Strategic human resource management, market orientation, and organizational performance

Lloyd C. Harris*, Emmanuel Ogbonna

Cardiff Business School, Cardiff University, Column Drive, Cardiff, CF10 3EU, UK

Received 1 August 1998; accepted 1 February 1999

Abstract

Research emerging from different fields of organizational analysis has linked both market orientation and strategic human resource management (SHRM) to organizational performance. Although both concepts are premised on the management of organizational culture, no study has investigated their interrelationship or the dynamics between the two concepts and organizational performance. The findings of the paper suggest a direct link between market orientation and performance and indicate that the association between SHRM and performance is mediated by the extent of market orientation exhibited by the organization. Hence, it is argued that SHRM can be viewed as an antecedent to market orientation. These findings lead to a number of conclusions and implications for both theorists and practitioners.

Keywords: Strategic human resource management; Market orientation; Organizational performance; Market-oriented culture

1. Introduction

In recent years, practitioners have been bombarded with exhortations to develop an organizational culture that is focused on external market needs, wants, and demands. This has become known as a market-oriented culture (see e.g., Webster, 1994; Harris and Piercy, 1997). Paradoxically, at the same time, organizational theorists have extolled the virtue of an internal focus through developing appropriate human resource policies which are consistent with organizational strategy, that which has become known as strategic human resource management (SHRM) (e.g., Schuler and Jackson, 1987; Wright and McMahan, 1992; Lado and Wilson, 1994).

Interestingly, both market orientation and SHRM have been (separately) linked to increased organizational performance (e.g., Jaworski and Kohli, 1993; Huselid, 1995; Pitt et al., 1996; Guest, 1997). While the links between market orientation and performance and between SHRM and performance have been examined in isolation of each other, both practices are founded on the management of organizational culture. In the case of market orientation, high levels of market orientation are argued to be dependent on the establishment of an organizational culture dominated by a focus on the market (Harris, 1998). Similarly, developing SHRM requires the nurturing of core organizational values and ensuring that these are consistent with the strategic direction of the business (Gennard and Kelly, 1994; Huselid, 1995). Surprisingly, despite similar underpinnings, no existing study has examined the association between the two or the impact that such an association may have on performance.

The aim of this study is to examine the relationships between SHRM, market orientation, and organizational performance. As such, this study is designed to contribute to the linking of two (previously separately studied) areas. Firstly, in relation to the SHRM literature, this study partially fulfils the recommendations of researchers who have suggested that SHRM should be examined in conjunction with other organizational variables (see e.g., Koch and McGrath, 1996; Guest, 1997). Secondly, in examining the links between market orientation and SHRM, this study contributes to the call of Jaworski and Kohli (1993, p. 65) “to assess the role of additional factors in influencing the market orientation of an organization.”
The literature review of this study entails the examination of the concepts and performance implications of both SHRM and market orientation leading to the development of a research proposition. Thereafter, the research design and methodology of the study is identified and discussed. After the presentation of such methods, the analysis of responses to a mailed questionnaire survey, is detailed and the paper concludes with a series of implications for both theory and practice.

1.1. SHRM and performance

Within the last two decades, there have been a number of important developments in the literature dealing with issues pertaining to the management of people. Significant attention has been directed towards human resource management (HRM), which many have seen as representing a distinct approach to managing people (Guest, 1997). Interestingly, although researchers have highlighted the holistic nature of HRM, much of the initial research into the concept focused on a limited range of issues and has been criticized as ‘micro analytic’ (Delery and Doty, 1996). However, in the last decade, researchers have sought to show the importance of HRM in influencing organizational performance and it is from this premise that the current interest in SHRM has developed (Gennard and Kelly, 1994; Lado and Wilson, 1994; Cappelli and Crocker-Hefter, 1996).

Interestingly, the burgeoning interest in SHRM has not been matched by the development of appropriate theoretical constructs for the concept (Guest, 1997). Indeed, researchers have criticized the underpinning theoretical foundations of SHRM and many have called for the formulation of a theory of SHRM (Dyer, 1985; Bacharach, 1989). Two major reasons account for this criticism. The first is that the concept of HRM, from which SHRM originated, has itself been subjected to extensive criticisms for its poor theoretical framework (see for instance, Keenoy, 1990; Noon, 1992; Legge, 1994). The second, and perhaps more important reason, is that researchers have approached the field of SHRM from a variety of perspectives with little acknowledgement of the differences within them and no attempt has been made to identify the common threads in the perspectives (Delery and Doty, 1996). Such an understanding is important to enable an assessment of the viability and adoption of the concept and a brief discussion is provided in what follows.

In an extensive review of the literature, Delery and Doty (1996) identify three categories of researchers and the perspectives that they have adopted in theorizing SHRM. They label the first group of researchers ‘universalists’ largely because of their interest in identifying ‘best practice’ SHRM policies. Delery and Doty (1996, p. 803) note that “these researchers ... posit that some human resource practices are always better than others and that all organizations should adopt these best practices.” It is within this perspective of theorizing in SHRM that the present interest in developing ‘high performance work practices’ is located (see, Osterman, 1994; Pfeffer, 1994; MacDuffie, 1995). Thus, the assumption is that the adoption of certain SHRM policies is likely to result in increased organizational performance (Kochan and Dyer, 1993).

The second strand of theorizing identified by Delery and Doty (1996) comprises those researchers adopting a contingency approach. In keeping with the early foundation of the contingency perspective within organizational theory, these researchers argue that the success of HRM policies is contingent upon the achievement of a match between human resource policies and other aspects of the organization. For example, researchers adopting this perspective have demonstrated that different human resource policies may be required at different stages in an organization’s life cycle (Miles and Snow, 1984; Bird and Beecher, 1995).

Delery and Doty (1996) identify a third group of SHRM theorists as adopting a ‘configurational’ approach. Delery and Doty (1996, p. 808) note that this approach is more complex and consists of researchers who seek to “… identify configurations, or unique patterns of factors, that are posited to be maximally effective.” This category of researchers are also said to approach their subject from a more theoretical perspective and many of the phenomena they identify may not necessarily be empirically observable (Doty and Glick, 1994).

A consistent theme in all three theoretical perspectives of SHRM is the assumption that SHRM is linked to organizational performance. However, while the literature is rich with claims that both HRM and SHRM are linked to performance, there is little empirical evaluation of this and the theoretical foundations upon which these links are based have been described as inadequate (Wright and McMahan, 1992; Kochan and Dyer, 1993; Kocoh and McGrath, 1996; Guest, 1997). Indeed, it can be argued that there has been a tendency for researchers to underplay the difficulties associated with the pursuit of SHRM policies in organizations. For example, the emphasis on strategic fit that has dominated much of the studies in this area is based on underlying assumptions of not only the supremacy of strategy but also a rationalist interpretation of strategy, both of which have been subjected to much criticism in the HRM literature (see Lenz and Lyles, 1985; Kamoche, 1994).

To summarize, HRM has been developed into SHRM by researchers seeking to highlight the importance of the concept to the effective functioning of organizations. To this end, many authors have claimed that SHRM is directly linked to organizational performance and there is a forming of consensus that high-performing work organizations pay attention to adopting particular HRM policies and linking these to the strategies of their organizations. However, despite the increasing popularity of SHRM, there has been very few systematic evaluations of the claims that it is linked to performance and doubts remain as to its theoretical foundations.
1.2. Market orientation and performance

Prior to the late 1980s, there was little success in the development of constructs related to market orientation. However, the late 1980s witnessed an increased academic and practitioner interest in the development of practical models to define key marketing constructs such as market orientation (Bruning and Lockshin, 1994). While a number of studies present market orientation as synonymous with other constructs such as ‘customer orientation’ (Shapiro, 1988), more recent studies suggest that market orientation is distinct and implies a less politicized nature (Kohli and Jaworski, 1990) and a more proactive, longer term focus (Slater and Narver, 1998). Research into market orientation is dominated by the conceptualizations of two sets of theorists. First, the information-based conceptualization of Kohli and Jaworski (1990), which presents market orientation as collecting, disseminating, and responding to intelligence about the market. Second, there exists the culture-oriented approach of Narver and Slater (1990), which defines market orientation as “the organizational culture that most effectively and efficiently creates the necessary behaviors for the creation of superior value for buyers.”

While there is merit in both views, the Kohli and Jaworski (1990) view has been subjected to criticism (see Diamantopoulos and Hart, 1993) while the Narver and Slater (1990) conceptualization has been praised (see e.g., Greenley, 1995a,b). The resurgence of interest into the concept of market orientation can be attributed to its association with organizational performance. Indeed, an examination of the substantial proportion of literature examining various aspects of the marketing concept finds an over-riding and sometimes explicit assumption that implementing the marketing philosophy will increase organizational performance (see for instance, Felton, 1959; Houston, 1986; Brownlie and Saren, 1992). Since the development of empirical models of market orientation in the early 1990s, there has been a proliferation of studies claiming an association between market orientation and organizational performance.

A review of the literature finds that studies linking market orientation and organizational performance fall into three distinct categories. The first are those studies that evaluate the utility of conceptualizations of market orientation and the association with performance. The second group comprises those studies that examine the association between market orientation and performance in certain national contexts. The third category consists of those studies that examine the forms of orientation and performance.

The main studies within the first classification are those forwarded by Kohli and Jaworski (1990), Narver and Slater (1990), Jaworski and Kohli (1993) and Slater and Narver, (1994). Following a detailed review of the literature and a series of executive interviews, Kohli and Jaworski (1990) suggested that market orientation can impact on customers, employees, and businesses with the level of impact being moderated by the supply and demand factors. They went on to argue that the greater the level of market orientation of an organization, the greater the overall performance of the organization with performance expressed in terms of increased return on investment, profits, sales and market share. It is notable that in a later empirical study, Jaworski and Kohli (1993) revised their model of the consequences of market orientation to distinguish between the objective and subjective measures of performance.

The second set of studies comprises research into the market orientation–performance link in different national contexts. Greenley (1995a) conducts a survey of UK companies and finds that the association between market orientation and performance is moderated by environmental factors. Interestingly, the findings of Greenley (1995a) are inconsistent with the findings of Narver and Slater (1990), Slater and Narver (1994), Ruekert (1992), and elements of Jaworski and Kohli (1993), but supports some elements of Jaworski and Kohli (1993) and Diamantopoulos and Hart (1993). In contrast, Selnes et al. (1996) conduct surveys of market orientation in the United States and Scandinavia. Selnes et al. (1996) find that the association between market orientation and performance is similar for both samples. Similarly, Pitt et al. (1996) undertake surveys of market orientation in Malta and the UK and find similar associations between market orientation and performance for both samples.

The final category of studies focuses on different types of orientation and their link with market orientation. Greenley (1995b) identifies five differing forms of market orientation (comprehensive, competitive-focused, customer-focused, undeveloped, and fragmented) along with three factors that discriminate between them. Furthermore, Greenley (1995b) finds that the forms of market orientation are associated with differing levels of company performance. Wong and Saunders (1993) also study the association between orientation and performance. They address the association between business orientation and performance and find six clusters of business orientation (quality marketers, mature marketers, innovators, aggressive pushers, price promotions, and product makers), which correspond respectively to a balanced or market orientation, marketing orientation, product orientation, financial orientation, and production orientation. Wong and Saunders (1993) conclude that an organization with a balanced orientation out-performs other organizations with other business orientations.

1.3. Market orientation and SHRM

The preceding literature review finds that marketing theorists are generally agreed that market orientation is directly linked to organizational performance (Narver and Slater, 1990). In contrast, while there is general agreement that SHRM and performance are linked, the nature of this link is less well understood and has been subjected to less
empirical scrutiny. This may be illustrated by the recent conclusions of a number of theorists who argue that the link between SHRM and performance needs further empirical research (e.g., Huselid et al., 1997) and greater conceptual development (e.g., Guest, 1997).

The uncertainty surrounding the links between SHRM and performance may be potentially explained by looking at the mediating role of other organizational variables. This paper argues that the link between SHRM and performance is mediated by the extent to which such HRM policies are geared towards the market, that is are market-oriented. This may be illuminated by a brief review of literature examining the impediments to developing market orientation. While extant marketing theory has produced a useful list of potential individual obstacles to market orientation, many studies have packaged such obstacles into the generic barrier of organizational culture (e.g., Messikomer, 1987; Day, 1994; Harris, 1996). Indeed, Harris (1998) argues that the development of a market-oriented culture is contingent on the development of an organizational culture dominated by strongly and widely held beliefs in a market focus. Similarly, evidence in HRM literature suggests that HRM is premised on the management of organizational culture (see Fombrun, 1983; Ogbonna, 1992). Thus, an appropriate organizational culture developed via SHRM may be a key antecedent to market orientation. Hence, by integrating marketing and culture theory into the SHRM-performance debate, it is possible to propose the following.

**Proposition 1.** The association between market orientation and organizational performance is direct while the link between SHRM and organizational performance is indirect being mediated by the extent of market orientation.

To summarize, this paper has provided a review of the literature on SHRM and performance and market orientation and performance. This review finds that both concepts have achieved widespread popularity largely because of claims by many researchers of an association with organizational performance. Surprisingly, although the successful development of market orientation and SHRM are both founded on managing culture, no study combines the investigation of the two concepts. This gap in existing knowledge provides the rationale for this study.

**2. Research methodology**

Research methodology literature indicates that in order to examine the issues involved in this study, a descriptive quantitative research design was appropriate. Consequently, a multi-industry sample of 1000 units was established from the FAME database of registered UK firms. Utilizing a systematic random selection procedure, suitable medium and large firms were selected according to set criteria (which included the date of registration, turnover, and number of employees).

Responses were required from key informants knowledgeable in a variety of tactical and strategic activities (Bowman and Ambrosini, 1997). Discussions with senior managers found that Human Resource Managers were comparatively ignorant of strategic marketing activities. However, Strategic Marketing Managers were relatively well informed of HRM issues (largely due to their prominent role in strategy development and their roles in internal communication and internal marketing). Furthermore, discussions with senior executives found that a significant proportion of those executives responsible for ‘marketing’ also were responsible for wider more general management issues. Hence, focusing on the ‘Head of Marketing’ provided key informants knowledgeable in both areas of strategy some of which would be ‘General Managers’ and some (purely) ‘Marketing Managers’.

To improve the content validity, response reliability, and response rates, the survey was conducted in a manner recommended by Dillman (1978), Conant et al. (1990), Churchill (1991), and Faria and Dickinson (1992). These recommendations encompassed a variety of issues including: questionnaire design, survey piloting, and pre-notification and post-survey follow-up reminders.

A survey research instrument was developed using both measures adapted from extant literature. There are two dominant measures of market orientation, namely those of Narver and Slater (1990) and Kohli et al. (1993). While, the Kohli et al. (1993) measure of market orientation has been successfully utilized in a number of studies (e.g., Pitt et al., 1996), the Kohli et al. (1993) battery has been subjected to academic criticism (see Diamantopoulos and Hart, 1993; Oczkowski and Farrell, 1998). Consequently, the Narver and Slater (1990) measure of market orientation was used to gauge the levels of market orientation.

SHRM was measured via a scale of items designed to capture the essence of the construct. Eight specific items, based on one generic question, were developed based on the SHRM measures of Delery and Doty (1996) and Huselid et al. (1997). Further, pre-testing and survey piloting through extensive and prolonged interviews with HRM practitioners, general managers, and appropriate academics reduced these items to the five key questions adopted for the study. The precise wording of questions and items pertaining to measures of market orientation and SHRM are presented in Table 1.

Existing literature indicates that measuring business performance is complex due to the multi-dimensional nature of organizational performance (see Lenz, 1981; Venkatraman and Ramanujam, 1987). However, significant evidence exists to indicate a close association between objective and perceptual measures of business performance (e.g., Dess and Robinson, 1984; Pearce et al., 1987; Venkatraman and Ramanujam, 1987). Indeed, the choice of primary perceptual business performance measures is widely viewed as
valid in many fields (Jaworski and Kohli, 1993; Deshpande et al., 1993). A review of relevant literature led to the decision to measure performance using 10 questions adapted from the constructs of the preceding authors. Performance measures were phrased around two generic questions pertaining to long- and short-term performance, complemented by five variables referring to performance in: customer satisfaction, sales growth, market share, competitive advantage, and sales volume.

The 7-point Likert-type scoring was adopted for all items (Likert, 1932a,b). The Narver and Slater (1990) measure of market orientation had previously been employed using 5-point scales. However, Barnes et al. (1994) argue that the switch to 7-point scales has no effect on principal components analysis and improves construct reliability. Hence, 7-point scales were used to improve reliability and for reasons of ease of response and administration (Churchill and Peter, 1984; Malhotra, 1993).

After a number of reminder letters, a total of 342 responses were received. Unfortunately, 20 were ineligible for reasons including: company policy of non-participation in survey, company liquidation, and inadequate completion of the survey instrument. The Council of American Survey Research Organizations (CASRO, 1982) method of response rate calculation (which removes ineligible responses from the sample size) produced a return rate of 34.22%. This yield is notably above comparable studies, possibly reflecting the utility of adopting of the survey design and administration recommendations of Dillman (1978), Conant et al. (1990), Churchill (1991) and Faria and Dickinson (1992) discussed earlier. No major differences were found between the early and late respondents or between population and sample industrial classifications, suggesting that these forms of response bias may not be a problem.

Responses to the questionnaires were analyzed using the SPSS package. The analysis ranged from univariate analyses to more sophisticated multivariate techniques. Section 3 details the results of this analysis.

### 3. Findings

In order to evaluate the developed proposition, it was first necessary to construct meaningful indices of market orientation, SHRM and organizational performance. Consequently, principal components analysis with varimax rotation was conducted of items pertaining to SHRM and market orientation (see Table 1). As expected, this principal components analysis led to the extraction of two factor solutions. Factors were only retained if they possessed an

<table>
<thead>
<tr>
<th>Item</th>
<th>Factor loading&lt;sup&gt;a&lt;/sup&gt;</th>
<th>Market orientation</th>
<th>Strategic HRM</th>
<th>Communality</th>
</tr>
</thead>
<tbody>
<tr>
<td>Understanding customer needs&lt;sup&gt;b&lt;/sup&gt;</td>
<td>0.82299</td>
<td>0.69494</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Focusing on customer commitment&lt;sup&gt;b&lt;/sup&gt;</td>
<td>0.76203</td>
<td>0.59927</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Getting all functions to contribute to customer value&lt;sup&gt;b&lt;/sup&gt;</td>
<td>0.76172</td>
<td>0.59051</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sharing information across departments&lt;sup&gt;b&lt;/sup&gt;</td>
<td>0.76049</td>
<td>0.64057</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Measuring customer satisfaction&lt;sup&gt;b&lt;/sup&gt;</td>
<td>0.74750</td>
<td>0.62243</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Setting customer satisfaction objectives&lt;sup&gt;b&lt;/sup&gt;</td>
<td>0.73395</td>
<td>0.60114</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Creating value for customers&lt;sup&gt;b&lt;/sup&gt;</td>
<td>0.73202</td>
<td>0.55003</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sharing information about customers&lt;sup&gt;b&lt;/sup&gt;</td>
<td>0.73088</td>
<td>0.55202</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Targeting opportunities for competitive advantage&lt;sup&gt;b&lt;/sup&gt;</td>
<td>0.72720</td>
<td>0.61196</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sharing resources across the whole company&lt;sup&gt;b&lt;/sup&gt;</td>
<td>0.65333</td>
<td>0.49231</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Top managers discussing competitors’ strategies&lt;sup&gt;b&lt;/sup&gt;</td>
<td>0.64269</td>
<td>0.42964</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Responding rapidly to competitors’ actions&lt;sup&gt;b&lt;/sup&gt;</td>
<td>0.58086</td>
<td>0.34094</td>
<td></td>
<td></td>
</tr>
<tr>
<td>All departments contributing to company strategy&lt;sup&gt;b&lt;/sup&gt;</td>
<td>0.56860</td>
<td>0.36984</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Human resource managers play a key role in developing strategy&lt;sup&gt;c&lt;/sup&gt;</td>
<td>0.83965</td>
<td>0.72736</td>
<td></td>
<td></td>
</tr>
<tr>
<td>A key task of our human resource department is forward planning and integrating management resources&lt;sup&gt;c&lt;/sup&gt;</td>
<td>0.82373</td>
<td>0.72073</td>
<td></td>
<td></td>
</tr>
<tr>
<td>This company practices ‘strategic human resource management'&lt;sup&gt;c&lt;/sup&gt;</td>
<td>0.80031</td>
<td>0.71458</td>
<td></td>
<td></td>
</tr>
<tr>
<td>A key task of our human resource department is ensuring high levels of motivation and commitment. (r)&lt;sup&gt;c&lt;/sup&gt;</td>
<td>0.74417</td>
<td>0.64176</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Human resource systems drive the strategic objectives to this company&lt;sup&gt;c&lt;/sup&gt;</td>
<td>0.70093</td>
<td>0.49250</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

* Principal components analysis with varimax rotation, converging in seven iterations (all loadings less than 0.3 suppressed).
* Question wording was ‘Please indicate the extent to which the following statements are true of the personnel, policies, or procedures of your company by circling the appropriate point’ measured on a 7-point Likert-type scale respectively anchored by (1) Not At All and (7) Very Great Extent.
* Question wording was ‘To what extent does your company place a high priority on the following?’ measured on a 7-point Likert-type scale respectively anchored by (1) Not At All and (7) Very Great Extent.
An eigenvalue greater than one, accounted for over 5% of variance and if they were conceptually clear and interpretable (Kaiser, 1958; Churchill, 1991).

The first factor solution extracted, loads heavily onto a vector generating an eigenvalue of 8.13860 and explains 42.8% of variance. The 13 items that load on to this factor were originally derived from the Narver and Slater (1990) scale measuring market orientation. Consequently, the solution is accepted and the factor allocated the label market orientation. The second factor extracted also loads heavily on to a vector, generating an eigenvalue of 2.35681 and explains 12.4% of variance. The five items that load onto the second factor were originally derived and adapted from the measures of Delery and Doty (1996) and Huselid et al. (1997), designed to gauge the extent of SHRM. Thus, the solution is accepted and the factor labeled strategic human resource management with a short-hand notation of Strategic HRM. Given that judgmental comparative measures of performance are widely used and accepted, an index of performance was constructed by calculating the summated means of scales.

As stated earlier, the questionnaire was piloted, pretested, and adjustments made to improve content validity. However, analyses of the validity of index operationalization and discriminant validity were also undertaken. The validation of the index operationalization test of correlating items to the scale, indicated that the correlations were high and in the expected direction indicating an acceptable level of convergent validity (see Table 2). The level of discriminant validity was gauged via the adoption of the test recommended by Gaski (1986). This test indicates evidence of discriminant validity in that the correlation between market orientation and Strategic HRM is lower than either scales’ alpha coefficient. Consequently, it was concluded that each of the scales used in the study are acceptably reliable and valid.

As stated previously, the items used in the study were all measured on 7-point scales resulting in a mid-point of four. Each of the scales ran low to high in scoring (e.g., score of 1 suggesting low performance and a score of 7 indicating high performance). Primary data exploration was undertaken via the analysis of descriptive statistics (see Table 3). The descriptive statistics of Table 4 illustrate that the mean scores of measures of market orientation and performance are notably above the mid-point with a low level of variance. In contrast, the scale gauging the level of Strategic HRM is significantly below the mid-point while the standard deviation is relatively high indicating varying degrees of Strategic HRM within the sample. Comparatively few meaningful findings can be derived from the analysis of descriptive statistics, however, these statistics would appear to indicate that the levels of market orientation and organizational performance are significantly above the measure of Strategic HRM. Furthermore, given that the sample of the study consists of larger firms, the descriptive statistics tentatively support theorists who have claimed an association between organizational size and market orientation (see e.g., Liu, 1995).

### Table 2
Reliability and scale validation test results

<table>
<thead>
<tr>
<th>Scale</th>
<th>Number of scale items</th>
<th>Cronbach alpha coefficient</th>
<th>Inter-Item correlations*</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>Lowest</td>
</tr>
<tr>
<td>Market orientation</td>
<td>13</td>
<td>0.9259</td>
<td>0.5042</td>
</tr>
<tr>
<td>Strategic HRM</td>
<td>5</td>
<td>0.8666</td>
<td>0.4161</td>
</tr>
<tr>
<td>Performance</td>
<td>10</td>
<td>0.8980</td>
<td>0.4161</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Highest</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>0.7783</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>0.7436</td>
</tr>
</tbody>
</table>

* Pearson correlation coefficient. All correlations significant at the 0.001 level.

### Table 3
Descriptive statistics

<table>
<thead>
<tr>
<th></th>
<th>Mean</th>
<th>Standard deviation</th>
<th>Valid cases</th>
</tr>
</thead>
<tbody>
<tr>
<td>Market orientation</td>
<td>4.89</td>
<td>1.05</td>
<td>321</td>
</tr>
<tr>
<td>Strategic HRM</td>
<td>3.34</td>
<td>1.30</td>
<td>311</td>
</tr>
<tr>
<td>Performance</td>
<td>5.05</td>
<td>0.95</td>
<td>321</td>
</tr>
</tbody>
</table>

### Table 4
Zero-order correlations between organizational performance, market orientation, and strategic SHRM

<table>
<thead>
<tr>
<th></th>
<th>Performance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Market orientation</td>
<td>0.3259***</td>
</tr>
<tr>
<td>Strategic HRM</td>
<td>0.2162***</td>
</tr>
</tbody>
</table>

*** p < 0.001.
The evaluation of Proposition 1 was initiated by the zero-order correlation of market orientation and Strategic HRM to organizational performance. The results of this analysis are presented in Table 4. The zero-order correlation of market orientation to organizational performance found that market orientation is positively and significantly associated with performance at the 0.001 level. The strength and direction of this association ($r = 0.3259$) indicates preliminary support for the claim that market orientation is linked to performance. This finding is consistent with much of the strategic marketing literature (see e.g., Narver and Slater, 1990; Jaworski and Kohli, 1993; Wong and Saunders 1993; Pitt et al. 1996; Selnes et al. 1996) but is not wholly consistent with some theorists (see e.g., Slater and Narver, 1993; Greenley, 1995b; Liu, 1995) who argue that the link between market orientation performance is not universal.

The zero-order correlation of the measure of Strategic HRM to organizational performance also found a strong association ($r = 0.2162$). Consistent with the suggestions of a number of HRM writers, Strategic HRM was found to be positively and highly significantly associated with organizational performance at the 0.001 level (Kochan and Dyer, 1993; Osterman, 1994; Pfeffer, 1994).

However, while correlation analysis provides a strong indication of association, in order to undertake a more complete examination of the proposed relationships and to evaluate whether such associations are direct or indirect, a simple path analysis was conducted (see Fig. 1). A form of path analysis, which evaluated the directness of associations and the cumulative impact of any independent factors on the dependent factor of organizational performance, was required. Consequently, a form of path analysis was adopted that followed the path analysis technique recommendations of Duncan (1966) and Pendhazur (1982). In defense of their use of path analysis Szymanski et al. (1993, p. 8) argue that path analysis provides a clearer understanding of associations than the use of “regression per se” and conclude that a path methodology enables the examination of “whether an indirect effect embellishes, diminishes, or negates an associated direct effect.”

The path model illustrates the direct and indirect relationships between Strategic HRM, market orientation, and performance. Table 5 presents the standardized regression coefficients and Table 6 presents the direct and indirect effects of market orientation and strategic HRM on the measure of performance. The indirect effect of strategic HRM is calculated as a simple multiplicative measure of the magnitude of sequential beta weights. It should be noted that (respectively) the Goldfeld and Quant (1965), Ramsey (1974), Belsley et al. (1980), and Hair et al. (1998) tests for multicollinearity, linearity, normality, and homoscedasticity were conducted and no problems encountered.

The path analysis presented in Fig. 1 suggests that both market orientation and strategic HRM are associated with organizational performance (see Table 6). This provides further support for claims of an association between market orientation, strategic HRM, and performance. However, the association between strategic HRM and organizational performance is found to be indirect. The regression and path analysis indicates that the strength of the zero-order correlation between strategic HRM and organizational performance (presented in Table 4) is misleading. The regression analysis used to construct the simple path analysis presented in Fig. 1, indicates that the link between strategic HRM and performance is purely indirect due to the association between Strategic HRM and market orientation. Thus, a high level of support is found for the claim that the link between strategic HRM and performance is mediated by the extent of market orientation exhibited by the organization. In this sense, strategic HRM can be viewed as an antecedent to market orientation, which, in turn, is an antecedent to performance.

### Table 5

<table>
<thead>
<tr>
<th>Independent</th>
<th>Beta</th>
<th>$R^2$</th>
<th>Sign of $F$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Performance</td>
<td>Market orientation</td>
<td>0.33</td>
<td>0.15</td>
</tr>
<tr>
<td>Market orientation</td>
<td>Strategic HRM</td>
<td>0.46</td>
<td>0.25</td>
</tr>
</tbody>
</table>

### Table 6

<table>
<thead>
<tr>
<th>Independent variables</th>
<th>Direct effect</th>
<th>Indirect effect</th>
<th>Total effect</th>
</tr>
</thead>
<tbody>
<tr>
<td>Market orientation</td>
<td>0.33</td>
<td>–</td>
<td>0.33</td>
</tr>
<tr>
<td>Strategic HRM</td>
<td>–</td>
<td>0.46</td>
<td>0.15</td>
</tr>
</tbody>
</table>
4. Conclusions and implications

In summary, a review of existing literature finds that Strategic HRM and market orientation are both developed concepts which have been linked to organizational performance (see e.g., Jaworski and Kohli, 1993; MacDuffie, 1995). However, a review of literature pertaining to organizational culture (e.g., Ogbonna, 1992) and literature on the barriers to market orientation (e.g., Harris, 1998) finds that strategic HRM centers on managing organizational culture while market orientation can be facilitated or impeded by cultural barriers. Consequently, this paper theorizes that the association between market orientation and organizational performance is direct while the link between strategic HRM and organizational performance is indirect, being mediated by the extent of market orientation. Briefly, a study designed to investigate these issues demonstrates that strategic HRM and market orientation are both linked to organizational performance although strategic HRM is associated indirectly.

The findings of the study lead to a number of interesting implications for both marketing and HRM theorists and practitioners. The first (and rather obvious) implication can be derived from the finding that both strategic HRM and market orientation are related to organizational performance. Consistent with a variety of extant theories and studies, evidence was found to suggest that both strategic HRM and market orientation are linked to the overall performance of an organization. Hence, organizations wishing to improve company performance should focus their attention on the needs, wants, and demands of the market, while paying attention to harnessing its human resource in order to ensure that these are met.

More profound implications can be derived from the finding that Strategic HRM is not directly associated with performance but rather is purely indirectly linked to company performance. This finding may provide some justification for the claims of past theorists that the link between strategic HRM and performance is not as clear as is suggested by some authors (as noted by Wright and McMahan, 1992; Koch and McGrath, 1996; Guest, 1997). This finding provides some support for the ‘universalist’ perspective on HRM theorizing (Delery and Doty, 1996) in that Strategic HRM is found to be linked to performance (albeit indirectly). However, the findings also support aspects of the ‘contingency’ perspective (Delery and Doty, 1996) through the implication that the success of strategic HRM is dependent on policies being consistent with the needs, wants, and demands of the market. Thus, for Strategic HRM to lead to increased performance, the policies and practices arising from it must not only be internally consistent they must also be focused on generating a market-led organizational culture.

The findings demonstrate that the development of market orientation is partially dependent on the appropriate strategic management of the human resource facilitating the development of an appropriate organizational culture. Indeed, an examination of the coefficient of multiple determination ($R^2$) in Table 5 finds that the measure of strategic HRM explains 25% of the variance of market orientation around its mean. Put differently, the level of strategic HRM may predict 25% of the level of market orientation exhibited by an organization. This finding may appear to some to pose an organizational paradox in that the development of an external focus appears to be dependent on an internal orientation. Thus, the avoidance of marketing myopia is contingent on a myopic focus on the organization. This argument would hold if strategic HRM is purely focused on internal dynamics as may have been the case with early research into HRM (see Delery and Doty, 1996). However, recent theorizing in strategic HRM emphasizes both an internal and external focus (see e.g., Huselid et al., 1997).

A key issue that emerges is the need for an ‘appropriately’ oriented strategic human resource. A contentious issue in management theory related to the development of sustainable competitive advantage is that the sources of such an advantage should be imperfectly imitable (Fiol, 1991; Reed and DeFillippi, 1990). Hence, Barney (1986; 1991) argues that providing an organizational culture is unique, it may provide a source of sustainable advantage over competitors. A potential implication of the findings of this paper is that a singular focus on discipline-specific sources of competitive advantage (such as market orientation or a flexible human resource policy) may not provide a unique and imperfectly imitable advantage, which may be sustained. However, it is possible to argue that a market-oriented culture developed as the result of a market-focused (strategic) HRM may provide the means to develop a unique and unimitable source of competitive advantage derived from both an internal and an external orientation.

The findings, conclusions, and implications of this study are bounded by a series of limitations. These limitations suggest that caution is needed in interpreting parts of this study but they also indicate a number of potentially fruitfully avenues for future research. Firstly, the data presented in this paper was obtained using a cross-sectional methodology that precludes definitive causal claims (although it has been argued that statistical association in combination with extant theory provides adequate evidence to suggest tentatively some level of prediction). Furthermore, while the sample of the study comprises large organizations, the sample is culturally biased in that sample companies were based in the UK, suggesting that future research could examine these issues in alternative contexts. The study is focused on certain aspects of organizational performance, which a number of authors (see Guest, 1997) suggest overlooks other performance indicators (such as employee satisfaction and well-being). Consequently, a recommendation for future research is to broaden measures of performance to evaluate alternative predictors. Finally, this paper argues that valuable insights into the antecedents to market orientation and the strategic HRM-performance link have
been gained via the study of such issues from alternative perspectives. Thus, it is suggested that researchers continue to draw upon diverse literatures and perspectives to provide illuminating insights into traditionally narrow disciplines.

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