



Personnel Review

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Article information:

To cite this document:

Naveed Iqbal Chaudhry, Iqra Aftab, Zainab Arif, Usman Tariq, Muhammad Azam Roomi, (2019) "Impact of customer-oriented strategy on financial performance with mediating role of HRM and innovation capability", *Personnel Review*, <https://doi.org/10.1108/PR-02-2018-0056>

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<https://doi.org/10.1108/PR-02-2018-0056>

Downloaded on: 11 March 2019, At: 13:02 (PT)

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Impact of customer-oriented strategy on financial performance with mediating role of HRM and innovation capability

Role of HRM
and innovation
capability

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Received 13 February 2018
Revised 8 August 2018
Accepted 23 August 2018

Abstract

Purpose – The purpose of this paper is to explain the relationship between customer-oriented strategy (COS) and financial performance (FP) of firm, to examine the role of supportive human resource management (HRM) in COS implementation and contribution toward FP of firm. It also examines the mediating role of innovation capability (IC) between COS and FP of firm.

Design/methodology/approach – The approach used for this study is quantitative. Data required for testing of hypothesis were gathered from the managers of manufacturing firms of Gujranwala, Pakistan. To conduct the data analysis, structural equation modeling was used.

Findings – Findings of this study showed that there is significantly positive relation between COS and FP with the significant positive mediating effects of supportive HRM and IC.

Research limitations/implications – This research has been conducted in manufacturing sector only. So, it is suggested to future researchers to carry out this research in other sectors. Second, this research focused only on IC but there are many other organizational capabilities (OC) that can be used.

Practical implications – This research would be helpful for all firms adopting COS to understand that how to mobilize their HR to accomplish the purpose of strategy. It will enable manufacturing firms to understand and work on IC.

Originality/value – This study is anticipated to add value to the existing literature of strategy process and OC. This study is one of the first to examine IC as mediator between COS and organizational FP so it opens new areas for research.

Keywords Quantitative, Mediation, Financial performance, Customer-oriented strategy, HRM and innovation capability

Paper type Research paper

1. Introduction

Customer-oriented strategy (COS) is defined as the strategy adopted by firms focusing to make its employees understand the needs of its customers by aligning their efforts with the purpose of satisfying and retaining customers (Liao and Subramony, 2008). COS is a strategy that makes firms highly committed to understand, serve and monitor customer needs. Such COS driven firms set their business objectives and strategies with the basic focus on enhancement of customer satisfaction. COS also enables firms to increase their satisfied customers by frequently assessing their strategies and feedback of their customers (Lin *et al.*, 2016). COS has been embraced by numerous firms in order to compete and survive in worldwide changing market. COS empowers firms to recognize and accomplish customers' needs in exceptional way better than rivals. Strategies that are Customer-oriented are likely to positively influence firm's performance (Sun *et al.*, 2016).

To accomplish the objective of COS, firms have to shepherd their HR. A firm is said to have supportive human resource management (HRM) when it focuses on needs,



performance, attitudes and concerns of employees. Firms ensuring SHRM are found to be committed to assess attitudes and dedication of employees toward job, have regular staff meetings, find feelings and concerns of staff and have regular appraisals of staff (Greenley and Foxall, 1997). Therefore, COS and HRM ought to be aligned. HRM has a very essential part in execution of COS and customers' satisfaction (Liao and Subramony, 2008). The contented customers eventually contribute toward financial performance (FP) of firm. When firms adopt COS, they are in better position to recognize customers' needs and to innovate and distinguish their products accordingly. Innovation capability (IC) of the firm has more significant impact on FP of firm than on operational performance (Saunila, 2014). Many researchers have investigated the process in which SHRM plays its crucial role in execution of COS and achievement of high FP. SHRM practices defined as the HRM practices which involves taking care of employees and their well-being and facilitating employees in their task completion, can provide huge support in the implementation of COS (Lin *et al.*, 2016). This research paper derived its grounds from literature of organizational capabilities (OC) (Barney, 1991; Wernerfelt, 1984; Amit and Schoemaker, 1993). Capabilities have their vital part in firm's performance and its heterogeneity (Helfat and Winter, 2011). This study focuses on IC which is the capacity and talent of a firm to innovate and to convert an idea into something new (Noordin and Mohtar, 2013).

Given the significance of COS, SHRM and OC to firm's performance, investigation is required about how HRM aids the execution of COS to contribute toward FP and what role IC plays in the relationship between COS and FP of the firm. This research is likely to fill this need of research. Moreover, a comprehensive assessment of literature revealed that there is less current literature present on the association between HRM and strategy. Researchers have suggested for more investigation on this association (Zhao and Chadwick, 2014). This research study aims to fill this gap. The aim of this study is to explain the impact of COS on FP of firm with the mediating roles of IC and SHRM. This research has objectives to investigate and explain the connection between COS and FP of the firm, to examine role of SHRM in COS execution and contributing toward FP of firm and to examine mediating role of IC between COS and FP of firm. This research is expected to make various contributions in theory as well as practice. First, it is expected to contribute knowledge toward strategy process and SHRM's role in strategy execution. So, this research enlivens investigation on antecedents of HRM. Second, this study is one of the first to examine IC as mediator between COS and organizational FP.

In the remainder of this paper, pertinent literature is reviewed and then sampling, data collection, analysis and results in manufacturing organizations of Gujranwala Pakistan are presented and finally paper is completed with discussion of results and conclusion.

2. Literature review and hypothesis

COS is an approach that is used for sales and for keeping up links with customers. In COS, organizations place emphasis on serving customers and meeting their enduring needs. The personal and collective goals of employees and management are aligned in the direction of satisfying and retaining customers (Chron). Organizations using COS aim to capture and build value through accomplishing the needs of customers in a better way than their competitors. To achieve the goal of this strategy, the target consumers are researched carefully before product development and those needs are identified that have not been met yet and then the product is developed to fill the gap (Mack). An intelligently formulated strategic option has minute importance unless it is successfully implemented (Noble, 1999). For a strategy to be effectively implemented, the role and support of employees from all groups and departments of organization are needed and very important. Therefore, the HR department must be able to deal with the problems occurring on the implementation of a strategy and to continually assess the modifications brought into the organization through a

strategy (CHRM). HR researchers argue that HRM supports execution of a strategy e.g. (Becker and Huselid, 2006; Huselid and Becker, 2005; Porter and Advantage, 1985; Schuler and Jackson, 1987). HR department should make the needed adjustments and changes to organizational structure and policies of Human Resource to ensure the success of a strategy (CHRM).

An organizational capability is competence of a firm to direct and manage its resources in an effective way keeping in mind the end goal to gain an advantage over contenders (Kelchner). Organizational capability is the competence of an association to execute a synchronized set of tasks and employing the resources of an organization to accomplish a particular end outcome (Helfat and Peteraf, 2003). Organizational capability is the dexterity of the firm to organize resources in combination by using processes of organization to influence a desired result (Amit and Schoemaker, 1993). IC of an organization is its talent to convert an idea into something new which holds monetary value and then this economic value will contribute toward increased profit and thus firm performance (Noordin and Mohtar, 2013). The association between IC and dynamic capabilities was examined and findings of the study were that there are common as well as contradictory features existing between both fields (Breznik and Hisrich, 2014). Organizational performance can be measured either by objective measures (external audited and recorded accounts) or subjective measures (e.g. ratings given by respondents about their company) (Wall *et al.*, 2004).

Relationship between COS and firm's FP

Research carried out in the Chinese automobile sector demonstrates that strategy which is customer-oriented has a positive effect on firm's performance (Sun *et al.*, 2016). An organization using COS considers customer's satisfaction as the foundation of its all business decisions (Chron). COS enables a firm to beat its competitors through fulfilling and satisfying the needs of customers better than the competitors do (Narver and Slater, 1990). Another research which was carried out on SMEs of Austria found the results that customer-orientation (CO) has negative link with SMEs' growth (Eggers *et al.*, 2013). COS is positively associated with the performance of firms (Sun *et al.*, 2016). The results of a study carried out in the hospitality industry of Iran demonstrate that CO and hotel's performance are significantly associated. CO has positive influence on FP (Jalilvand, 2017). CO has positive influence on SMEs' performance (Appiah-Adu and Singh, 1998). On the grounds of existing literature on COS and FP, it can be said that when an organization uses strategy that is customer-oriented then it is in a better position to understand, satisfy, increase and hold its customers. It means COS makes a firm able to hold existing customers and create new customers, i.e. new sources of profit. Therefore, profitability and FP of firms using COS increases. This study hypothesizes that COS enables firm to satisfy customers' needs efficiently, to attract new customers and to retain existing customers thus to achieve high FP:

H1. COS of firm is positively related to FP of the firm.

Mediating role of IC between COS and FP

To develop a strong positioning strategy and to realize the organizational intentions about addressing the environmental contingencies, there is a need of OC and resources. To examine the relationship between assorted dimensions of CRM and IC, Ru-Jen and Kevin conducted a study in Taiwan. That study revealed that few types of CRM activities have a significant effect on innovation process and capability. The importance of customer-oriented organizations has been acknowledged by many researchers with regard to development of innovative process in organization. The impact of three dimensions of customer knowledge management on two of the dimensions of innovation capabilities that includes speed and

quality was studied in banks of Bangladesh. The findings of this study determined that innovation in quality and speed is strongly predicted by dimension of knowledge of customer (Taghizadeh *et al.*, 2017). Customer-oriented firms try to create such systems that capture new ideas and opportunities for innovation to keep their customers contented and to attract new customers thus being more innovation capable (Mukerjee, 2013). CO and innovativeness of firm are positively related. Innovativeness finally positively influences FP (Jalilvand, 2017). The firms that invest in IC are able to implement active innovative processes (Smidts *et al.*, 2001). Innovation and service advancement are significant tactical characteristics to ensure viable wealth and growth for all industries (Jalilvand, 2017). Innovativeness is considered as one of the most important determinants of FP so higher innovativeness of firm leads toward greater performance of a firm (Calantone *et al.*, 2002). The relationship of quality, technology and financial success of firms were explored in a study. The results suggested that the type of technology leads to a different type of quality related performance which ultimately have a direct or indirect effect on the FP of the firm (Li and Collier, 2000). Among the four variables focused on in the research, only product's innovation has a significant positive influence on the FP of firms (Dunk, 2005). Increased FP can make a company more competitive in the long run. Many factors affect the FP of firms, but upturn in quality and flexibility in cost leads to an increase in the FP of large firms as compared to SME's in Turkey (Kazan *et al.*, 2006). To identify the influence of different aspects of organizational innovation capabilities on the FP of the firm, research was conducted in SME's of Finland. The findings of the research showed that IC had a more significant impact on the FP of a firm than on operational performance (Saunila, 2014).

Literature offers the grounds that when a firm adopts COS, then its ability to recognize and predict future needs of customers increases and COS enables firm to develop and modify products according to those needs. Customer-oriented firms try to consistently innovate to reward and hold reliable customers. In this way, COS helps firms to be more innovative and responsive toward customers' needs thus developing IC. This IC supports an organization to attain and sustain competitive advantage, which ultimately leads to higher FP. Therefore, it is hypothesized that a firm which adopts COS will be more efficient in the proper allocation of their resources to bring innovation in their products and processes which will lead to sustainable competitive advantage and FP:

H2. IC mediates the relationship between COS and FP of the firm.

Mediating role of SHRM between COS and FP

A COS adopted by firms requires its employees to understand the needs of its customers and to align their efforts and objective in order to satisfy and retain customers (Liao and Subramony, 2008). At times, COS cannot alone improve service standards and subsequently FP of a firm. For instance, a good customer receptionist at a hotel cannot assure a satisfied customer until or unless cleaner, hotel staff and other human resource units will not perform well. Therefore, COS mobilizes the HRM of firms for its effective implementation (Lin *et al.*, 2016). So firms which are following COS use many helping behaviors toward customers such as performance appraisal, enquiries of employees' feelings and perceived support (Nishii *et al.*, 2008). When a firm is customers-oriented then it knows the importance of employee satisfaction because a satisfied employee will contribute toward a satisfied customer. Therefore, to achieve the goal of CO a firm uses effective HR practices to motivate and satisfy employees and recognize the required skills and abilities of employees for customer satisfaction thus leading toward SHRM. In this way, SHRM can offer a good fit with COS (Lin *et al.*, 2016). SHRM focuses on many practices. For example, performance appraisals that are helpful in the development of employees and are more than just evaluative appraisals help to identify areas for improvement (Boswell and Boudreau, 2002).

These are all essential parts of SHRM. In this way, COS consolidates SHRM in an organization which can further enhance FP of the respective firm.

A lot of research is carried out on how customer satisfaction is positively influenced by satisfied employees. Researchers proposed that SHRM conducts render huge support to COS (Nishii *et al.*, 2008). HRM can impact the implementation of a strategy by aligning HR strategy to that organizational strategy, linking all HR programs to that strategy, updating the new behaviors required to ensure the success of the strategy and aligning the rewards and appraisals to the desired organizational outcomes (Missildine, 2014). Some studies examined the influence of aligned HRM and strategy on the functioning of the firm, e.g. (Liao, 2005). In some studies, the interactive effects of different combinations of HRM and business strategies on organizational performance are examined e.g. (Huang, 2001, Gunnigle and Moore, 1994). Thus, SHRM practices prove to be best appropriate for COS. When employees are empowered to give creative ideas then they contribute toward innovation of the process. (S. Schuler, 2013). A study was conducted in Singapore focusing on those companies that had any type of merger or acquisition. This study examined how FP of such companies is positively influenced by increased productiveness of its HRM function and culture of the company. The findings of the study suggested that with primary emphasizes on organizational culture, HRM affects FP positively (Chew and Sharma, 2005). Superior HR practices when integrated with knowledge management with a clear focus on the learning capability of firm make a firm able to accomplish excellent organizational performance (N. Theriou and Chatzoglou, 2014). The relationship between HRM and organizational performance was explored with the mediating function of innovation in service firms of China. The findings suggested that innovation partially mediates the association of high performance HRM and firm's performance (Lu *et al.*, 2015). HRM has been examined as moderator between generic positioning strategies and organizational performance by some researchers (Youndt *et al.*, 1996). So, based on evidence of relationship among COS, SHRM and FP it is hypothesized that SHRM plays a mediating role in the relationship of COS and FP because for implementation of COS, employees at all levels must be mobilized and then SHRM in turn makes an active involvement in FP (Figure 1):

H3. SHRM performs role of mediator between COS and FP of the firm.

3. Methodology

Sample and data

This study has been conducted in the context of Gujranwala, Pakistan. As Gujranwala is an industrial area and has a major contribution in production of industrial goods. So, researchers targeted manufacturing firms of Gujranwala. Due to high competition, these firms make ongoing efforts by innovating their products and processes to retain old

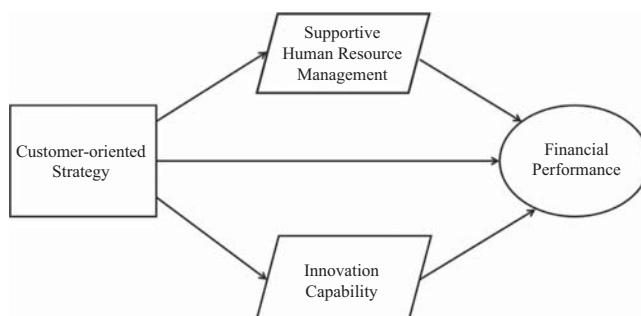


Figure 1.
Framework of study

customers and to increase customers. In this context, firm innovation holds greater importance. The purpose of conducting this study was to examine the significance of the relationship between COS and FP. This research analyzed the impact of COS on the FP of the firm with the mediating effect of SHRM and IC of the firm. Data required to conduct this research were collected from the manufacturing firms of Gujranwala. Researchers used the approach of Purposive Sampling in order to collect data to test the significance of hypothesis. Firms working and operating on a non-profit basis were excluded. After selecting the sample, the questionnaires were designed to answer the research questions and to understand the point of view of managers in the manufacturing firms regarding the relation of COS and FP of firm and to what extent this relation is influenced by SHRM and IC of firm in mediating role. In selected firms, top level managers and middle level managers were contacted with a request to participate and then questionnaires were sent. Questionnaires were sent to 260 managers of different manufacturing firms of Gujranwala. The total responses received by participants were 236. After excluding blank responses and responses with missing data, 231 responses were retained and subjected to analysis.

Measures

Dependent variable: firm's FP. Subjective measure was used for FP as objective information of all firms was not available and comparable. Many studies have used subjective measures for FP in past e.g. (Lin *et al.*, 2016). The convergent validity of subjective measures of organizational performance with objective measures has also been recognized in an empirical research (Wall *et al.*, 2004). Three items were considered authentic to measure the FP of firm, i.e. profit level of firm, profit margin and return on investment. The data were collected by asking respondents to rate these items of the firm on five-point Likert scales. The range of responses was set from "1" to "5," i.e. "much worse" to "much better." The reliability test for this scale revealed that Cronbach's α of this scale was 0.74.

Independent variable: COS. Many researchers consider questionnaires and survey as the best tool to measure COS. In the current study, COS was measured using a scale developed by (Narver and Slater, 1990). The same items were used by Lin *et al.* to measure COS (Lin *et al.*, 2016). In the current study, these items were measured by using five-points Likert scales. Ratings were assigned by respondents on the basis of characteristic represented by their firm. Scale used ranges from 1 = "strongly disagree" to 5 = "strongly agree." The sample question from that scale is "Our commitment to serving customer needs is closely monitored." Cronbach's α value for this scale was 0.86.

Mediating variable 1: SHRM. Four items given by Greenley and Foxall were used for authentic measurement of SHRM (Greenley and Foxall, 1997). Lin *et al.* (2016) also used same items to measure SHRM. Five-points Likert scale was used for these items and respondents rated from 1 to 5. One sample item from that scale is "We have regular staff appraisals in which we discuss employee needs." Cronbach's α value for this scale was 0.797.

Mediating variable 2: firm's IC. Six items scale drawn from Hurt *et al.* (1977) was used to measure IC in the current study (Hurt *et al.*, 1977). The same scale has been used by many studies in the past to measure firm innovativeness and IC e.g. (Calantone *et al.*, 2002). Respondents were asked to rate from 1 = strongly disagree to 5 = strongly agree to know that how much innovation is made in their firm. One sample question from that scale is "Our Company frequently tries out new ideas." Cronbach's α for this scale was 0.824.

Analysis. To conduct the data analysis, structural equation modeling (SEM) was used because SEM can test measurement as well as structural models simultaneously and give overall fit indexes of proposed model. With the help of this test, the significance of proposed hypothesis was found. It was assessed through using SEM that whether the hypothesized model is fit or not.

4. Results

Descriptive results

Descriptive analysis was run for the purpose of data screening. The data were normally distributed and had no outlier or missing value. Table I shows the descriptive statistics of this study. Reliability of data was checked by running reliability test. The Cronbach's α value was 0.86 for scale of COS, 0.74 for FP, 0.797 for SHRM and 0.824 for firm's IC. All these values revealed that data were reliable (Tables II–IV).

Measurement model

CFA test was run to confirm validity of data constructs. The model fitness was tested and the values of CMIN/DF = 1.6, GFI = 0.877, IFI = 0.977, CFI = 0.977 and RMSEA = 0.052 indicated

	n Statistic	Minimum Statistic	Maximum Statistic	Mean Statistic	SD Statistic	Skewness Statistic	SE
COS	231	1.00	5.00	3.5723	0.96707	-0.940	0.160
SHRM	231	1.25	5.00	3.7067	0.67023	-0.719	0.160
Finn	231	1.00	5.00	3.4553	0.79911	-0.620	0.160
FPerf	231	1.00	5.00	3.7071	0.92329	-0.695	0.160
Valid n (listwise)	231						

Table I.
 Descriptive statistics

Indicators	Value
CMIN/DF	1.6
GFI	0.877
IFI	0.977
CFI	0.977
RMSEA	0.052

Table II.
 Model fitness

Variables	Items	CR	AVE
Innovation capability	1. Our company frequently tries out new ideas 2. Our company seeks out new ways to do things 3. Our company is creative in its methods of operation 4. Our company is often the first to market with new products and services 5. Innovation in our company is perceived as too risky and is resisted 6. Our new product introduction has increased over the last 5 years	0.795	0.545
Customer-oriented strategy	1. Our commitment to serve customer needs is closely monitored 2. Our objectives and strategies are driven by the creation of customer satisfaction 3. Competitive strategies are based on understanding customer needs 4. Business strategies are driven by increasing value for customers 5. Customer satisfaction is systematically and frequently assessed	0.869	0.580
Supportive HRM	1. We have regular staff appraisals in which we discuss employee needs 2. We have regular staff meetings with employees 3. As a manager I try to find out the true feelings of my staff about their jobs 4. We survey staff at least once a year to assess their attitudes to their work	0.728	0.537
Financial performance	1. Overall profit levels achieved 2. Profit margin achieved 3. Return on investment	0.747	0.501

Table III.
 Variable
 measurements and
 scale's reliability

and confirmed fitness of the model. The composite reliability (CR) values in CFA results revealed that data are valid. The MSV and AVE values also confirmed validity. Results revealed that this four-factor model has good model fitness. The results of discriminant validity measurement showed that each variable is strongly correlated with itself (Table V).

Structural model

Finally, SEM was used to run main analysis of study. SEM results indicated that proposed model of this study fitted the data. The results suggested that COS is directly and positively associated with FP with $\beta = 0.15$, COS has positive impact on IC with $\beta = 0.49$, IC has positive effect on FP with $\beta = 0.25$, COS has positive effect on SHRM with $\beta = 0.40$ and SHRM has positive effect on FP with $\beta = 0.34$. Therefore, results showed that independent variable COS, dependent variable FP and mediators SHRM and IC are significantly related ($p < 0.05$). The H_1 of study was accepted that COS is significantly positively related to FP of the firm. The direct impact of COS on FP was 15.2 percent. After analyzing total and indirect effect, it was found that partial mediation was there between the variables. COS has 25.9 percent indirect impact on FP and this effect is due to the mediators IC and SHRM. So, partial mediation of SHRM and IC was supported and remaining two hypotheses were also accepted. The bootstrapping method was used and results were in favor of H_2 and H_3 . Supporting the H_2 , IC significantly mediated the relationship between COS and FP of the firm. In support of H_3 , SHRM significantly mediated the relationship between COS and FP of the firm (Figure 2).

5. Discussion of results

The conceptual framework which was developed in this study is strongly supported by the results and also by the work of other authors. On the basis of OC theories, this was tested in the theoretical framework that when firms use supportive HR practices and focus on the COS, then they are able to achieve high FP with the active role of IC. The data collected from the manufacturing firms support the stated hypothesis and answered the research questions.

The results of this study indicate that COS of a firm is found to have a significant positive relation with the FP of firm. Many authors have supported this relation which provides initial support to proposed hypothesis of this research. Sun *et al.* (2016) stated the contribution of Customer-oriented strategies in the uplift of FP. Jalivand in 2017 studied and his findings suggested that there exists positive relation in CO and performance of the firm. Another study

Table IV.
Discriminat validity
measurement

Variables	IC	COS	SHRM	FP
Innovation capability	0.667			
Customer-oriented strategy	0.474	0.762		
Supportive HRM	0.582	0.557	0.787	
Financial performance	0.545	0.483	0.767	0.777

Table V.
Structural equation
modeling and path
analysis

	Innovation capability			Supportive HRM			Financial performance		
	Direct effect	Indirect effect	Total effect	Direct effect	Indirect effect	Total effect	Direct effect	Indirect effect	Total effect
COS	0.495***	–	0.495***	0.400***	–	0.400***	0.152*	0.259**	0.411***
IC	–	–	–	–	–	–	0.252**	–	0.252**
SHRM	–	–	–	–	–	–	0.335**	–	0.335**
R ²			0.24			0.16			0.31

Notes: * $p < 0.05$; ** $p < 0.01$; *** $p < 0.001$

Role of HRM and innovation capability

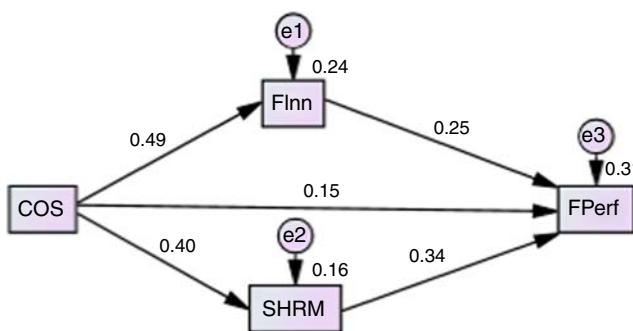


Figure 2.
Path diagram in SEM

was conducted to explore the relation between entrepreneurial environment, COS and entrepreneurial environment. Its findings suggested that high uncertain environment leads to greater impact of COS on firms performance (Sun *et al.*, 2016). The result of our study has already gained support by literature and hence it is proved in our study that after gathering data from manufacturing firms that these firms make greater efforts to retain their customers by satisfying their needs and adopting such ways that make customers more committed and loyal. As different authors have studied the relation of COS with different variables so our study focuses on mediating role of SHRM and IC in the relation of COS and FP. COS also plays an important role in attracting new customers and it ultimately impacts the performance of firm positively. As the ultimate objective of any firm is to earn high profits so this becomes possible when an organization successfully implements such strategy that is customer-oriented.

A major theoretical contribution of this study lies in providing sufficient evidence to literature about strategy implementation. Becker and Huselid (2006) stated that HRM plays a positive role in influencing the performance of the firm. Moreover, strategy implementation is supported by HRM of firm (Becker and Huselid, 2006). In 2014, Missildine also contributed in the literature that HRM can impact the implementation of a strategy by aligning HR strategy to that organizational strategy, linking all HR programs to that strategy and also aligning the rewards and appraisals to desired organizational outcomes. Boswell and Boudreau (2002) studied the various practices of SHRM which play an important role in making employees more motivated to work. For example, performance appraisal that is helpful in development of employees and is more than just evaluative appraisal helps to identify areas for improvement of employees. A study was conducted to see the impact of HR practices on job embeddedness and employee job performance by using ability-motivation-opportunity model of HR which suggested that appropriate HRM practices lead to high retention if employees at their job (Tian *et al.*, 2016).

The results of this study strongly support the proposed hypothesis that SHRM significantly mediates the relation between COS and FP. Many authors have studied and found that when a firm makes maximum efforts to satisfy its customers then an active role of employees is required. Beckar and Huslid also studied the significance of HRM in strategy implementation and stated that “Fit” practices about HRM carried in the firm makes the employees highly motivated and encouraged to show certain attitudes which helps in the successful implementation of organizational strategy (Lin *et al.*, 2016) SHRM practices include those HRM practices which involves taking care of employees and their well-being and facilitating employees in their task completion (Lin *et al.*, 2016). Many authors have used the term of SHRM generally to study its impact on any variable but this research focuses on some specific dimensions of SHRM for better and clear results. The ultimate result comes in the form of increased profits of firm and better overall FP. Lu *et al.* (2015) studied the

relationship between HRM and organizational performance and explored the mediating function of innovation in service firms of China. The findings suggested that innovation partially mediates the association of high performance HRM and firm's performance. So, authors of this research also provide important insights about strategy implementation and role of HRM practices in it. It explains that there must be alignment between the HRM practices and strategy of the firm, which will lead to better strategy implementation.

The result of this study supports the proposed hypothesis and it is proved that mediating effect of IC between COS and FP is significant and the results of this relation are significant. Literature also offers the grounds that IC supports an organization to attain and sustain competitive advantage which ultimately leads to higher FP. Moreover, the importance of customer-oriented organizations has been acknowledged by many researchers with regard to development of innovative process in organization. Smidts *et al.* (2001) explained the positive impact of investment in the IC of the firm on the implementation of active innovative processes. In 2017, Jalivand found that Innovation and service advancement are significant tactical characteristics to ensure viable wealth and growth for all industries. Saunila also studied the relation of IC and firms performance and his findings suggested that IC had more significant impact on FP of firm than on operational performance (Saunila, 2014). Therefore, from the above described literature and the proved significance of proposed hypothesis, this study provides major contribution in the literature of OC. As many authors studied the IC of firm with different variables but in this research the focus was on the relation of COS, IC, HRM and FP. Different types of OC are mainly focused by authors but firm's IC is focused in this research to prove the significance of this type of capability in organizations. As IC of a firm leads to increased number of customers and higher FP so this offers greater insight to capabilities of organization. So this study delivers an important message that when a firm adopts COS, then it must innovate its products and processes to attract new customer and to retain old ones which will ultimately bring higher profits for the firm.

6. Conclusion

This research conducted in the manufacturing sector in Pakistan elucidates the association between COS and FP with mediating roles of SHRM and IC of firm. All hypotheses proposed in this research were supported by the finding. Hypotheses were tested with data collected through questionnaires from managers of manufacturing organizations in GRW, Pakistan. SEM was used to run main analysis of data and findings suggested that COS is significantly positively linked with FP of firm. It was further found that SHRM and IC of firm mediate the relationship of COS and FP of the firm. These results were mostly persistent with existing literature on the relationship of COS, SHRM, IC and FP of firm. This research looks forward to make various contributions in the area of knowledge and practice. This study is anticipated to add value to the existing literature of strategy process and OC. This study also enlightens the role of SHRM in strategy execution and enlivens investigation on antecedents of HRM. This research would be helpful for all firms adopting COS to understand that how to mobilize their HR to accomplish the purpose of strategy. Furthermore, this study is one of the first to examine IC as mediator between COS and organizational FP so it opens new areas for research.

However, this research has been conducted in the manufacturing sector only therefore the findings and results might not be transferrable to all sectors and there is possibility that findings for some other sector contradict with this research. Therefore, it is suggested to future researchers to carry out this research in other sectors for making results and findings generalizable. Second, this research focused only on IC due to its significant link with COS but there are many other OC that can be used. So, it is suggested to use different OCs in future to examine this association. Furthermore, this research used subjective measure to measure FP of firm. Future researchers can test this relationship by using objective

information about FP of firms. Additionally, the longitudinal study will also be useful to investigate the strategy process over the time. Concluding this research, this study investigates and explains the implication of COS and SHRM and stuffs the gap of limited literature on variables of this study. It supports OCs theory and enlightens how HRM aids the execution of COS to contribute toward FP and what role IC plays in the relationship between COS and FP of the firm.

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