Human Resource Management Orientation and Market Orientation Effect on Perceived Organizational Performance Mediated by Innovation

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Abstract: This study has focus on human resource orientation and market orientation effect on perceived organizational performance with mediation effect of innovation. Given the centrality of those orientations and of innovation to the perceived organizational performance in both manufacturing and service industries, scholars do not focus on the missing link of innovation among the relationship of those orientations with the performance, particularly in a service industry. Thus, this study aspires to be the bridge among those variables in a highly competitive environment in developing country of whose results indicate that innovation is largely dependent on market orientation and seems to be playing a mediator role to drive perceived organizational performance in private healthcare organizations. However, it does not support the link between HRM orientations and innovation as well as perceived organizational performance. Thus, HRM orientations seem not to be a descriptive variable for and have interaction with perceived organizational performance as well as innovation although they are highly correlated to each other.

Key words: HRM orientations • Market orientation • Innovation • Perceived organizational performance

INTRODUCTION

Innovation is very important in organizational performance because without innovation, the organization cannot achieve its goals. Innovation plays an important role in the human resource management (HRM) philosophy [1]. The main point of HRM practices is the prevalent discussion that it supports organizational performance and also plays a role as promoter and inducement organizational commitment amongst employees. Ifie discussed in pursue of the essential role of organizational commitment that organizations shift from traditional, causes to better performance, [2] control oriented approach to a commitment oriented moves toward [3]. Whereas, create order requires a control-oriented approach, [4] exercising control and using efficiency-increasing techniques, [5] workers will be responsible creatively by giving wider duties as a commitment strategy, [6] to achieve satisfaction in worker’s working, encouraging contribution and assisting them are two important factors [7]. Several studies have examined the central role that each of human resource orientation [8] and [9], market orientation [10], innovation plays in the success of businesses in terms of perceived organizational performance separately [11]. However, innovation the missing link bet remains unanswered [12] and [13]. Thus, to better understand those relationships, we posed five specific research questions:

Present study has focus on human resource management orientation and market orientation effect on perceived organizational performance with mediation effect of innovation. To address these questions, we analyze the relevant literature, develop a model and use statistical technics to test the relationships among the variables mentioned above. Although the previous studies shed some light into the relationship between those variables, it is not known whether innovation is the missing link in particularly highly competitive service
industry settings. This study also contributes to the literature by getting done in a developing country from a different perspective.

**Research Question 1:** What is the relationship between HRM orientations and innovation?

**Research Question 2:** What is the relationship between market orientation and innovation?

**Research Question 3:** What is the relationship between HRM orientations and perceived organizational performance?

**Research Question 4:** What is the relationship between market orientation and perceived organizational performance?

**Research Question 5:** What is the relationship between innovation and perceived organizational performance?

**Literature Review**

**HRM Orientations:** Two diverse ideas concerning human nature including the human relations movements and the more recent strategic management and business policy line of thought are greatly contributed in constitution of philosophy and assumption of HRM [14] and [15], which developed what Guest (1987; 1989) mentioned in terms of ‘soft’ and ‘hard’ models of HRM respectively [16]. Furthermore, relevant theoretical paradigms such as best practice, inspired by [17] and best fit, which [18] elaborated on have been studied. Recently researchers have remarkably paid attention to the high performance, high commitment and high involvement. In this regard, the strategic HRM School of other scholars was the origin of the high performance practices involving the typologies of ‘traditional’ and ‘progressive’ HRM. This can be inferred that traditional HRM originated in the scientific management school of thought. However, progressive HRM refers to soft HRM. Whereas progressive covers people and personal development which result in high levels of trust, participation, communication and caring (Almond & Menendez, 2014), hard HRM is associated with the traditional model comprising of cost minimization, severe controls and union suppression which is accompanied by low level of communication and trust [19-22].

The connotations of soft HRM involve high employee participation, [23] considerable training programs and wide job designs which show the systems of the term high involvement HRM strategy. While low participation, limited training and highly specialized jobs indicate as hard HRM that obtained from traditional HRM strategy [24]. Tamburino et al. [25] expanded the typologies of internal development and acquisition architectures similar to make-HRM and buy-HRM strategies which specify the variations in human resource management orientations between multi-national and host country companies in Asian countries. The similar studies by using the same typologies were done in Spain by, [26] and [27] that indicate the relationship between human resource management systems and perceived organizational performance among manufacturing companies there. Their studies inferred that while the ‘make’ internal development strategies similar to soft HRM have been linked to positive employee outcomes and perceived organizational performance, some organizations choose a ‘buy’ acquisition strategy, similar to hard HRM, for cost reduction and numerical flexibility. Although particular definitions have revealed that HRM orientations are not mutually private as firms tend to consume several strategies (Katou & Budhwar, 2006), other indication advices that there are more profits in assuming one model connected to the main business strategy of the firm [28-31] and aligned to hard HRM, high participation and high assurance models are resulting from the Harvard construction of [32] and aligned to soft HRM.

**Market Orientation:** Given today's unreliable environment, malleability and effectiveness are serious for the health of any organization. Once an organization's market orientation produces importance for a customer that is rare and problematic to imitate, it can be a supportable source of inexpensive advantage, which will allow firms to overtake their less market-oriented contenders [33-38].

Research in marketing has typically focused on maintaining a market orientation, based on the adoption and implementation of the marketing concept [39]. Throughout the past two decades market orientation has been a crucial concept in the marketing literature [40-43]. The work of [44-46] impelled a substantial stream of research focusing on this construct's definition, amount, experiences and values. The vast majority of these studies investigate market orientation from either a behavioral or a cultural perspective [47]. The behavioral perspective underscores specific activities relating to the generation and dissemination of and responsiveness to market intelligence (Wong & Tong, 2013). The cultural
perspective focuses on the organizational norms and values that encourage behaviors that are consistent with market orientation and consists of three components: (a) customer orientation, the sufficient understanding of target buyers so as to be able to create superior value for them continuously, (b) competitor orientation; understanding the short-term strengths and weaknesses and the long-term capabilities of both current and potential competitors and (c) inter-functional coordination, the coordinated utilization of company resources for creating superior value for target customers [48].

The cultural outlook by developing a multilayer conceptualization of market-oriented organizational culture, [49] comprising of basic values, [50] norms and artifacts and behaviors [51]. In a further study, adopting a cultural perspective, a four-stage process through which organizations change to adopt a higher level of market orientation is required [52]. More recently, Urbonavicius, Dikcius and Grundey [53] conceptualize market orientation as consisting of both cultural and behavioral elements, [54] indicating that organizational-level market orientation culture (Weng et al., 2013) affects unit level market orientation behavior.

Market orientation generates benefits in various direct and indirect patterns involving for example, innovation, customer loyalty, product quality and ultimately firm performance [55-64]. Interestingly, literature on the antecedents of market orientation, though also informative, is substantially less expansive; for instance, little is known about key drivers of market orientation from the firm's broader HRM orientations comprised of elements such as risk proclivity, aggressiveness, future orientation, for example [65] While market orientation has been itself cast as a HRM orientations [66] and has been juxtaposed with other HRM orientations dimensions to understand its performance implications [67-76], little is known about how other various HRM orientations dimensions impact or determine market orientation.

**Innovation:** The HRM orientations supports risk taking and enhances the possibility of designing and developing completely new and innovative products (Raskovic et al., 2012). Innovation offers significant benefits to firms like maintaining or enhancing market share and outperforming competitors (Raskovic et al., 2012). The exploitation of the opportunities becomes even more important in turbulent markets. In particular, instability in customers' preferences and expectations limits significantly a firm's ability to satisfy them by performing minor modifications to existing products or even by introducing incremental innovations [77].

Therefore, building on extant literature, it is hypothesized that:

**H1:** There is a relationship between HRM orientations and innovation.

Marketing orientation leads organizations to embrace an external focus and commitment to innovation, (Naidoo, 2010; [78]; Yang & Yuan, 2005) which results for them to achieve and sustain superior performance (Banbury & Mitchell, 1995; [79, 80]). Innovation is a core value-creating capability that drives the market orientation and performance relationship [81]. Market orientation might facilitate innovation route to perceived organizational performance [82-84]. With market orientation representing organization-wide responsiveness to market information; in addition, other research has presented that market orientation is an antecedent to innovation (Kohli et al., 1993). Market orientation, can thus serve as the catalyst for innovation, since it opens up the firm to new customer needs and new business processes. In other words, market orientation can be a critical part of the innovation (Jaworski & Kohli, 1993; Velenchik, 1993). Therefore, building on extant literature, it is hypothesized that:

**H2:** There is a relationship between market orientation and innovation.

**Perceived Organizational Performance:** Many studies reflect a positive relationship of HRM orientations to a more superior performance (Chow et al., 2013; [85, 86]). In addition, the HRM orientations determine the firm’s response to changes in the industries environment and becomes a primary driver of the extent and kinds of innovation efforts the organization makes [87-98]. Therefore, building on extant literature, it is hypothesized that:

**H3:** There is a relationship between HRM orientations and perceived organizational performance.

Many studies examining market orientation have investigated a direct relationship with performance (Choi et al., 2013; Chow et al., 2013; Cosh et al., 2012; Henschel et al., 2011). However, a few others have inferred innovation as a moderating variable between market orientation and performance (P. L. Huang et al., 2008; Jin, 2011; W. M. Li & Cui, 2008; Magrini & Galliano, 2012;
Table 1: Results of factor analysis for constructs used in the questionnaire.

<table>
<thead>
<tr>
<th>Construct</th>
<th>N. of Items</th>
<th>Total Variance Explained (%)</th>
<th>Cronbach’s Alpha</th>
</tr>
</thead>
<tbody>
<tr>
<td>Human Resource Management Orientation (HRMO)</td>
<td>11</td>
<td>69.796</td>
<td>0.956</td>
</tr>
<tr>
<td>Market Orientation (MO)</td>
<td>15</td>
<td>69.745</td>
<td>0.865</td>
</tr>
<tr>
<td>Innovation (IN)</td>
<td>11</td>
<td>68.532</td>
<td>0.874</td>
</tr>
<tr>
<td>Perceived Organizational Performance (OP)</td>
<td>9</td>
<td>68.392</td>
<td>0.943</td>
</tr>
</tbody>
</table>

Onyemah et al., 2010). These studies conceptualize innovation as the actual mechanism that transforms market orientation into superior performance. Thus, it is hypothesized that:

**H4:** There is a relationship between market orientation and perceived organizational performance.

**H5:** There is a relationship between innovation and perceived organizational performance.

**Methodology**

**Research Goal and Scope:** It is aimed in this study to present the relationships among HRM orientations, market orientation, innovation and perceived organizational performance hypothesized above in private healthcare organizations in Iran. In this respect, the relevant literature is reviewed and a scale is developed to test those hypotheses. The developed scale has been sent to all operating private healthcare organizations (N = 650 as of February 10th, 2013) in Iran without any sampling process. Those 650 private hospitals have been contacted via email or phone whether to or not to participate in the survey, 74 of whose data are obtained yielding a response rate of 11.32% (= 74 / 650).

**The Scale:** The hypothesized measurement model is shown below in Figure 1. The data are obtained through a developed questionnaire with subsections of HRM orientations (Chiang & Shih, 2011; Ding & Akhtar, 2001; Hayton, 2006; Schmelter, Mauer, Boersch, & Brettel, 2010; Shipton, Zhou, & Mooi, 2013; Simonin & Oszomer, 2009; Tidd, 2001; Wei & Lau, 2008; Wu & Chen, 2014; Yesil, 2014), market orientation, innovation and perceived organizational performance with 5-point Likert scales and demographic information regarding both respondent and the participant healthcare organization. The gathered data from questionnaires are analyzed through a factor analysis of principal component extraction method with a Varimax-rotation in SPSS 21.0, yielding 11 items for HRM orientations, 15 items for market orientation, 11 items for innovation and 9 items for perceived organizational performance with factor loadings over 0.50 as in Table 1 [99-108].

**The Model:** The research is based on an explanatory-model to present the relationships among those constructs with above developed hypotheses as in Figure 1.

**Analysis:** Having established the reliability, the next step is to test the hypotheses developed before. Thus, a Pearson correlation analysis has been conducted to present the proposed relationships among the constructs of HRM orientations, market orientation, innovation and perceived organizational performance with descriptive statistics for all variables. Right after Pearson correlation analysis, a linear regression analysis has been done to put forth the effects of HRM orientations and market orientation on innovation as well as of HRM orientations, market orientation and innovation on perceived organizational performance as well as.
### RESULTS

Innovation is significantly correlated with HRM orientations \((r = 0.731; p < 0.05)\) and market orientation \((r = 0.621; p < 0.05)\). Perceived organizational performance is also significantly correlated with HRM orientations \((r = 0.711; p < 0.05)\), market orientation \((r = 0.723; p < 0.05)\) and innovation \((r = 0.621; p < 0.05)\). Finally, HRM orientations is significantly correlated with market orientation \((r = 0.579; p < 0.01)\). Overall, being all the correlations are positive, all hypotheses are accepted.

### DISCUSSION AND CONCLUSION

Following Pearson correlation analysis, a linear regression analysis has been done to find any interaction among variables. First, perceived organizational performance has been taken as dependent variable and HRM orientations, market orientation and innovation as independent to develop a model to present the effect of independent variables on the dependent one as in Model 1. As can be seen in Table 3, linear regression analysis reveals that the effect of market orientation is 0.337 \((p < 0.05)\) and of innovation is 0.518 \((p < 0.01)\) for perceived organizational performance whereas there is no interaction between HRM orientations and organization performance. When innovation is taken as dependent variable, there seems for market orientation to have an effect of 0.518 \((p < 0.005)\) on the innovation as in Model 2. Excluding HRM orientations and market orientation as in Model 3 to identify solely the interaction between innovation and perceived organizational performance, the effect of innovation is 0.725 \((p < 0.01)\) on perceived organizational performance. Finally, when the construct of HRM orientations is excluded since there is no effect of it on (although it is correlated to) all others, there seems for market orientation and innovation to have significant effects such as 0.282 \((p < 0.05)\) and 0.508 \((p < 0.01)\) respectively on perceived organizational performance.

The research indicates that innovation is largely dependent on market orientation and seems to be playing a mediator role to drive perceived organizational performance in private healthcare organizations as parallel to the previous researches (Chiang & Shih, 2011; Ding & Akhtar, 2001; Hayton, 2006; Schmelter et al., 2010; Shipton et al., 2013; Simonin & Ozsomer, 2009; Tidd, 2001; Wei & Lau, 2008; Wu & Chen, 2014; Yesil, 2014). However, a HRM orientation seems not to be a descriptive variable for and have interaction with perceived organizational performance as well as innovation although they are highly correlated to each other unlike previous literature (Simonin & Ozsomer, 2009; Tidd, 2001; Wei & Lau, 2008).

### REFERENCES


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