

Analyzing of the Employee Relations to Achieve Competitive Advantage in Small and Medium-Sized Enterprises in Saudi Arabia: Mediating Effect of Total Quality Management

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Abstract

This study investigates the strategic role of employee relations (ER) in fostering competitive advantage (CA) within small and medium-sized enterprises (SMEs) in Saudi Arabia, with total quality management (TQM) serving as a mediating variable. Against the backdrop of Vision 2030 and the expanding SME sector, the research addresses a critical gap in understanding how internal human capital practices, particularly ER, contribute to sustainable competitiveness when embedded in structured quality frameworks. Drawing on the resource-based view (RBV), the study conceptualizes ER as a foundational intangible asset that, while valuable, requires operational alignment through mechanisms such as TQM to yield measurable competitive outcomes. A quantitative methodology was employed using a validated survey distributed to 381 SME owners and supervisors in the Makkah region. Structural equation modeling (SEM) via AMOS was used to test the hypothesized relationships. The findings revealed a significant positive relationship between ER and TQM and between TQM and CA. However, the direct relationship between ER and CA was not statistically significant. This indicates that the influence of ER on CA is realized only through the implementation of effective TQM practices. This study contributes to the limited empirical literature on SHRM–TQM integration in emerging markets and offers practical implications for SME leaders and policymakers aiming to enhance performance through internal capability building. It affirms that competitive advantage is not merely about resources but about how effectively those resources are harnessed within quality-driven frameworks.

Keywords: Employee Relations, Total Quality Management, Competitive Advantage, SMEs, Saudi Arabia

1. Introduction

Small and Medium-Sized Enterprises (SMEs) are globally recognized as key contributors to economic growth, innovation, and employment. SMEs in Saudi Arabia act as one of the main contributors to the business landscape, contributing approximately 99.5% to the overall market, and a cornerstone for the development of the private sector within the country, according to Vision 2030 (Monshaat Q1 2023 Report). Notwithstanding their significance in doing business, not many Saudi SMEs have managed to build long-term competitive advantages given that the internal management practices as regards employee relations (ER) and quality systems, which constitute part of the underlying philosophy of the organization are weak. With Saudi Arabia in the midst of a strategy to become an innovation-embracing, diversified economy, the ability of SMEs to develop inner strength has become more and more important.

An issue that is seen as central to the strategic management of human resources is employee relations (ER), which includes trust, communication, respect, and levels of employee involvement. ER, when handled appropriately, improves workplace peace, motivation, and organizational effectiveness (Sajuyigbe et al., 2023; Alhashedi et al., 2021). Yet, into the 21st century, the influence of ER on competitive advantage remains under-designed, particularly in developing countries, where it is pertinent to take the case of Saudi Arabia, where SMEs survive in resource-scarce and challenging complexity business environments.

TQM has become a revolutionary method for the enhancement of efficiency and customer satisfaction. It is based on concepts including continual improvement, involvement in leadership, and strategic planning (Bahia et al., 2023; Madhani, 2020). Even though the role of TQM as a catalyst for organizational excellence is generally recognized, the mediating role of TQM as a mechanism between internal HR practices and competitive outcomes within the context of SMEs is relatively understudied.

This study endeavors to fill this gap and investigates the relationship between employee relations and competitive advantage in Saudi SMEs, testing the mediating effect of total quality management. While concentrating on SMEs of Makkah, the research studies

how the positive employee relations combined with TQM practices can better an SME's ability to innovate, differentiate, and compete in volatile markets. The investigation contributes to the limited empirical literature on the strategic synergy between HRM and quality management systems within the SME context in the Gulf region.

The study is guided by the following research hypotheses:

Hypotheses Development

H1: There is a statistically significant relationship between Employee Relations and TQM.

H2: There is a statistically significant relationship between TQM and Competitive Advantage.

H3: There is a statistically significant relationship between Employee Relations and Competitive Advantage.

H4: TQM mediates the relationship between Employee Relations and Competitive Advantage.

1. Research Questions

To achieve this, the following research questions are proposed:

- 1.1 Is there a relationship between employee relations and competitive advantage?
- 1.2 Is there a relationship between employee relations and total quality management?
- 1.3 Is there a relationship between total quality management and competitive advantage?
- 1.4 Does total quality management mediate the relationships between employee relations and competitive advantage?

2. Research Objectives

In addressing these questions, the study sets out the following objectives:

- 4.1 To examine the relationship between employee relations and competitive advantage.
- 4.2 To investigate the relationship between employee relations and total quality management.

4.3 To explore the relationship between total quality management and competitive advantage .

4.4 To investigate the mediation effects of total quality management on the relationships between employee relations and competitive advantage.

3. Literature Review

3.1. Employee Relations (ER)

Employee relationship management plays a critical role in shaping the internal interactions and dynamics within an organization. According to Sajuyigbe et al. (2023), fostering positive relationships between employees and employers is essential for creating a harmonious workplace environment. Employee relations have been recognized as a core component of strategic human resource management (SHRM), significantly influencing employee well-being, motivation, and organizational flexibility (Albro & McElfresh, 2021; Li et al., 2024).

In terms of SME employee relations, organization management necessitates a systematic approach that prioritizes transparent communications, the maintaining of a level of dialogue between employer and employee, and the equitable treatment of all employees. The development of open lines of communication helps SMEs to increase employee involvement, confidence, and levels of satisfaction at the workplace. Companies that encourage, support and include diverse employee groups should see increased employee engagement and job satisfaction. A good relationship between employers and staff have been shown to lead to better unity among organizations, thereby promoting a more collaborative work environment (Alhashedi et al., 2021).

Sajuyigbe et al. (2023) claim that the emerging concept of employee relationship management is a tool that is critical to firms operating in fast-paced and ever-changing markets. According to Arimie (2020), employee relations is the study of communication among employees and employers in an organizational setting. There is evidence that when organizations 'care about employees, engaging becomes an easier and simpler task due to the fact that on the clients' side, employee engagement, productivity, and motivation levels would increase. Achilike et al. (2024) also discuss employee relations as a specific part of HR

development, suggesting that organizations have to implement a structured employee management strategy to increase harmony and effectiveness at work.

3.2. Total Quality Management (TQM)

The TQM concept has been considered for SMEs to form a metrics model framework. This is in order to support the planning and work together of organizations. In order for profit increases and cost reductions to be lasting, work processes need to be further developed. It is the leaders who should give importance to TQM, and all members of the organization should know what quality is required and should continuously try to improve their work so that they can achieve that quality. The elements of TQM must also be implemented in their work for customer satisfaction (Stacho et al., 2021).

Total quality management (TQM) is a management philosophy that aims at continuously improving product quality and procedures to meet customer needs (Bahia et al., 2023). Total quality management (TQM) is identified as a change philosophy that seeks to influence organizations entirely and to improve their quality and productivity (Debebe, 2024). It is a management practice of delivering accurate customer expectations and doing things right the first time (Sutrisno et al., 2024). Due to its long-term deployment and usage across different sectors, TQM has been developed and refined from various viewpoints and academic inputs (Lepistö, 2024).

Because the nature of the quality management culture changes, TQM has been understood and translated into practice differently by different theorists and practitioners. This changing concept underlines the necessity of continued revisions and updates to keep it in line with latter-day business challenges and technological achievements (Bouchtsis, 2024).

According to Tarifi and Al-Awaidhi (2024), TQM requires an organizational culture that fosters ongoing enhancement and efficiency in processes. It is defined as "the mutual cooperation of everyone in an organization and associated business processes to generate value-for-money products and services that meet and hopefully surpass the needs and expectations of consumers." Successful TQM implementation

depends on an organization's ability to integrate quality management practices into all aspects of operations, ensuring long-term sustainability and competitiveness.

The literature identifies five essential TQM factors:

Leadership management (LM): For SMEs to transition into total quality management (TQM) organizations, leadership must actively implement and promote TQM practices. Leaders play a crucial role in establishing a culture of quality, employee empowerment, and continuous performance enhancement (Schiuma et al., 2022). Their commitment to TQM principles not only drives internal efficiency but also strengthens customer satisfaction and business sustainability.

Customer focus (CF): Existing literature demonstrates that a customer-focused strategy encourages customer engagement, resulting in unique and valuable customer experiences (Madrakhimova, 2021). Successful implementation of a customer-focused strategy hinges on cultivating a customer-focused culture throughout the organization (Holloway, 2025).

Continuous improvement (CI): The main goal of implementing total quality management (TQM) is to achieve continuous performance improvement and business excellence (Alhih et al., 2020). The establishment of production systems based on overall quality management can be realized through continuous improvement efforts (Xia et al., 2020).

Strategic planning (SP): It is a systematic process that involves identifying objectives, analyzing alternative courses of action, and selecting the most effective strategy to achieve sustainable success (Guericke et al., 2024).

3.3. Competitive Advantage (CA)

Competitive advantage is what determines whether a business sinks or swims. Each SME will be compelled to focus on a competitive advantage strategy in such a competitive market. The ability to provide benefit or value to customers in this regard will create a competitive edge (Ali & Anwar, 2021). Competitive advantage arises from industry or market-level activity that creates competitive economic value (Kang & Na, 2020). In addition, competitive advantage is a value-creating offspring of the value the firm begins with for the customer. Competitive advantage allows the

company to generate profit higher than average among the competitors in the same industry.

Differentiation is simply about creating a product or service that is unique from other businesses in the market. So, that could be through innovation, design, technology, or branding. The same document also believes that Main Street provides a unique product in which firms can manage premium pricing as well as the development of customers' reliance, which will be a challenge for rivals to copy (Islami et al., 2020).

Quality focus is the concentration on providing high-quality products or services that surpass customer expectations. Businesses that use this approach develop a good image, which results in increased customer trust and sustainable business. A quality-centric firm will gain and retain satisfied customers and also enhance its competitive position in the market (Rane et al., 2023).

Companies usually develop a sustainable competitive advantage by generating a substantial amount of value on the basis of their unique combination of resources, capabilities, and core competencies (Bari et al., 2022; McDougall et al., 2022). This separation allows companies to distinguish themselves from their peers by providing a product or service that cannot be easily duplicated and ultimately creating a long-term successful position. The development and the sustainment of competitive advantage are rooted in the resource-based theory that seeks to explain how firms achieve superior performance by leveraging their unique internal resources and capabilities. From this perspective, the capacity to continuously be ahead of other competitors are resources such as technical know-how, brand name equity, competent staff, and organizational culture (Osobajo & Bjeirmi, 2021). According to the resource-based view, competitive advantage is not simply a function of resources per se but also of their deployment, integration, and alignment with the strategic direction of the firm.

Furthermore, long-term competitive advantage results from a firm's ability to adapt and innovate, utilizing its resources to cater for shifting market needs while being adaptive to external threats (Bari et al., 2022).

The resource-based view attaches a great deal of importance to dynamic capabilities, which are the

company's ability to reconfigure its resources to respond to changing environments. These dynamic capabilities are of paramount importance in rapidly moving business environments, where rivals are always on the lookout for finding ways to mimic successful paradigms. And by consistently building, growing, and focusing its unique resources and capabilities, a business can make sure that the momentum through which it gains a competitive edge is strong and long-lasting (McDougall et al., 2022).

4. The Research Gap

After reviewing the literature on the success and failure of SMEs, the researchers found a significant lack of studies that dealt with human resource management especially employee relations as a long-term strategic thought and its impact on the applicability of TQM as a mediator of competitive advantage. After the government directed to support this sector with financing and loans provided to small

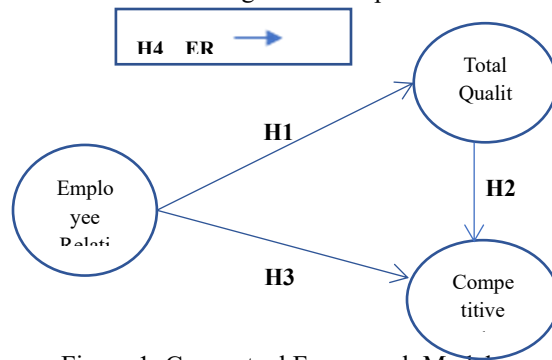


Figure 1: Conceptual Framework Model

- Research Variability:

- Dependent Variable (Competitive Advantage).
- Independent Variables (Employee Relations).
- Mediator Variable (Total Quality Management).

6. Methodology and Analysis

The current research takes a quantitative research design to investigate the influence of ER on CA, focusing specifically on the mediating effect of TQM in SMEs in Saudi Arabia. A quantitative approach has been chosen to statistically test the hypothesized relationships with the help of a structured process of gathering and analyzing the data. This study is concerned with SMEs situated within the Makkah region, where around 19.3% of the country's SMEs are

and medium companies and the entry of a large number of entrepreneurs, the number of small and medium companies increased to reach in the second quarter of 2022 to more than 892,063 establishments (Monsha'at 2022 report).

5. Conceptual Framework Model

According to Farrow et al., (2021) A conceptual framework brings together a set of ideas and articulates the different concepts that will be used in a study or research project. A conceptual framework can also be used to generate a hypothesis to be tested or to facilitate the interpretation of results. A conceptual framework assists in conducting research and can be useful to observers of events. A conceptual framework (also known as a model) is "a set of interconnected, highly abstract constructs that broadly explain events of interest, convey assumptions, and represent a philosophical position and theories" (Boon, 2020).

found and, therefore, is an important field for regional business progress and entrepreneurship (Saudi SMEs Authority, 2022).

The researcher used a simple random sampling procedure to achieve the generalizability and representativeness of the sample. This method ensures that each individual in the population has the same opportunity of being selected, which can reduce the selection bias and increase the strength of evidence (Kaur & Kumar, 2021). The SMEs that participated in the research were identified from an exhaustive catalogue kept by the Makkah Chamber of Commerce that consisted of small (fewer than 50 employees) and medium (50 to 249 employees) enterprises defined by Monsha'at (2022).

The final sample consisted of 381 owners/managers of SMEs in Makkah, Jeddah, and Taif. These respondents were selected because they participated

either in operation or strategic management in their organizations, which enabled the researchers access to informed perceptions about organizational phenomena such as ER and TQM (Perera et al., 2022). The survey was disseminated in the form of a structured questionnaire through Google Forms in online and paper copies to ensure wide dissemination and appeal to all types of respondents. The questionnaire was also accompanied by a cover letter, which explained the purpose of the study, emphasized confidentiality considerations and provided the researchers' contacts as suggested by Alsafadi & Altahat (2021).

A pilot study with 30 participants matching the characteristics of the main sample was performed to evaluate the instruments' clarity and reliability. Findings: This step led to a high internal consistency, with Cronbach's α coefficient values ranging from 0.725 to 0.956, which were significantly higher than the cut-off value of 0.70 (Mukhtar & Jan, 2023).

The employee relations (ER) were the second construct and consisted of five items, which were adapted from Thapliyal (2019) on issues like manager respect, fairness, developmental support, value for employee input, and the overall work environment. The TQM dimensions: leadership management, continuous improvement, customer focus, and strategic planning, were adopted from Obeidat et al. (2018). Competitive advantage (CA) was measured with the help of differentiation and cost leadership strategies, and with the use of validated items also used by Obeidat et al.

To measure responses, a five-point Likert scale (1 = strongly disagree to 5 = strongly agree) was employed to give texture to participant perceptions and ensure solid statistical analysis (Fink, 2024). The questionnaire was co-developed, applying quality standards from questionnaire preparation to guarantee comprehensibility, neutrality, and clarity (Kurzahls 2021; Ranganathan and Caduff 2023).

Partial least squares structural equation modeling (PLS-SEM) analysis was conducted using AMOS 24,

selected for its strength in modeling complex relationships between latent variables with small sample sizes. PLS-SEM allows the analysis of direct as well as indirect effects and is thus suitable for testing the TQM mediating role between ER and CA. The analysis was developed in two steps: first, the researchers validated the measurement model for its internal reliability, and second, the researchers tested the structural model to assess the path coefficients and to examine hypotheses (H1–H4).

The inclusion of a well-validated questionnaire, a sample that is representative of the population, and sound statistical analysis in this study ensures that its findings will provide reliable input on how employee relations, with the support of TQM, can improve competitive positioning in Saudi Arabian SMEs.

7. Results and Discussion

This section presents the analytical results of the survey data collected from 381 valid respondents across small and medium-sized enterprises (SMEs) in the Makkah region of Saudi Arabia. The data was analyzed using structural equation modeling (SEM) with AMOS 24 to test the proposed hypotheses. The focus was on examining the direct and mediating effects of employee relations (ER) and total quality management (TQM) on competitive advantage (CA).

The demographic profile (Table 1) revealed that the majority of respondents were male (86.2%) and Saudi nationals (89.1%), with a dominant representation from the age group 18–29 years (52.9%). Most respondents held supervisory roles (64.3%) and had completed a university degree (64.1%). Notably, 70.9% of the businesses surveyed were profitable, with the majority falling into the trade (41.1%) and hospitality (35.9%) sectors. These characteristics reflect a youthful, educated, and operationally diverse SME sector in the Makkah region, which aligns with findings by Alrashedi (2024) and Monsha'at (2023) highlighting the entrepreneurial shift and SME expansion under Vision 2030.

Table 1: Profile of the Respondents							
Gender	Frequency	Percent	Age	18 to 29 years	203	52.9%	
	Male	331		86.2%	30 to 50 years	164	42.7%
	Female	53		13.8%	Over 50 years	17	4.4%

Education level	postgraduate	47	12.2%	What is the level of the business profit?	No profit and no loss	16	7.0%
	University degree	246	64.1%				
	Diploma	33	8.6%		No profits	50	22.0%
	high school	58	15.1%				
Nationality	Saudi	342	89.1%	What is the number of employees in the business?	Less than 6 workers	110	28.6%
	Non-Saudi	42	10.9%		6 – 49 workers	165	43.0%
Your position in this business?	owner	137	35.7%		50 – 249 workers	109	28.4%
	supervisor	247	64.3%				
What is the age of your business?	Less than 3 years	106	27.6%	Which sector the business is operated in?	Trade	158	41.1%
	3 – 10 years	139	36.2%		Services	88	22.9%
	More than 10 years	139	36.2%		Hospitality	138	35.9%
	Made profits	161	70.9%				

The descriptive statistics (Table 2) indicate moderate perceptions of employee relations ($M = 3.58$, $SD = 0.80$), suggesting a fair level of respect, support, and communication in the work environment. Within TQM dimensions, customer focus ($M = 3.79$) and leadership management ($M = 3.76$) were rated highest, whereas strategic planning ($M = 3.33$) and continuous improvement ($M = 3.36$) scored lower. These findings

Table 2: Results of Descriptive Statistic for Variables

		Mean	Std. Deviation
Employee Relations (ER)		3.58	0.80
TQM	Leader Management (LM)	3.76	0.86
	Continuous Improvement (CI)	3.36	0.86
	Customer Focus (CF)	3.79	0.87
	Strategic Planning (SP)	3.33	0.86
CA	Differentiation Level (DL)	3.78	0.84
	Cost Level (CL)	3.74	0.85
N=381			

are consistent with Obeidat et al. (2018), who emphasize that customer-oriented and leadership-driven quality practices are typically stronger than internal planning mechanisms in SMEs. For CA, both differentiation ($M = 3.78$) and cost leadership ($M = 3.74$) indicate that firms pursue dual competitive strategies.

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7.1. Results of Hypotheses Testing

Table 3 outlines the direct path analysis results:

H1: There is a statistically significant relationship between employee relations and TQM

Supported ($\beta=0.352$, C.R. = 3.398, p-value=0.000)

The study confirms a strong positive relationship between employee relations and total quality management. This finding supports the argument made by Sajuyigbe et al. (2023) that organizations which promote trust, fairness, and open communication among employees foster a collaborative environment that enables quality-focused practices. Within SMEs, a transparent and participatory employee culture

facilitates the implementation of TQM frameworks, as employees are more likely to engage in continuous

			Unstandardized Estimate		Standardized Estimate	C.R.	P-values	Hypothesis Result
			Estimate	S.E.	Beta (β)			
ER	- →	TQM	0.259	0.076	0.352	3.398	0.000	(H1) Supported
TQM	- →	CA	0.917	0.094	0.953	9.766	0.000	(H2) Supported
ER	- →	CA	-0.043	0.059	-0.06	-0.724	0.469	(H3) Rejected

improvement, strategic alignment,

and customer satisfaction initiatives (Alhashedi et al., 2021). This aligns with Tarifi & Al-Awaidhi (2024) who emphasized the importance of employee cooperation in driving TQM success. Therefore, the empirical findings reflect the critical role of ER as a precursor to an effective TQM culture.

H2: There is a statistically significant relationship between TQM and competitive advantage

Strongly Supported ($\beta=0.953$, C.R. = 9.766, p-value=0.000)

This hypothesis received the strongest statistical support, indicating that total quality management significantly enhances competitive advantage in SMEs. This confirms prior research by Bahia et al. (2023), Stacho et al. (2021), and Debebe (2024), who described TQM as a comprehensive framework for improving organizational performance, product quality, and

Table 3: Direct Effects of Construct for Hypothesized Model after Fit

H4: TQM mediates the relationship between employee relations and competitive advantage

Fully Supported – Full mediation confirmed (Indirect $\beta = 0.335$, $p = 0.001$)

The relationship between ER and CA (a) continues to be significant at a standardized total effect of 0.275, $P = 0.029$. This association was no longer significant when TQM was incorporated into the model, with a

customer satisfaction—all essential components of competitiveness. The TQM pillars identified in the literature, such as leadership commitment, strategic planning, customer focus, and continuous improvement (Madhani, 2020), provide SMEs with the operational excellence necessary to distinguish themselves in the market.

H3: There is a statistically significant relationship between employee relations and competitive advantage

Not Supported ($\beta = -0.06$, C.R. = -0.724, p-value = 0.469)

The study found no significant direct relationship between employee relations and competitive advantage, which diverges from some expectations. However, this finding emphasizes the need for structured systems, such as TQM, to mediate the impact of human resource practices on performance outcomes. While previous literature, such as Stangrecka & Bagieńska (2021), supports the idea that positive employee relations improve organizational cohesion and reduce turnover, these effects may not independently result in measurable competitive gains unless paired with strategic management systems. As Osobajo & Bjeirmi (2021) point out, competitive advantage arises not simply from owning resources but from how these resources are deployed—validating the absence of a direct ER–CA link in this study.

"* $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$ "

standardized direct effect of -0.06 and p-value=0.524. The standard effects for the ER as IV on TQM as M (path b) as shown in Table 4 were significant at 0.01, which has a standardized effects value of 0.352. On the other side, the impact of TQM on CA as DV (path c) was also statistically significant at the 0.01 level with the standardized effect of 0.953. These findings suggested that TQM has mediation effects on the relationship between ER and CA. The degree of

mediation was full since the paths a' (direct effect) was not found as statistically significant. This supported the hypothesis, H4. In addition, the finding also suggested that ER had a relatively positive indirect effect on CA via TQM (with the standardized indirect effect of 0.335, p-value < 0.01). This is consistent with the theoretical perspective of Tawalbeh & Jaradat (2020) and Alanazi & Alenazi (2023) on the SHRM and quality management that must have shared integration in order to result in strategic value. The mediating model is underpinned by the resource-based view

Indirect Effects of the Variables (Mediation Effects)

DV = Competitive Advantage (CA)	Independent Variables (IVs)
M = Total Quality Management (TQM)	
	ER
Total Effect of IV on DV without M (path a)	0.275** (sig 0.029)
Direct Effect of IV on DV with M (path a')	-0.06 (sig 0.524)
Indirect Effect of IV on DV through M (path bc)	0.335** (sig 0.001)
Effect of IV on M (path b)	0.352*** (sig 0.000)
Effect of M on DV (path c)	0.953*** (sig 0.000)
Mediation Path	ER → TQM → CA
Mediation Effect	Yes
Degree of Mediation	Full
Hypothesis Result	H4 (Supported)

7.2. Discussion

(RBV), where the internal organizational capabilities (e.g., human capital and quality systems) should be rare, valuable, and well aligned with the business strategy to develop a competitive advantage (McDougall et al., 2022).

Table 4: Results of Examining Mediation Effects of Metacognition

The findings affirm the resource-based view (RBV) theory by demonstrating how intangible resources—specifically employee relationships—contribute to competitive advantage only when complemented by structured capabilities like TQM. While ER is valuable, it must be leveraged through organizational routines and systems to be transformed into a sustained strategic advantage. This study thus fills a critical research gap in SME literature by empirically validating the mediating mechanism of TQM in a Saudi Arabian context, as previously called for by Harney & Alkhalaf (2021) and Singh & Alhabbas (2024).

The study revealed that total quality management (TQM) fully mediates the relationship between employee relations (ER) and competitive advantage (CA) in small and medium-sized enterprises (SMEs) in the Kingdom of Saudi Arabia. While ER positively influences TQM, and TQM in turn directly enhances CA, the direct relationship between ER and CA was not statistically significant. This indicates that the influence of ER on CA is realized only through the implementation of effective TQM practices. These findings underscore the importance of embedding employee relations initiatives within a comprehensive quality management framework to achieve sustainable competitive advantage.

In particular, the results of this study align with the literature by demonstrating that employee relations practices are critical, but not sufficient on their own to generate competitive advantage. Instead, they must be embedded within a broader system of continuous improvement, leadership management, strategic planning, and customer focus as offered by TQM frameworks. The integration of ER and TQM enables SMEs to differentiate themselves and respond effectively to market challenges—confirming the findings of Bouchtsis (2024) on the adaptive, process-driven nature of modern quality management.

This study not only reinforces prior theories but also contributes context-specific insights by focusing on Saudi SMEs, an under-researched domain, particularly in relation to Vision 2030's push for SME-driven economic transformation (Monsha'at, 2022; Harney & Alkhalaf, 2021).

8. Conclusion

The present research explored the impact of employee relations (ER) on the competitive advantage of small and medium enterprises (SMEs) in Saudi Arabia by examining the mediating role of total quality management (TQM). Based on data from 381 SME owner-managers and managers from the Makkah region, direct and indirect relationships among the study variables were tested using structural equation modelling (SEM).

The findings show that employee relations had no direct effects on competitive advantage but did have significant direct effects on TQM practices and significant positive direct effects on competitive advantage. Thus, TQM was found to fully mediate the relationship between ER and CA. These findings confirm that positive employee relations—characterized by trust, fairness, communication, and employee engagement—contribute to competitiveness when embedded within a structured quality management framework.

In conclusion, this study confirms the resource-based view by demonstrating that while employee relations are valuable intangible assets, their contribution to competitive advantage is realized only through the mediating role of total quality management. The full mediation effect observed highlights the necessity of integrating relational resources within structured quality management systems to achieve sustained strategic benefits. These findings not only reinforce existing theoretical models but also offer context-specific insights for Saudi SMEs, underscoring the importance of TQM in operationalizing Vision 2030's goals for SME-driven growth and competitiveness.

8.1. Practical Implications

SME leaders and policymakers should view employee relations as a strategic enabler, not merely a compliance function. This study highlights the need to embed ER practices into formal quality management systems, enabling employees to contribute meaningfully to continuous improvement, customer service, and innovation.

Since TQM mediates the relationship between ER and CA, SMEs should invest in training programs that promote quality culture across all departments. This includes leadership training, quality assurance

workshops, and internal communication strategies to align all employees with quality-focused objectives.

Both ER and TQM require effective communication. SMEs should develop feedback systems, employee suggestion schemes, and participative decision-making processes that enhance staff empowerment and collaborative working.

For instance, it supports government organizations (e.g., Monsha'at) in developing policy incentives and capacity-building programs that motivate SMEs to implement combined HRM-TQM schemes. It would enable the national target to increase the GDP share of the SME sector from 28.7% to 35% by 2030.

SMEs need to periodically review their ER and TQM practices through formal assessment mechanisms to monitor improvement, pinpoint any gaps, and tailor strategies accordingly. This mechanism helps to keep the organization resilient and competitive in ever-changing markets.

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