Interconnection of Strategic Integration, HRM Effectiveness and Market Performance: Evidence From Banking Sector of Pakistan

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ABSTRACT

The main aim of current study is to highlight the effects of strategic integration (SI) of HRM on HRM effectiveness (HRME) and market performance (MP) in banking sector of Pakistan. In addition, the mediating role of HRME and moderating role of market orientation (MO) were also tested. A structured and standardized measures were used to gather data from the officers working in banking sector of Pakistan. It was found that both vertical and horizontal integration of HRM positively affected HRME and MP of the banks. The results revealed that HRME mediates the relationship of SI of HRM and MP. In addition, it was also observed that by nurturing a market-oriented culture, the organizations can further strengthen the relationship between SI of HRM and MP. This study added valuable inputs into the existing research on the SHRM integration and its effects on MP of the firms by incorporating the moderating role of MO and mediating role of HRME. The results suggested that SI of HRM along with MO within an organization will not only improve the HRME, it will also lead to better MP.

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1. Introduction

Strategic Integration of HRM refers to a complete integration of HRM process with organizational strategies, both vertically and horizontally (Beer et al., 1984). Vertical integration of HRM refers to the integration of HR strategy and corporate level strategy. Horizontal integration focuses on internal alignment of different sub-functional units of HRM like staffing, human resource development and rewards management etc. (Gratton and Truss, 2003). Jackson et al. (2014) in their study highlighted that SI of HRM is positively associated with organizational performance (OP). They argued that SI differentiates SHRM from traditional HRM research because SHRM not only focuses on improving customer value, but it also highlights the contributions of HRM in improving firm performance.
The organizational outcomes are the ultimate results, whereas, HR outcomes like responsiveness, effectiveness and efficiency of HR department are the immediate outcomes of SI of HRM (Rogers & Wright, 1998). Colakoglu, Lepak and Hong (2006) stated that, as an immediate outcome of SI of HRM practices it enhances HRME, and as a result HRME influences the market and financial performance of an organization. Therefore, HRME acts a bridge between SI of HRM and various outcomes, preferably market performance. Therefore, in this study, HRME is taken as a mediating variable.

Similarly, the MO is also considered as an important and related phenomenon in connection with SI of HRM practices and various organizational outcomes (Harris & Ogbonna, 2001). It was argued that the market orientation (MO) can play a significant role in improving market performance (MP) by developing and maintaining a close relationship with the customers (Hult & Ketchen, 2001). Gebhardt et al. (2006) highlighted that existing research is mainly focusing on external outcomes of MO and ignores the internal consequences of MO. Kirca et al. (2005) also suggested that the researcher must also consider the internal employee related processes in the relationship of market orientation and various performance outcomes like MP. Considering the importance of market orientation, this current study also tested the moderating role of market orientation in between the SI and MP.

2. Literature Review

2.1 Strategic Integration of HRM
There are numerous studies that highlighted the importance of strategic integration of HRM. It is now widely acknowledged that HRM can play a proactive as well as a reactive role in organizational settings. HRM can proactively help in designing the organizational strategy, whereas, in a reactive role, HRM strategy is based on overall organizational strategies. Lawler et al., (2011) argued that successful organizations develop effective HRM systems in order to apply specific business strategies. Naznin and Hussain, (2016) argued that HR leader is now considered as an important value contributor in an organization and is directly involved in the process of overall strategic planning. While operationalizing the notion of SI of HRM, the available literature categorized this concept into two broad categories: horizontal integration and vertical integration.

2.2 Vertical Integration (VI)
VI refers to the alignment of HR strategy with corporate or business strategy (Gratton & Truss; 2003). It focuses on linking a set of HR policies/practices with overall organizational strategies as proposed in contingency perspective of HRM. Different indicators have been used to evaluate the VI, for example, representation of HR leader in BODs, his participation in formulation of organizational strategy, the existence of mission statement, business strategy and written HR strategy (Dietz et al., 2004).

2.3 Horizontal Integration of HRM
HI of HRM is recognized as an integral part of SI and is defined as the process of designing internally consistent and coherent HR practices, which improve organizational effectiveness by developing synergies (Fombrun et al., 1984). A higher level of internal consistency among the HR practices helps to attain some synergies that positively influence the organizational performance (Jiang et al., 2012; Kidron et al., 2013).

2.3 HRM Effectiveness (HRME)
HRME effectiveness refers to “the delivery of high-quality technical and strategic HRM activities”. The technical HRME focuses on improving conventional HRM activities like staffing, training and rewards management etc. The strategic HRM effectiveness focuses on achieving competitive advantage through innovation and creativity in managing HRM.

2.4 Market Orientation (MO)
MO refers to the organization’s capabilities to meet customer’s expectations, for example, the organizations ability to follow market trends and in developing close relationships with customers. Ruekert (1992) presented an empirical evidence of the relationship of MO with HR like recruitment, training and reward management. The intelligence perspective views market orientation as an organization’s capability to obtain information regarding customer needs and communicating such information throughout the organization for improving customer responsiveness (Kohli & Jaworski, 1990). Following the approach of Zhou et al. (2008), we focused on both the cultural and market intelligence perspectives of MO. These findings of Zhou et al., suggested that MO can be used as a tool to improve the utility of organizational resources and capabilities. Zhou et al. (2008) argued that MO helps the firms in achieving competitive advantage.
2.5 Market Performance
In studying the ultimate performance outcomes of an organization, two dimensions of organizational performance can be identified, market performance (MP) and financial performance (FP). MP refers to a firm’s effectiveness in achieving market targets like customer satisfaction, customer loyalty and market share. Oh, Cho and Kim, (2014) defined the MP as an ability of firm to achieve market-related targets as compared to its competitors.

2.6 Strategic Integration and Market Performance
Several authors highlighted the vertical linkage of HR practices or subsystems of HRM with overall organization strategy and its outcomes. Miles and Snow (1984) in their studies developed the theoretical basis of both types of SI. They argued that an appropriate arrangement between HRM strategy and organizational strategy and consistency among the HR practices are essential in achieving market targets. Schuler and Jackson (1987) studied employees’ behaviors that are needed in organization for each of the three Porter’s (1980) strategies i.e. innovation, quality-enhancement and cost reduction and identified the appropriate HR practices for each.

Similarly, the researchers also highlighted the importance of HI and its importance in facilitating organizational outcomes. However, the propositions that organizations with aligned bundles of HR strategies always outperform others have not always found support by the empirical findings (Samnani & Singh, 2013). Therefore, in-depth investigation is necessary to probe the effects of VI and HI on various performance outcomes like market performance. Therefore, the study in hand is an effort to examine the effects of both VI and HI on market performance of the banks. The following hypotheses were developed to evaluate the effect of HI and VI on market performance of the banks.

Hypotheses 1: If HR practices are vertically aligned with each other, it will lead to high market performance.
Hypothesis 2: If HR practices are horizontally aligned with each other, it will help organizations to achieve high market performance.

2.7 Strategic Integration and HRM Effectiveness
Wang and Shyu (2008) concluded that VI directly effects the success of an organization and labor output. In addition, they also investigated the effects of HRME on organizational performance and concluded that SI of HRM offers several solutions to complex issues in organizations. They argued that SI advocates that equal importance should be given to all types of organizational resources while establishing and implementing the goals. Kidron et al. (2013) argued that actual integration mechanisms help to improve coordination and cooperation between different HRM functions and among HRM employees, which will result in positive synergies and thereby positively influencing HRME.

Hypothesis 3: Vertical integration of HRM positively affects HRM Effectiveness.
Hypothesis 4: Horizontal integration of HRM positively affects HRM Effectiveness.

2.8 Mediating role of HRM Effectiveness
As noted in previous section, many researchers found a positive association among SHRM practices and OP; however, there are some researchers who believed that the immediate effect of strategic management practices is on HRM outcomes (e.g. Dyer & Reeves, 1995; Colakoglu, Lepak & Hong 2006 etc.). These positive HRM outcomes then influence various performance outcomes (Fey et al. 2000). The organizational outcomes are the ultimate results while the HR outcomes are the immediate outcome of strategic human resource management (Rogers & Wright; 1998). It is important for a firm to better utilize its capabilities by effectively managing the human resources, because fundamentally employees are not efficient (Russo & Fouts, 1997), the effective management of HR helps firms in achieving better outcomes (Pfeffer, 1994). In this study, we included HRME as an outcome of SI and MP as an outcome of HRME. In other words, HRME acts as a bridge between SI of HRM and MP. Based on these arguments, we hypothesized that:

Hypothesis 5: The relationship between vertical integration of HRM and market performance is mediated by HRM effectiveness.
Hypothesis 6: The relationship between horizontal integration of HRM and market performance is mediated by HRM effectiveness.
2.9 **Moderating role of Market Orientation**

Several researchers have investigated the direct impact of MO on OP (Ketchen, Hult, & Slater, 2007). However, still there is a need to highlight the mechanism through which MO affects organizational performance. Some researchers studied the innovativeness and customer loyalty in relation with MO, however, the internal organizational processes through which MO improves organizational performance are rarely discussed. Gebhardt et al. (2006) highlighted that there is a limited understanding of MO due to the lack of research on internal processes. Kircia et al. (2005) suggested that the researcher should also take into account the internal employee related processes in the relationship of MO and OP. A market-oriented organization focuses on unifying the distinct endeavors in the delivery of customer value and also on providing an incentive to its customers as compared to its competitors (Kohli and Jaworski 1990). MO has the potential to attract, satisfy and retain the customers and then attaining the desired market targets like sales growth and market share. Zhou et al., (2008) in his study argued that MO indirectly influences financial performance through the market performance.

Hence, it is predicted that MO further strengthens the association between SI of HRM and MP. Considering the above-mentioned arguments, following hypotheses have been developed:

Hypothesis 7: Market orientation strengthens the relationship between VI and MP.
Hypothesis 8: Market orientation strengthens the relationship between HI and MP.

The following theoretical framework was developed based on review of relevant literature:

![Figure 1. Theoretical Framework](image)

3. **Methodology**

The current study was conducted on baking sector of Pakistan. The data was collected from 351 managers of different banks from seven districts of Khyber Pakhtunkhwa province of Pakistan. This research tested hypothesized model by employing a cross-sectional design to test the proposed hypotheses. In the course of data collection for the current study, all the national and international standards were considered. A structured questionnaire was used for the purpose of data collection. Data collection for the current study was a lengthy process which was initiated in the month of June 2018 and was completed in March 2019. Data collection process was based on three phases. In the first phase, questionnaires were mailed on the postal addresses of bank managers. In the first phase, the response rate was not satisfactory. In second phase respondents were contacted through phone calls for their cooperation. In this phase, the response rate was also not desirable. In the last phase, 5 Research Assistant were hired, trained and guided to collect the data from seven districts selected for the research. After all these phases of data collection, the research team has collected 351 useable responses.
3.1 Measures
Strategic Integration was operationalized with its two dimensions: vertical integration and horizontal integration. A scale consisting of 12-items was used for measuring the level of VI (Budwar, 2000). These 12 items produced the Cronbach’s α value of 0.88. Whereas, a scale consisting of five items and introduced by Gratton and Catherine (2003) was adapted to measure the HI. In current study its Cronbach’s α value was 0.78. HRM Effectiveness was assessed through an eight-items scale which was introduced by Ryu & Kim (2011). These 08 items produced the Cronbach’s α value of 0.86. Market performance was evaluated with a 7-items scale formulated by Delaney and Huselid, (1996). These 07 items produced the Cronbach’s α value of 0.82. A set of fifteen questions was used to measure market orientation (Han, Kim & Srivastava, 1998). These 15 items produced the Cronbach’s α value of 0.80. Manager’s age, gender, nature of job, educational level of manager, experience and education were taken as control variable.

4. Results and Analysis
Table 1 shows the statistical results of hypothesized relationships of predictors and criterion variables. Both descriptive and inferential statistical techniques were used in data analysis. First section provides the Mean, SD and the coefficient of correlation among the study variables. The findings presented in table 1 confirm the significant correlation among the variables of the study. As it is clear from the results that vertical integration is significantly correlated with HRME (r=0.23), MP (r=0.42) and MO (r=0.33). Similarly, horizontal integration is significantly correlated with HRME (r=0.28), MP (r=0.32) and MO (r=0.47). HRME is significantly correlated with MP (r=0.34) and MO (r=0.31).

Table 1: Summary of Correlation

| Variable  | Mean | SD  | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 |
|-----------|------|-----|---|---|---|---|---|---|---|---|---|----|
| Age       | 29   | .87 | 1 |  |   |   |   |   |   |   |   |    |
| Gender    | 0.8  | .82 | .07 | 1 |   |   |   |   |   |   |   |    |
| Education | 3.2  | .84 | .10* | .01 | 1 |   |   |   |   |   |   |    |
| Job type  | 1.3  | .83 | .05 | .03 | .02 | 1 |   |   |   |   |   |    |
| Experience| 2.4  | .80 | .04 | .01 | .02 | .02 | 1 |   |   |   |   |    |
| VI        | 3.4  | .89 | .05 | .07 | .08 | .05 | .02 | (.890) |   |   |   |    |
| HI        | 3.5  | .92 | .03 | .09 | .08 | .05 | .02 | .32** | (.850) |   |   |    |
| HRM E     | 3.7  | .90 | .01 | .07 | .02 | .03 | .06 | .23** | .28** | (.849) |   |    |
| MP        | 3.6  | .88 | .04 | .05 | .07 | .04 | .42** | .32** | .34** | (.827) |   |    |
| MO        | 3.2  | .89 | .04 | .01 | .02 | .05 | .08 | .33** | .47** | .31** | .41** | (.872) |

4.1 Mediation Analysis
Table 2 presents the findings of simple regression test. The results confirm the prerequisites conditions of mediation proposed by Baron and Kenny (1986). First three conditions were confirmed because the results presented in table-2 confirm the standard norms of Baron and Kenny (1986) approach. The results shown that VI significantly predict HRME (β = 0.23), and MP (β = 0.42). Therefore, H1 and H3 are confirmed. Moreover, horizontal integration significantly predicts predict HRME (β = 0.28), and MP (β = 0.32). Therefore, H2 and H4 are confirmed. Moreover, the positive relationship between HRME and MP is also confirmed (β = 0.34).

Table 2 Regression with HRM effectiveness as mediator and MP as dependent variable

| Independent factors | HRM effectiveness | MP |
|---------------------|------------------|----|
|                     | R2   | S.Error | B   | t-value | Sig. | R2  | S.Error | β    | t-value | Sig. |
| Vertical integration| 0.35 | 0.065 | 0.23 | 3.53 | 0.00 | 0.13 | 0.087 | 0.42 | 4.82 | 0.00 |
| Horizontal integration| 0.16 | 0.036 | 0.28 | 7.77 | 0.00 | 0.10 | 0.043 | 0.32 | 7.44 | 0.00 |
| HRM effectiveness   | --   | --     | --   | --   | --   | 0.35 | 0.054 | 0.34 | 6.29 | 0.00 |

HRM Effectiveness (Human Resource Management Effectiveness); MP (Market Performance)
Table 3 shown the results for the confirmation of fourth condition. Results presented in Table 3 confirmed the mediation of HRME, because when HRME was included as the mediator, the direct effect of vertical integration on MP was insignificant ($\beta = 0.09$). Furthermore, the direct effect of horizontal integration on MP was also insignificant ($\beta = 0.06$). These results confirmed the mediation of HRME between vertical integration and MP and horizontal integration and MP. Therefore, H5 and H6 are hereby confirmed.

**Table 3.** Multiple regression results for MP

| Model | Factor                  | R2 | F    | S.Error | B   | t-value | Sig. |
|-------|-------------------------|----|------|---------|-----|---------|------|
| 1     | Vertical Integration    | 0.35 | 89.26 | 0.094   | 0.09 | 0.95    | 0.65 |
|       | HRM effectiveness       |     |       | 0.065   | 0.58 | 8.92    | 0.00 |
| 2     | Horizontal Integration  | 0.36 | 92.26 | 0.040   | 0.06 | 1.50    | 0.05 |
|       | HRM effectiveness       |     |       | 0.057   | 0.55 | 9.64    | 0.00 |

4.2 **Moderation Analysis**

Table 4 captures the results of moderation of MO on the association between vertical integration and MP as well as moderation effect on the association between horizontal integration and MP. Table 4 presented the results of moderation of MO on vertical integration and MP and confirmed that coefficient of the interaction term i.e. vertical integration x MO is significant, which indicates that market orientation moderates the relationship of vertical integration and MP ($\beta = 0.18$, $p<.01$). Therefore, H7 is hereby confirmed.

Table 4 also presented the results of moderation of MO on horizontal integration and MP and confirmed that coefficient of the interaction term i.e. horizontal integration x MO is significant, which indicates that MO moderates the relationship of horizontal integration and MP ($\beta = 0.21$, $p<.01$). Therefore, H8 is hereby confirmed.

**Table 4** Results of multiple hierarchical regressions

|                  | Step 1 | Step 2 | Step 3 |
|------------------|--------|--------|--------|
| Moderating effect of market orientation |         |        |        |
| Vertical Integration | 0.42** | 0.33** | 0.37** |
| Market orientation      | 0.29** | 0.24** |        |
| Vertical Integration x Market orientation | 0.18*  |        |        |
| R2                | .32    | .36    | .38    |
| Adjusted R2       | .31    | .33    | .35    |
| Δ R2              | .32    | .05    | .02    |
| Δ F               | 291.76** | 47.56** | 20.98** |
| Horizontal Integration | 0.32** | 0.29** | 0.31** |
| Market orientation      | 0.25** | 0.41** |        |
| Horizontal Integration x Market orientation | 0.21*  |        |        |
| R2                | .32    | .36    | .38    |
| Adjusted R2       | .31    | .33    | .35    |
| Δ R2              | .32    | .05    | .02    |
| Δ F               | 291.76** | 47.56** | 20.98** |

Furthermore, slope analysis as recommended by Aiken et al. (1991); Figure 2 and Figure 3 presents the outcomes of slope analysis.
5. Conclusion

The findings of current study confirmed that both horizontal and vertical integration of HRM have a vital role in the achievement of market targets in banking sector of Pakistan. It was observed that both dimensions of SI are positively associated with MP of Banks. The results of this study augment the claim of RBV theory, which states that firms can achieve sustainable competitive advantages through efficient utilization of internal resources. Similarly, it was also observed that SI of HRM will improve HRME and better HR outcomes lead to improved organizational performance. The organizational outcomes are the ultimate results while the HR outcomes are the immediate outcome of SHRM.
It was observed that vertically and horizontally aligned HR practices improve HRME and in return HRME improves the MP of an organization. The results indicate that HRME positively mediates the relationship between SI of HRM and MP. These findings highlighted the importance of HRM in improving organizational performance, therefore, it is concluded that firms can improve their performance by effectively managing their human resources. The results of this study also confirm the findings of previous studies which indicated that both vertical and horizontal integration are the important predictors of HRME and helps to significantly increase business performance (Jiang et al., 2012; Ridder et al., 2012; Kidron et al., 2013). The study also highlighted the importance of adopting a market-oriented approach, it was observed that market orientated approach further strengthens the relationship of SHRM integration and MO.

Implications and Limitations

This study also contributes to the existing knowledge through notable ways. This study developed a theoretical model on the basis of the gaps identifies in previous studies. The findings not only validated the results of previous studies regarding the impact of SI of HRM on organizational outcomes, it also has the potential to fill the gap highlighted by the previous studies. Most of the literature focuses on innovativeness and customer-related outcomes (Cacciolatti, and Lee, 2016) such as customer loyalty in relation with MO, however, the internal organizational processes like employees related concerns are ignored in previous studies (Kirca et al., 2005; Gebhardt et al., 2006).

This study also has important practical implications. As the banks are currently facing a very strong competition by both national and international players, they must maintain a set of internally coherent and vertically aligned HR practices along with MO. A strategically aligned and flexible approach to the management of human resources will improve customer responsiveness and will enable the banks to provide quality services to the customers.

The main limitation is its cross-sectional design which limits the causal relationships. The future studies may extract the findings through a longitudinal study which may consider how SI affects important organizational and employees related outcomes over the period. Secondly, this study has collected the data from a smaller sample; therefore, future research may collect the data from larger samples across Pakistan so that the generalizability issue may be resolved.

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