

# Strategic human resource management, market orientation, and organizational performance

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## 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. © 2000 Elsevier Science Inc. All rights reserved.

*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.”

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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; Koch 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.

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