

# The Symphony of HRM, Ethical Climate, and Dynamic Capability in Competitive Advantage

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## Abstract

*This study investigates how human resource management (HRM) practices influence competitive advantage in Nigerian private schools amidst ethical, market, and technological challenges. The research proposes that effective HRM practices — recruitment, training, compensation, and performance appraisal— foster a strong ethical climate and dynamic capability, ultimately leading to a competitive advantage (CA). Analysing data from 465 staff members of private schools in Nigeria, the findings reveal that HRM practices, notably recruitment and selection, training and development, and performance appraisal, directly impact CA. While dynamic capability influences CA, it also plays a mediating role between training and CA. This study provides quantitative evidence for the strategic value of HRM in this context, offering insights for cultivating high-performing workforces and achieving sustainable success in a competitive landscape.*

**Keywords:** HRM Practices, Recruitment and Selection, Training and Development, Compensation and Incentives, and Performance Appraisal, Ethical Climate, and Dynamic Capabilities.

## Introduction

Today's organizations face many challenges: ethical dilemmas (Treviño & Weaver, 2003), ever-shifting markets (D. Teece et al., 2016), and rapid technological advancements (Bharadwaj et al., 2013). This rapidly changing environment demands dynamic capability, ethical decision-making, and a keen competitive advantage. Human resource (HR) practices are crucial tools for navigating these challenges, but the precise ways they influence employee ethics, organizational agility, and ultimately, competitive advantage, remain unclear (Boxall & Purcell, 2003).

Effective human resource management (HRM) focuses on the organization's most valuable asset - its workforce. At the core of every business challenge, there is a human issue. Therefore, the ethical appropriateness of addressing business matters depends on individual judgments. Thus, in this context, HRM plays a crucial role in dealing with ethical challenges as organizations strive to create ethical environments (Sloan & Gavin, 2010).

Similarly, Winstanley & Woodall (2000) emphasized the need for an ethical perspective to be integrated into all aspects of HRM policies and practices. HR functions have significant potential to incorporate ethics into the overall philosophy, policies, and procedures of HR. Human resource management (HRM) is essential for fostering and maintaining an ethical culture and environment within a company. However, the current literature lacks insight into how HRM can practically address ethics, ethical culture, and climate (Arulrajah, 2016). This study aims to fill this gap by examining various HRM functions and investigating

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their connections to improving the ethical climate within organizations. By doing so, it seeks to make a meaningful contribution to the existing literature.

On the other hand, the perspective of dynamic capability emphasizes an organization's capacity to innovate and adapt its resource base in response to rapid environmental shifts (Ambrosini & Bowman, 2009). This viewpoint underscores the pivotal role played by the top management team and their perspectives in shaping these dynamic capabilities. Understanding how companies navigate change, sustain and enhance their competitive edge, and capture value is essential for both industry practitioners and academic researchers. While various fields delve into issues surrounding change, such as organizational learning, cognition, and innovation, none, apart from the dynamic capability perspective, specifically addresses the continual and evolving transformation of a firm's valuable assets (Ambrosini & Bowman, 2009).

This study aims to comprehensively examine the effect of HRM elements, including recruitment, training, compensation and incentives, and performance appraisal on the variables of ethical climate, dynamic capability, and competitive advantage. The research also explores how ethical climate and dynamic capability mediate the relations between HRM practices competitive advantage. Therefore, the research contributes significantly to the literature by shedding light on the crucial role of HRM practices in shaping dynamic capabilities and competitive advantages within organizations.

## Literature Review and Hypothesis Development

### *Hrm Competitive Advantage*

Businesses can gain a competitive advantage by building a team of employees who have specialized knowledge or skills in a specific technology or domain. Therefore, companies are placing greater value on human resources possessing expertise and experience as vital assets for organizational effectiveness. Human capital holds a unique potential to confer a competitive advantage within a firm's intangible resources due to its genuine scarcity and the difficulty for competitors to replicate (Khandekar & Sharma, 2005).

The strategy of attracting exceptional talent is an effective approach to gaining a competitive advantage (Browning et al., 2009). Once an organization has invested significant effort in recruiting exceptional talent, it becomes essential for employers to ensure that this talent is fully harnessed and utilized. This means that ongoing training and development programs are necessary to enable employees to stay at the forefront of their respective fields. Therefore, adopting a long-term perspective on training, learning, and development is considered crucial (Browning et al., 2009).

Schneider & Bowen (1995) have suggested that the implementation of reward contingencies is strongly associated with both service quality and employee morale. However, in many service organizations, compensation strategies often fail to have a significant impact on the service quality provided by their employees. This inadequacy is often attributed to the insufficient compensation of service employees and the lack of rewards that are contingent upon their performance.

According to a study by Bryson et al. (2018), the widespread adoption of human resource management (HRM) practices can lead to significant improvements in workplace performance, across a variety of settings such as schools and other work environments. Faugoo (2009) supports this perspective, emphasizing the importance of skills development in achieving educational institution goals. This can be accomplished by encouraging employees to participate in online courses, attend workshops, and engage in conferences and symposiums to continually upgrade their knowledge and skills. Therefore, the study posits the following hypotheses in relation to the relationship between HRM practices and competitive advantage:

H1a Recruitment and selection has an effect on competitive advantage.

H1b Training and development has an effect on competitive advantage.

H1c Performance appraisal has an effect on competitive advantage.

H1d Compensation and incentives has an effect on competitive advantage.

### *HRM Ethical Climate Competitive Advantage*

The ethical climate refers to collective perceptions about appropriate moral conduct and methods of addressing ethical concerns (Victor & Cullen, 1987). Numerous scholars have highlighted the importance of human resource management (HRM) in establishing and maintaining an ethical culture. (Arulrajah, 2016; Parboteeah et al., 2014; Shultz & Brender-Ilan, 2004; Sloan & Gavin, 2010; Thite, 2013; Van Vuuren & Eiselen, 2006; Wiley, 1998; Wright & Snell, 2005).

The current literature on resource management practices has identified key practices that are consistently linked to the management of employee behavior. These practices include recruitment, compensation and incentives, performance appraisal, and training (Chukwuka & Nwakoby, 2018; Gabriel et al., 2015; Islami, 2021; Jibrin-Bida et al., 2017; Khan et al., 2019; Onyema, 2014; Shaukat et al., 2015; Somu et al., 2020). When these practices are executed effectively, they contribute to establishing a perception of fairness within the organization. This, in turn, helps to create an ethical climate that holds the potential to positively influence employee behaviors. (Gupta & Singhal, 1993).

Empirical data suggests that the HRM processes of recruitment and selection provide excellent opportunities to bring individuals with a strong ethical orientation into the organization. By attracting and selecting high-caliber individuals with a commitment to ethics, an organization can develop a positive ethical climate within its operational framework (Arulrajah, 2016).

In line with this, companies recognize that ethical standards are crucial to attract and retain talent. Human Resource (HR) professionals have a vital role in integrating ethical values into organizational frameworks. This includes the implementation of ethical decision-making processes, providing training programs, conducting audits, developing disciplinary protocols and establishing whistle-blowing mechanisms (Foote & Ruona, 2008). To promote ethical conduct among stakeholders, organizations should prioritize the creation of an ethical culture through dedicated training and development initiatives (Delaney & Sockell, 1992).

Furthermore, organizations should align their performance appraisal systems with ethical conduct to achieve organizational goals. The system for evaluating performance should not only assess if goals are met but also examine how they are achieved in an ethical manner. Monitoring processes that lack ethical sensitivity may fail to detect illegal and immoral behavior, which could increase the likelihood of such practices (Useem, 1999).

In addition, compensation and incentives is the process of creating and implementing fair and consistent reward strategies and policies within an organization. The goal is to reward individuals based on their contributions to the organization, which helps in achieving the organization's strategic objectives (Armstrong, 2006).

As for the effect of the ethical climate on competitive advantage, previous research has looked into ethical considerations from a moral obligation framework (Lindfelt & Törnroos, 2006) and (Gilley et al., 2010). However, there is a significant gap in the literature regarding the strategic importance and inherent value of promoting an ethical work environment. This study provides a unique contribution to the existing literature by demonstrating how the relationship between ethical work practices and HR systems can potentially give organizations a competitive advantage.

Nevertheless, a company's lasting success and competitive advantage depend on how well its HR systems promote an ethical environment for all stakeholders. Establishing a robust ethical culture is imperative not only for cultivating employee loyalty and commitment but also for instilling ethical conduct among employees, thereby potentially leading to a sustainable competitive advantage over time (Manroop, 2015).

On the other hand, ethical climates may face obstacles such as competitiveness, self-interested behavior (Kanter & Mirvis, 1989), perceived inequality and injustice in compensation policies, biases in employment decisions (Wiley, 1998), inadequate monitoring and control, failure to uphold organizational policies (Treviño & Weaver, 2003), insufficient disclosure of information about ethical practices (Castelo Branco & Lima Rodrigues, 2009), and reward systems that do not align with ethical standards (Beu & Buckley, 2004).

Thus, drawing from the literature discussed previously, the following hypotheses will be tested:

H2a Recruitment and selection has an effect on ethical climate.

H2b Training and development has an effect on ethical climate.

H2c Performance appraisal has an effect on ethical climate.

H2d Compensation and incentives has an effect on ethical climate.

H3 Ethical climate has an effect on competitive advantage.

H4a Ethical climate mediates the relationship between recruitment and selection and competitive advantage.

H4b Ethical climate mediates the relationship between training and development and competitive advantage.

H4c Ethical climate mediates the relationship between performance appraisal and competitive advantage.

H4d Ethical climate mediates the relationship between compensation and incentives and competitive advantage.

#### *HRM, Dynamic Capability and Competitive Advantage*

Dynamic capabilities are the routines that are integrated into a firm's managerial and organizational processes to acquire, deploy, integrate, and reconfigure resources (D. J. Teece et al., 1997). This definition highlights the dynamic and change-oriented nature of capabilities that can adapt to the changing business environment, as explained by scholars such as Winter (2003) and Zollo & Winter (2002).

The dynamic capabilities perspective significantly influences the domains of strategy and human resource management (Helfat & Peteraf, 2015). According to this viewpoint, sustainable competitive advantage stems from the ongoing ability to create, expand, and adapt valuable resources and capabilities unique to each company over time (Helfat et al., 2009). Consequently, within the framework of dynamic capabilities, strategic human resource development (SHRD) is regarded as a means to attain a competitive advantage by equipping organizations with distinctive capabilities to optimize the utilization of their human resources (Schilke, 2014). To sustain their competitive advantage, companies must continuously refresh their valuable resources in response to shifts in their external environment.

In a similar way, Griffith & Harvey (2001) argue that a dynamic capability involves creating unique combinations of resources that are difficult to imitate, thus providing a competitive advantage to the firm. In the same manner, (J. Lee et al., 2002) suggest that dynamic capabilities serve as a source of sustainable advantage in rapidly changing environments. Cepeda & Vera, (2007) assert that a firm with dynamic capabilities should perform well, and vice versa. Although different scholars associate dynamic capabilities with competitive advantage, some propose an indirect link. (Zott, 2003) suggests that dynamic capabilities indirectly influence firm performance by targeting changes in a firm's resources, routines, and competencies, subsequently affecting economic performance.

Similarly, Griffith & Harvey (2001) contend that dynamic capabilities entail the creation of unique resource combinations that are challenging to replicate, thereby furnishing the firm with a competitive advantage. Likewise, (J. Lee et al., 2002) propose that dynamic capabilities serve as a wellspring of sustainable advantage in swiftly evolving environments. Cepeda & Vera (2007) advocate that a firm endowed with dynamic capabilities should exhibit commendable performance, and vice versa. While various scholars associate dynamic capabilities directly with competitive advantage, others suggest an indirect correlation. Zott (2003) argues that dynamic capabilities impact economic performance by modifying the firm's resources, routines, and competencies.

Hence, the following hypotheses have been established based on the literature.

H5a Recruitment and selection has an effect on dynamic capability.

H5b Training and development has an effect on dynamic capability.

H5c Performance appraisal has an effect on dynamic capability

H5d Compensation and incentives has an effect on dynamic capability.

H6 Dynamic capability has an effect on competitive advantage.

H7a Dynamic capability mediates the relationship between recruitment and selection and competitive advantage.

H7b Dynamic capability mediates the relationship between training and development and competitive advantage.

H7c Dynamic capability mediates the relationship between performance appraisal and competitive advantage.

H7d Dynamic capability mediates the relationship between compensation and incentives and competitive advantage.

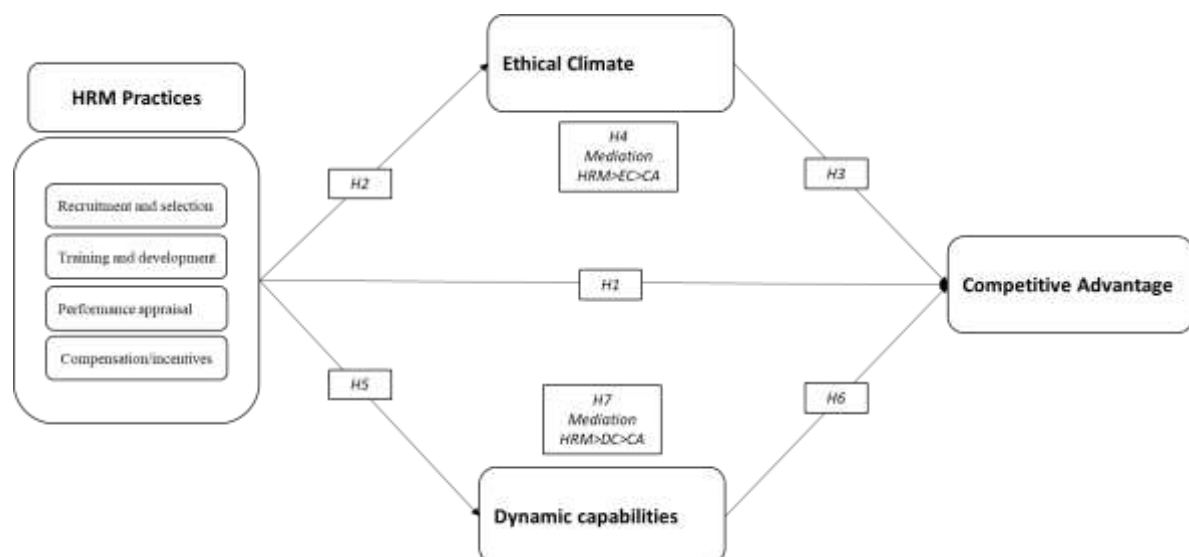


Figure 1. Conceptual Model

## Research Methodology

### *Research Design, Sampling, and Data Collection*

This research adopts a quantitative approach to test hypotheses and explore connections among variables, following the methodology outlined by (Creswell, 2014). The study encompassed a sample of 465 individuals, including academic, administrative, managerial, and non-academic/technical support staff in private schools based in Nigeria. Surveys were disseminated through Google Forms and physical copies across various educational institutions. To ensure data integrity, responses from hard-copy surveys were manually transcribed into the dataset, and any incomplete or unanswered entries were meticulously excluded from the subsequent analysis.

The process of collecting data involved the distribution of a self-administered questionnaire via various platforms such as email, Google Forms, and physical copies. Participants were chosen based on their accessibility to the researcher using a convenience sampling method. By using different distribution channels, including email, Google Forms, and physical copies, the researchers aimed to include a diverse group of individuals reachable through these means. Over half of the responses were obtained through physical surveys distributed across 30 different schools spanning various regions of Nigeria, while the online questionnaire was emailed to educational institutions nationwide.

To address potential biases inherent in convenience sampling, measures were taken to diversify respondent recruitment channels. Within the convenience sampling framework, randomization techniques were implemented to reduce selection bias. For example, the sequence of email distribution was randomized, or a random subset of contacts was chosen to take part in the study.

### *Demographic Profile of Respondents*

This part presents the demographic details of the participants, collected through SPSS version 23. The findings indicate that 61.7% of the respondents were male, while 37.8% were female. In terms of age distribution, the majority of the workforce (41.1% and 39.6%) fell within the 25 to 34 and 35 to 44 years age range respectively. Regarding educational qualifications, the predominant group (70.3%) held bachelor's degrees. When considering job experience, 33.1%, 32.9%, and 29.2% of the participants had accumulated tenure in the ranges of 1-5, 6-10, and 11-20 years, respectively. In relation to respondents' job roles, the academic staff accounted for the highest percentage at 71.6%. Further information is available in Table 2.

**Table 2.** Sociodemographic Profile of Respondents

Variable	Demographics	Count	Percentage
Gender	Male	287	61.7%
	Female	176	37.8%
	Not prefer to mention	2	0.4%
Experience	1-5 years	154	33.1%
	6-10 years	153	32.9%
	11-20 years	136	29.2%
	More than 20 years	22	4.7%
Position	Academic Staff (Teacher)	333	71.6%
	Administrative Staff (HR, Secretary, Librarian, etc.)	47	10.1%
	Management Staff (Principals, Vice Principals, Heads of Departments, etc.)	50	10.8%
	Non-Academic/Technical Support Staff (Cleaner, Security, Driver, etc.)	35	7.5%
Age	18–24	13	2.8%

	25–34	191	41.1%
	35–44	184	39.6%
	45–54	69	14.8%
	55–64	8	1.7%
<b>Educatio n</b>	O-Level Certificate (Secondary School)	9	1.9%
	Ordinary National Diploma (OND) (2-year tertiary education)	24	5.2%
	Bachelor's Degree or its equivalent	327	70.3%
	Master's Degree	85	18.3%
	Doctoral Degree (PhD)	1	0.2%
	PGDE	19	4.1%

### Measures

The survey comprised five sections. The initial part encompassed demographic and occupational inquiries, gathering data on variables such as age, gender, educational background, and tenure within participants' organizations.

In the subsequent section, the competitive advantages of private schools were evaluated utilizing a scale developed by Feng et al. (2010). This measurement tool comprised four dimensions: service quality (4 items), delivery reliability (3 items), process flexibility (4 items), and customer service (3 items).

The third section focused on Human Resource Management (HRM) practices, divided into four dimensions: recruitment and selection, performance appraisal, training and development, and compensation/incentives. Each dimension consisted of a 5-item scale adapted from validated sources (Amin et al., 2014; Islami et al., 2018; F.-H. Lee et al., 2010; Otoo, 2019; Singh, 2004).

Following that, data on the ethical climate were collected. This section employed an instrument originally developed by Victor & Cullen (1988), encompassing four dimensions: caring, independence, adherence to law and code, and rule orientation. Notably, this construct has been widely utilized in prior research studies (Dinc & Huric, 2017; Elçi & Alpan, 2009; Lau et al., 2017; Sağnak, 2010; Yener et al., 2012).

The final part of the survey assessed dynamic capabilities through three dimensions (resource integration, organizational learning, and innovation & change). These dimensions were measured using 10 items sourced from Pavlou & El Sawy (2011) and also employed by Rasmoun & Alwehabie (2020) and Zhao et al. (2019).

## Results

### Data Analysis

The data analysis in this research encompassed descriptive statistical analysis of respondents' demographic profiles, an examination of respondents' evaluations of the variables under consideration, and the testing of hypotheses and structural models. Structural Equation Modeling (SEM) was chosen as the data analysis method to achieve the study's objectives. SEM, a widely employed statistical modeling technique in behavioral sciences (Golob, 2003), was selected for its versatility. All analyses were conducted using SPSS 25 and AMOS 23 software.

**Table 3.** Variables, Sources, Item Numbers, and Corresponding Cronbach's Alpha Values

Variables	Dimensions	Source	Number of items	Cronbach's Alpha	Component Loading Range
<b>RS: Recruitment and Selection</b>		(Islami, 2021)	5	0.754	0.687 - 0.821

<b>TD: Training and Development</b>			3	0.747	0.611 - 0.878
<b>PA: Performance Appraisal</b>			4	0.868	0.652 – 0.773
<b>CI: Compensation and Incentives</b>	-		3	0.865	0.793 – 0.890
<b>CA: Competitive Advantage</b>	<b>SQ</b>	Feng et al. (2010)	4	0.861	0.863 - 0908
	<b>DR</b>		3	0.767	0.316 - 0.571
	<b>CS</b>		3	0.865	0.775 - 0.844
	<b>PF</b>		4	0.818	0.572 - 0.989
<b>Ethical Climate</b>	<b>Care</b>	(Huang et al., 2012)	4	0.743	0.306 – 0.448
	<b>LwC: Law and Code</b>		3	0.784	0.537 – 0.856
	<b>Rules</b>		3	0.704	0.555 - 0.597
<b>Dynamic Capabilities</b>	<b>RIC: Resource Integration Capability</b>	(Pavlou & El Sawy, 2011)	4	0.710	0.561 - 0.691
	<b>OLC: Organizational Learning Capability</b>		3	0.772	0.716 – 0.795
	<b>ICC: Innovation and Change Capability</b>		3	0.830	0.778 – 0.847

Table 4. Discriminant Validity of The Constructs

	CR	AVE	MSV	MaxR(H)	CI	CA	EC	DC	TD	PA	RS
<b>CI</b>	0.869	0.689	0.591	0.879	<b>0.830</b>						
<b>CA</b>	0.882	0.651	0.494	0.890	0.534	<b>0.807</b>					
<b>EC</b>	0.835	0.567	0.564	0.873	0.089	0.170	<b>0.753</b>				
<b>DC</b>	0.933	0.823	0.564	1.008	0.081	0.176	0.751	<b>0.907</b>			
<b>TD</b>	0.774	0.549	0.080	0.857	0.230	0.282	0.071	0.152	<b>0.741</b>		
<b>PA</b>	0.869	0.624	0.591	0.870	0.769	0.695	0.084	0.106	0.234	<b>0.790</b>	
<b>RS</b>	0.805	0.511	0.494	0.818	0.545	0.703	0.085	0.035	0.243	0.644	<b>0.715</b>

### Measurement Model Assessment

In this study, before conducting the structural equation modeling (SEM) analysis, the scales' reliability, validity, and goodness of fit were evaluated to ensure that the model was appropriate for the data. The measurement model aimed to assess the accurate representation of conceptual constructs by observed items.

Internal consistency, also known as reliability, is a measure of how well a variable or set of variables consistently measure what they are intended to measure (Hair et al., 2010). To assess reliability, Cronbach's alpha was calculated, with a recommended minimum value of 0.7 (Hair et al., 2010; Nunnally, 1978). The results as demonstrated in table showed that the individual Cronbach's alpha values, which ranged from 0.704 to 0.868, were higher than the recommended threshold (Hair et al., 2010). Furthermore, composite reliability (CR) was used, with values ranging from 0.933 to 0.774, all of which exceeded 0.7 (Hair Jr et al., 2021). This indicates that the construct reliability is satisfactory, as shown in Table 4. The CR and Cronbach's alpha values obtained for all constructs are considered acceptable.

Confirmatory Factor Analysis (CFA) is employed to evaluate the measurement model, the validity and factor structure. Convergent validity was achieved by ensuring that all measured items represent their corresponding factor, with an average variance extracted (AVE) of 0.50 or higher for all constructs (Chau,



1997; Fornell & Larcker, 1981). The AVE values, ranging from 0.558 to 0.881, exceeded the recommended threshold of 0.50, indicating successful convergent validity.

To ensure that the different factors being studied are distinct from one another, discriminant validity is assessed by analyzing the correlations between them. The correlation values between latent constructs should be significantly different from zero, and high or very high correlations should be avoided (Anderson & Gerbing, 1988; Kling, 2001). The square root of the AVE for each construct was compared to inter-correlations with other constructs, confirming discriminant validity in Table 4.

Lastly, the goodness of model fit was evaluated using comparative fit index (CFI) and Tucker-Lewis index (TLI) values greater than 0.90 and a root-mean-squared error of approximation (RMSEA) lower than 0.05, indicating a good fit (Hu and Bentler, 1999). The presented values (CFI: 0.943, TLI: 0.938, RMSEA: 0.036) verified the validity of the scale, affirming that the model fits the data well (Kwon Choi, Koo Moon, and Ko, 2013).

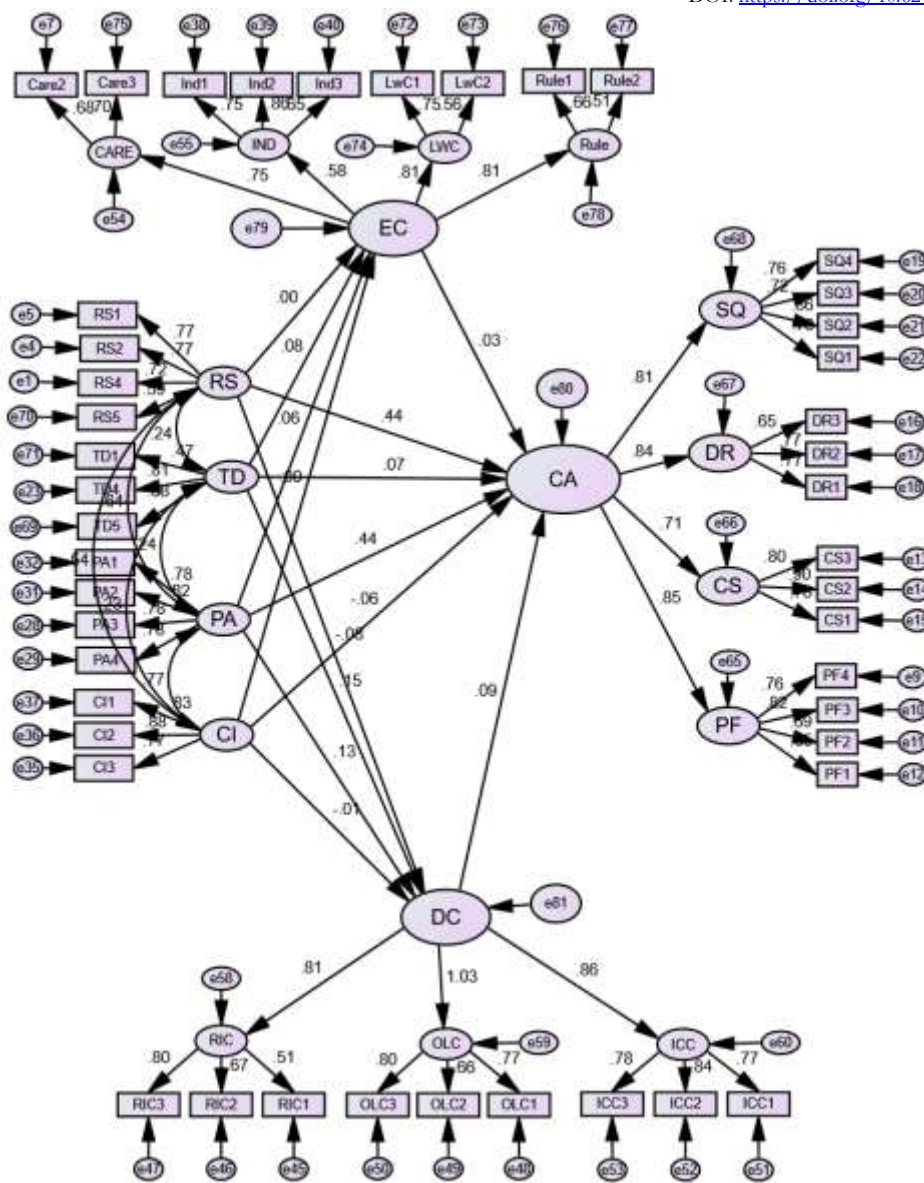


Figure 2: Research Model and Standard Regression Weights

Structural Model Results

The study has confirmed hypotheses 1a, 1b, 1c, 5b, and 6, while the remaining hypotheses did not achieve statistical significance in the path coefficient statistics. Table 5 shows the direct impacts of various factors on ethical climate, dynamic capability, and competitive advantage. According to the results, recruitment and selection (0.338, p: \*\*\*) and performance appraisal (0.277, p: \*\*\*) have the greatest effect as direct factors. In conclusion, the study provides evidence that training and development has an impact on dynamic capability. Moreover, recruitment and selection, training and development, and dynamic capability have an impact on competitive advantage.

Table 5. Direct Effects

Hypotheses	Paths	Estimates	P	Result
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H1a	<b>Recruitment and selection has an effect on competitive advantage.</b>	<b>RS &gt; CA</b>	<b>.338</b>	<b>***</b>	<b>Supported</b>
H1b	<b>Training and development has an effect on competitive advantage.</b>	<b>TD &gt; CA</b>	<b>.052</b>	<b>.093</b>	<b>Supported</b>
H1c	<b>Performance appraisal has an effect on competitive advantage.</b>	<b>PA &gt; CA</b>	<b>.277</b>	<b>***</b>	<b>Supported</b>
H1d	Compensation and incentives has an effect on competitive advantage.	CI > CA	-.031	.384	Not Supported
H2a	Recruitment and selection has an effect on ethical climate.	RS > EC	.004	.956	Not Supported
H2b	Training and development has an effect on ethical Climate.	TD > EC	.058	.240	Not Supported
H2c	Performance appraisal has an effect on ethical climate.	PA > EC	.039	.645	Not Supported
H2d	Compensation and incentives has an effect on ethical climate.	CI > EC	.002	.977	Not Supported
H3	Ethical climate has an effect on competitive advantage.	EC > CA	.031	.459	Not Supported
H5a	Recruitment and selection has an effect on dynamic capability.	RS > DC	-.053	.293	Not Supported
<b>H5b</b>	<b>Training and development has an effect on dynamic capability.</b>	<b>TD &gt; DC</b>	<b>.089</b>	<b>.009</b>	<b>Supported</b>
H5c	Performance appraisal has an effect on dynamic capability.	PA > DC	.068	.231	Not Supported
H5d	Compensation and incentives has an effect on dynamic capability.	CI > DC	-.005	.901	Not Supported
<b>H6</b>	<b>Dynamic capability has an effect on competitive advantage.</b>	<b>DC &gt; CA</b>	<b>.107</b>	<b>.037</b>	<b>Supported</b>

Regarding mediating effects, only hypothesis 7b has been accepted at the 90% confidence level. This hypothesis posits that dynamic capability mediates the relationship between training and development and competitive advantage. Conversely, the remaining mediation hypotheses have been rejected due to insufficient evidence from the results, as indicated in table 6.

**Table 6.** Results of Mediating Effects

Hypotheses		Paths	Estimates	P	Result
H4a	Ethical climate mediates the relationship between recruitment and selection and competitive advantage.	RS>EC>CA:	0.000	0.891	Not Supported
H4b	Ethical climate mediates the relationship between training and development and competitive advantage.	TD>EC>CA	0.002	0.298	Not Supported
H4c	Ethical climate mediates the relationship between performance appraisal and competitive advantage.	PA>EC>CA	0.001	0.452	Not Supported
H4d	Ethical climate mediates the relationship between compensation and incentives and competitive advantage.	CI>EC>CA	0.000	0.917	Not Supported

7a	Dynamic capability mediates the relationship between recruitment and selection and competitive advantage.	RS>DC>CA	-0.006	0.368	Not Supported
7b	<b>Dynamic capability mediates the relationship between training and development and competitive advantage.</b>	<b>TD&gt;DC&gt;CA</b>	<b>0.09</b>	<b>0.077</b>	<b>Supported</b>
7c	Dynamic capability mediates the relationship between performance appraisal and competitive advantage.	PA>DC>CA	0.007	0.318	Not Supported
7d	Dynamic capability mediates the relationship between compensation and incentives and competitive advantage.	CI>DC>CA	0.000	0.831	Not Supported

## Discussion, Managerial Implications and Conclusion

The results of this study confirm that effective human resource management (HRM) practices such as recruitment and selection, training and development, and performance appraisal have a significant impact on achieving a competitive advantage. Among these practices, recruitment and selection and performance appraisal have highest effects on gaining a competitive edge. The study highlights the strategic importance of HRM practices and dynamic capabilities in achieving a competitive advantage. In concurrence with the research conducted by Li & Liu (2014) in China, which analyzed 217 enterprises, this study emphasizes the pivotal role of dynamic capabilities in influencing competitive advantage.

Moreover, this study indicates that the way employees are trained, especially during challenging times, significantly influences their dynamic capabilities. The mediation analysis supports the hypothesis that the relationship between training and development and competitive advantage is mediated by dynamic capability, underscoring the crucial role of dynamic capability enhancement through training and development initiatives in gaining a competitive advantage. However, the data did not substantiate other hypothesized mediation relationships involving ethical climate.

Although empirical evidence is lacking to establish a direct effect of HRM practices on ethical climate, this relationship is widely debated in the existing literature. Thus, there is a compelling need for further investigation to discern the specific contexts and situations in which HRM practices exert influence on ethical climate and, consequently, on competitive advantage.

In conclusion, this study sheds light on the pivotal role of human resource management (HRM) practices and dynamic capabilities in shaping organizational success and gaining a competitive edge. The insights derived from this research offer valuable guidance for organizations seeking to optimize their HRM practices and dynamic capabilities. Specifically, strategic emphasis on cultivating an ethical climate emerges as a crucial aspect. Aligning recruitment and selection processes to attract individuals with strong ethical values and integrating ethical considerations into training and development programs can foster a culture of ethical decision-making. Moreover, extending the evaluation scope of performance appraisal systems to encompass ethical behavior contributes to the promotion of an ethical work culture.

The study highlights the integral role of dynamic capabilities in maintaining a competitive advantage. Strategic investments in training and development initiatives are identified as essential for building dynamic capabilities, emphasizing not only skill enhancement but also adaptability and innovation. Managers are encouraged to integrate performance appraisal systems with the development of dynamic capabilities, recognizing and nurturing employee talents and potential.

These managerial implications offer organizations a strategic roadmap to enhance their ethical climate, build dynamic capabilities, and ultimately gain a competitive advantage. By aligning HRM practices with strategic objectives, organizations can navigate the complexities of the business environment and position themselves for long-term success. Therefore, the recommendations from this study serve as a valuable

resource for informed decision-making and effective strategic planning in organizations aiming for sustained competitive advantage.

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