussion.
2. Dr. Abdul is Associate Professor in Department of Management Sciences. Being a supervisor of said scholar, Dr. Majid helped in data analysis section as well presenting results more appropriately. Moreover, Dr. Majid helped the research scholar in overall organizing of the paper including review of the literature, methodology and discussion section

include; lack of infrastructural facilities (Bashir & Nasir, 2013), non-serious attitude of the previous governments (Hashim *et al.*, 2016), terrorism (Ameeq & Hanif, 2013), and military coup (Abbasi *et al.*, 2010), etc. Besides, one of the major reasons behind the slow growth of hospitality industry is the lack of skilled work force (Peng, Zhao & Mattila, 2015). There are very limited institutes that are offering a diploma/graduate courses in tourism and hospitality in whole of the Khyber Pakhtunkhwa province. Keeping in view this research gap, we try to investigate the role of HCD on SR in the hospitality industry of Pakistan

According to Capron and Mitchell (2009), the SR is the process, content and consequence of refreshing or replacing attributes of a firm that considerably affect its long-term scenarios. Such SR in hospitality industry can be based on many factors. However, the most important antecedent of SR is HCD (Helfat & Martin, 2015). HCD is a process of acquiring skills and knowledge through training and education (Nafukho *et al.*, 2004). In the context of Pakistan, there is hardly any evidence for explaining the SR of hospitality industry through HCD. Therefore, this research is initiated to find out the effects of HCD on SR in hospitality industry of Khyber Pakhtunkhwa Pakistan.

Moreover, the other determinants of SR are also explored namely, AL and DC. AL focuses on exploration and exploitation, where exploration mean to explore new knowledge opportunities, while exploitation deals with the use of existing knowledge and capabilities to generate and maintain success over time (Kang, Morris & Snell, 2007). DC is the firm's capability to assimilate, build and reconfigure inside and outside capabilities to deal with the volatile environment (Easterby-Smith & Prieto, 2008).

The major goal of this research is to add in the existing knowledge on SR of hospitality industry of Khyber Pakhtunkhwa through HCD and AL. This research also highlighted the mediation effect of AL and the moderator effect of DC in the relationship between HCD and SR. This research attempts to develop a comprehensive model of SR for hospitality industry which invisible in the existing literature. The remaining part of the current study is arranged as; in the next section, we explain the variables used in the study and develop study hypotheses. After literature review, we explained research methodology and the analytical techniques for this study. Analysis, contributions and conclusion are presented in the last parts.

## **Literature Review**

### **Human Capital development and strategic renewal**

Volberda *et al.*, (2001) defined SR as activities that a firm undertakes to change its strategic path (Volberda *et al.*, 2001), and to create a balance between a firm and its environment (Lamberg *et al.*, 2008; Miller, 1992). SR is a comprehensive process that includes: procedure, contents, and results of replacing the organizational dynamics that have the potential to affect the sustainability of a firm in the long-run. There are various factors available in the existing field of knowledge that act as a determinant of strategic renewal e.g. (Dutta, 2013; Kearney & Morris, 2015; Warner & Wäger, 2019), However, the most important factor that has recently gained the attention of the researcher is HCD.

HCD refers to a unique set of abilities, techniques and knowledge of employees that originates from experience and formal education. According to Smith *et al.*, (2011), HCD comes from formal education and training by which individuals improve their understanding, skill and ability that would be helpful in managing resources, monitoring processes, predicting results and bringing innovation and change. According to Nonaka and Toyama (2015), strategic innovation and renewal is

based on developing a new knowledge, skills and competencies. Moreover, Freel (2000) argued that developing employee is a foundational stone for innovation and SR. Hence, we hypothesize that;

**H1:** Human capital development positively affects the strategic renewal process.

### **Human capital development and ambidextrous learning**

AL is an organizational capability to discover new knowledge domains and to exploit the available knowledge and capabilities simultaneously (He & Wong, 2004). According to Kang and Snell (2009), AL takes place through an acquisition, sharing and integration of external and internal information within and outside the firm. Majority of researchers have focused on two alternate approaches of AL: exploration and exploitation. Exploration focuses on the search of learning from outside a firm existing knowledge domain, while exploitation involves extending and using the existing knowledge capabilities of a firm (Diaz-Fernandez *et al.*, 2017). Marimuthu *et al.*, (2009) argued that HCD in the form of skills, knowledge and capabilities are a key foundation for AL. Kang and Snell (2009) also stated that HCD is the key determinant of AL. These arguments are the bases of H2 of the study:

**H2:** Human capital development positively affects the ambidextrous learning of employees.

### **Ambidextrous learning and Strategic Renewal**

In an uncertain and challenging long-term survival journey, businesses must go through the process of SR. According to Floyed and Woldridge, (2000), SR is a process concerned with the stimulating and enhancing new knowledge and innovative behaviour which result in a change in organizational core capabilities. There has been a multiplicity of research approaches, conceptualizations and theoretical learnings adopted by various scholars to study the association of ambidexterity learning and SR. Patel, *et al.*, (2013), developed consensus that AL has positive associated with innovation and renewal. Dutta (2013) also found a positive relationship between AL (exploitive and exploitative) and SR. AL is a popular method used to stabilize the exploration of future prospects and exploitation of existing knowledge. According to Raisch and Birkinshaw (2008), AL is recommended by various researchers as an influential tool of renewal of firm. Hence, we hypothesize that;

**H3:** Ambidextrous learning positively and significantly affects strategic renewal.

### **The mediating role of AL in relation among HCD and SR**

In this study, we contend that AL mediates the relationships between HCD and SR. As noted in the previous paragraphs, that HCD is expected to associate positively with AL (Kang & Snell, 2009), and subsequently, AL fosters the process of SR, therefore it is proposed that AL mediates the relationship between HCD and SR. Thus, we conceptualize AL as a mediator between HCD and SR. On the basis of above study, the hypothesis is given as under;

**H4:** Ambidextrous learning mediates the relationship among HCD and SR.

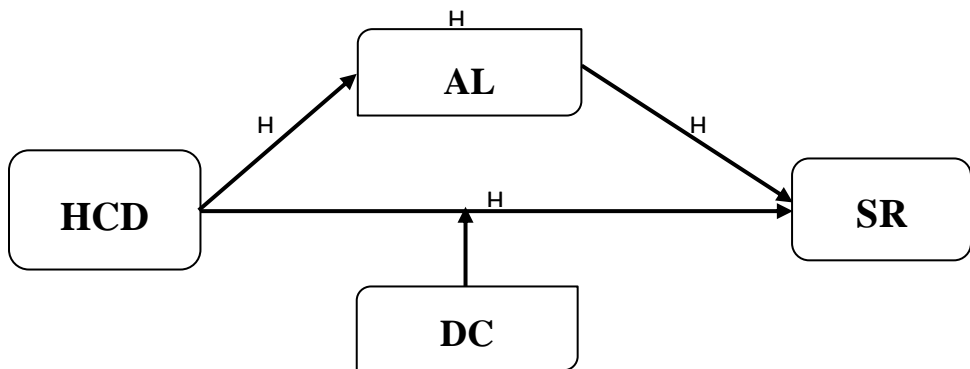
### **Moderating role of DC in relation among HCD and SR**

In strategic management literature, one of the most active research streams is DC, as an area of study explains how organizations respond to rapid technological and strategic changes (Di Stefano *et al.*, 2014). Helfat *et al.*, (2007) outlined DC as a capability to develop, assimilate and reorganize external and internal competencies to cope with the changes taking place in a dynamic environment. As we discussed earlier that SR is based on HCD through developing new knowledge, skills and competencies (Nonaka & Toyama, 2015). Collis, (1994) argued that, DC plays a very

important role for organizational renewal and innovation. Cepeda and Vera (2007) viewed DC as higher-order capabilities that effect the enhancement of operational competences. DC has the potential to create, expand and transform a business resource base towards SR (Helfat *et al.*, 2007). Some previous studies have also investigated how DC moderates the relationship between intellectual capital (HC) and SR (Hassan, Mei & Johari, 2017). There is hardly any evidence for explaining the relation among the HCD and SR. Thus, we attempt to inquire the moderating role of DC in HCD-SR relationship.

**H5:** Dynamic capabilities moderate the relationship between human capital development and strategic renewal.

### Theoretical Framework



**Fig 1.** Theoretical Framework

### Method

This research was carried out in hospitality industry of Khyber Pakhtunkhwa and the data were collected from managers of 3-stars and 4-stars hotels. The combined list of hotels was obtained from the Directory of Hotels and Restaurants, Ministry of Tourism, and Economic Analysis Wing of Government of Pakistan to identify a more representative sample size. There are three main requirements for developing the criteria to select the hotels. First, the hotel/restaurant must have the complete email address and contact details (owner details and telephone number). Second, they should be operating in the industry for the last three years. Third, the hotel/restaurant must meet the criteria of 3-stars and 4-stars hotels.

### Data collection

The data was collected from managers and owners of hotel industry through questionnaires. The data was collected through online survey method. Initially 1475 questionnaires were sent through email. However, 217 emails remained undelivered due to various reasons like incorrect email address, incomplete email address etc. Total delivered emails were 1258. Out of 1258; only 490 questionnaires were received back.

### **Reliability, validity and operational measurements**

The scales used in this research have been adapted from the existing literature to outfit this framework. After a refinement of all items by multiple repetition of CFA, total number of items were reduced from 47 to 39 (Anderson & Gerbing, 1988).

### **Human Capital Development**

For this study, 15 item scale of independent variable was adopted from Lai Wan, (2017). These 15 items used for the measurement HCD and generated an  $\alpha$ -value of 0.87.

### **Ambidextrous Learning**

To measure AL, existing research often created a two-step approach for measuring AL. First, consider exploration and second exploitation (He & Wong, 2004). So, we measure them separately with a 12-item scale based on the work of Diaz-Fernandez *et al.*, (2017). These 12-item used for the measurement of AL generated an  $\alpha$ -value of 0.91.

### **Dynamic Capabilities**

For the current study, 9 item scale of moderating variable (DC) was adopted from the work of Eisenhardt and Martin (2000) and Teece *et al.*, (1997). These 9 items used for the measurement DC generated an  $\alpha$ -value of 0.86.

### **Strategic Renewal**

The dependent variable SR was measured through a 11-item scales adopted from the work of Kreiser *et al.*, (2010). These 11 items used for the measurement of SR generated an  $\alpha$ -value of 0.93.

### **Analysis and results**

Data were analysed using descriptive, correlation and regression statistics. To validate the mediation hypothesis, two methods were utilized; the Baron and Kenny (1986) and the Macro PROCESS (Preacher & Hayes, 2008). Moderating role of DC was tested through multiple-hierarchical-regression analysis. To validate the discriminant validity, the method of Fornell and Larcker (1981) was applied. In this technique, the shared variance between the constructs and the AVE of each construct was compared accordingly.

### **Confirmatory Factor Analysis (CFA)**

For this study, before analysing the data, we confirmed that the model is adequate for analysis by using a technique of CFA. A number of indicators were used to prove the validity of construct and to measure the overall model-fit. The values of various fit indices were CFI = 0.94,  $\chi^2 = 133.77$ , GFI = 0.92 and RMSEA = 0.049. The result shows that CFI, GFI and RMSEA values are in line with standard norms, where CFI and GFI values must be 0.90 or more than 0.90 (Hutchinson & Olmos, 1998) and RMSEA values must be 0.05 or less than 0.05 (Brown & Cudeck, 1993).

### **Discriminant validation test and multicollinearity**

The Fornell and Larcker (1981) technique was used to verify discriminatory validity. According to this technique, the variance shared between the construct is linked to each construct of AVE. The results show that the values of the variance shared with other constructs are less than the AVE values for all construct. Therefore, discriminant validity was not an issue. Following the guidelines of Myers (1990) the issue of multicollinearity was also checked. According to Myers (1990), the values of the tolerance statistic must be greater than 0.2, the values of the Variable Inflation

Factor (VIF) must be less than 10 and the value of the average VIF must be greater than 1. In this study, all values are in line with standard norms, because the statistical value of the tolerance was higher than 0.2, whereas, VIF were less than 10 and the average values of FIV was higher than 0.2. Based on these statistics, it is confirmed that multicollinearity is not an issue for this study.

## Results

The values of correlations mean and standard deviation (SD) are presented in Table 1. Table 1 shows significantly positive relationship between all constructs including: independent, mediator, dependent and moderator. Table 1 presents a positive relationship between HCD and SR (0.18\*\*), HCD and AL (0.22\*\*), HCD and DC (0.32\*\*) and AL and SR (0.25\*\*). Based on these significant relationships, mediation analysis can be tested (Baron and Kenny, 1986).

**Table 1**  
*Descriptive statistics and Correlation*

Variables.	Mean.	SD.	1	2	3	4	5
Age of a Business.	3.22	.79	1				
Size of a Business.	0.34	.86	.09	1			
HCD.	2.71	.82	.06	.01	1		
AL.	2.22	.89	.04	.03	.22**	1	
SR.	3.7	.91	.07	.10*	.18**	.25**	1
DC.	3.54	.89	.03	.09	.32**	.33**	.37**

**Note:** (\* $p < 0.05$ ) (\*\* $p < 0.01$ )

HCD (Human Capital Development), AL (Ambidexterity Learning), SR (Strategic Renewal), DC (Dynamic Capability).

### Mediation analysis

Initially, Baron and Kenny (1986) technique was employed to examine the mediating effect of AL. The results presented in Table 2 and Table 3 validate the mediation analyses. Both simple and multiple regression analysis were used in order to test the four-step suggested in causal step approach. The result of the first step was presented in Table 2 which confirms that HCD is positively influence SR ( $\beta = 0.22$ ,  $t = 4.48$ ,  $p = 0.00$ ). Therefore, H1 of the study is confirmed. The result of the second step was presented in Table 2, which shows that HCD is positively related to AL ( $\beta = 0.37$ ,  $t = 9.02$ ,  $p = 0.00$ ). Based on these results, H2 of the current study is confirmed. Third step confirms the positive relationship between AL and SR which is ( $\beta = 0.52$ ,  $t = 16.77$ ,  $p = 0.00$ ). Based on the third step results, H3 of the study is also accepted.

**Table 2**  
*Mediation analysis: Simple Regression*

Independent Factor	AL					SR				
	R <sup>2</sup>	S. E	$\beta$ .	t. value	Sig.	R <sup>2</sup>	S. E	$\beta$ .	t. value	p
HCD	0.17	0.041	0.37	9.02	0.00	0.15	0.049	0.22	4.48	0.00
AL (Mediator)	-	-	-	-	-	0.33	0.031	0.52	16.77	0.00

**Note:** Separately regressions are examined to evaluate the relationship between one independent, mediating and independent variables. HCD (Human Capital Development), AL (Ambidexterity Learning), SR (Strategic Renewal).

The results of the multiple regression analysis are presented in Table 3, which were used to verify the fourth step as suggested by Baron and Kenny (1986) to confirm the role of mediation. Result of Model 1 shows the effect of HCD on SR. While the control variables are placed in Model 2. The mediator is placed in Model 3 to verify the mediation effect.

Table 3 showing the information regarding the effect of HCD on AL and AL on SR. Models 1 and Model 2 provide the values to measure the effect of HCD on SR directly (without control variable) and recommended that SR effect by the managers or management who have to develop their human capital. Both models show that HCD is expressively related to SR ( $\beta=0.226^{**}$  SE0.052) and ( $\beta=0.243^{**}$  SE0.052). Which explain the association between HCD and SR. After adding the AL in Model 3, which are used to assess the mediating effect of AL, where the coefficient of HCD shows in Model 3 insignificant effect on SR ( $\beta=0.587^{**}$  SE=0.034) and ( $\beta=0.023$ , SE=0.47). Generally, these results show that AL fully mediates the relationship between HCD and SR. H4 is therefore confirmed. Overall, these results show that AL fully affects CHD on SR. H4 is therefore fully retained.

**Table 3**  
*Mediation analysis: Multiple Regression*

	Model 1.		Model 2.		Model 3.	
	$\beta$	S.E	$\beta$	S.E	$\beta$	S.E
Independent variable						
HCD	0.226**	(0.052)	0.243**	(0.052)	0.023	(0.47)
Control Variables						
Business Age			0.003	(0.101)	0.002	(0.084)
Business Size			0.072	(0.078)	-0.043	(0.066)
Mediating Variables						
AL					0.587**	(0.034)
R <sup>2</sup>	14		22		30	
RMSEA	0.05		0.04		0.047	
CFI	0.97		0.96		0.93	
Df	24		131		172	
Chi Square	172.34**		612.14**		1254.45**	

**Note:** \*\*  $p < .001$ ; \*  $p < .01$  (two-tailed test)

HCD (Human Capital Development), AL (Ambidexterity Learning), SR (Strategic Renewal).

### Normal Theory Test Approach

Baron and Kenny (1986) method simply inform the existence of mediation and overlook the strength of mediation effect (Preacher & Hayes, 2008). Therefore, in this research, normal theory test techniques is applied to gauge the strength of mediation effect of AL between HCD-SR relationship. Results of Preacher and Hayes (2008) approach presented in Table 4 provides statistics for the direct, indirect and total effect calculated through PROCESS Macro. The results presented in Table 4 present an insignificant direct effect ( $\beta 0.04$ ,  $t 0.72$ ) of HCD on SR, while outcomes of Normal Test Theory ( $Z =$

5.03,  $p < 0.00$ ), confirmed the indirect effect of HCD on SR (0.34, 0.04 & 0.31). Therefore, H4 is confirmed.

**Table 4**

*Direct and indirect effects of HCD on SR (through PROCESS version SPSS)*

Mediation Models	Total Effect			Direct Effect			Indirect Effect		
							NTT		
	$\beta$	$t$	$P$	$\beta$	$t$	$P$	$\beta$	$Z$	$p$
HCD → AL → SR	0.34	6.05	0.00	0.04	0.72	0.53	0.31	5.03	0.00

**Note:** HCD (Human Capital Development), AL (Ambidexterity Learning), SR (Strategic Renewal), NTT (Normal Test Theory)

### Moderating analysis

Hierarchical regression was applied to observe the moderation effect. Table 5 demonstrates steps 1 and 2, which is used to deliver information regarding the Model proposed. Furthermore, the step 3 provides data regarding the moderation effect of DC between HCD and SR. Table 5, also show that the significant interaction (HCD x DC) coefficient ( $\beta=0.221$ ,  $p=0.01$ ) confirmed the moderating effect of DC between HCD and SR relationship.

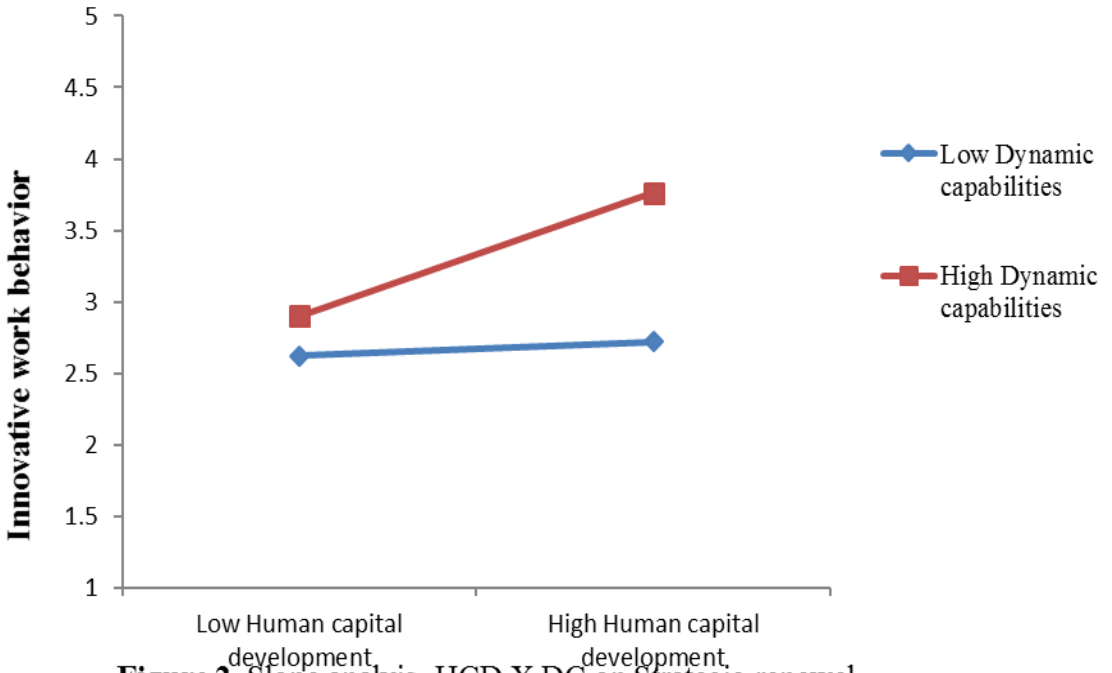
**Table 5**

*Analysis of hierarchical regression.*

	Step-1	Step-2	Step-3
(a) Dynamic capabilities as a moderating effect			
Business Age	-0.006	0.011	0.012
Business Size	-0.036	-0.013	-0.005
Human Capital Development		0.166**	0.187**
Dynamic Capabilities		0.322**	0.369**
Human Capital Development x Dynamic Capabilities			0.221**
$R^2$	0.007	0.181	0.197
Adjusted $R^2$	0.003	0.169	0.185
$\Delta R^2$	0.007	0.173	0.027
$\Delta F$	2.182	67.83	13.18

Slope analysis is made according to Aiken *et al.*, (1991) method. Table 5 and Figure 2 revealed that HCD-SR relationship is more strengthen when DC is high, and HCD-SR relationship is weak when DC is low. Based on these results, which show in Step 3 and in Table 5 study H5 is confirmed.





**Figure 2.** Slope analysis HCD X DC on Strategic renewal

**Discussion**

The major concern of the current study is to check the extent at which HCD affects SR. Moreover, the influential impact of HCD on AL and the impact of AL on SR in hospitality industry are also tested. Furthermore, the mediating role of AL between HCD and SR and moderating role of DC is also analysed. For this study we have proposed five hypotheses to confirm the direct and indirect relationship between HCD and SR. Results of the current study supported the proposed relationships. First, the findings confirm that HCD positively influence SR, therefore, H1 is confirmed. Second, results confirmed that HCD positively contributes towards AL. Third, the relationship between AL and SR is also statistically confirmed. Fourth, the mediating role of AL in the relationship between HCD and SR is also confirmed. Finally, this study confirms from the result that DC moderated the relationship between HCD and SR.

**Theoretical Contribution**

Our study provides three types of theoretical contribution; first, it provides a theoretical model along with empirical data that focuses on the importance of HCD to renew the organizations operating in hospitality industry strategically. The importance of HCD was previously emphasized, but its effect on SR has not been thoroughly explored especially in hospitality industry. Second, this study also provides a possible mechanism by which HCD contributes to SR through the development of AL by providing supporting evidence that AL mediates the relationship between HCD and SR. Third, this study shows importance of DC from the empirically evidence that DC positively moderates the relationship between HCD and SR. Previously, the empirically importance of AL as a mediator, and DC as a moderator was emphasized, but its relationship such as developed in this study has not been thoroughly explored in hospitality industry.

### Managerial Implications

Beside theoretical contribution, this study also presents valuable implications for managers. First, this study suggests that managers of hoteling industry should also pay special attention on HCD and include HCD as an important component of strategic planning and management. Second, it is recommended that HCD has appeared as a strong determinant of SR; therefore, the element of HCD cannot be ignored. HCD develops the capability of AL to explore and exploit the learning process simultaneously. Third, this study also recommends managers to focus on the dynamic capability of organization through which it is very easy to respond to the environmental changes and complexities effectively. Through DC, organization would be able to integrate, build and reconfigure internal and external competencies to achieve the targets of SR in hospitality industry.

### Limitation of the study

This study also has some limitation that would be helpful and provide methodological guidelines for future research in hospitality industry of Pakistan. Our first limitation applies to the population selected, such as that we have consider only 3-stars and 4-stars hotels of Khyber Pakhtunkhwa, which could bias the results. In future, studies should be conducted by considering 5 stars hotels. Secondly, it may be interesting to consider that talent development practices are another variable that could explain the relationship analysed in this study. Finally, the study data which came from managers/owners of the hotels; therefore, the results of this study may not be generalizable to other industries.

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