

## Alignment of Business Strategies and Human Resource Strategies in Banking Industry

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### Abstract

The present study aimed to "align business strategies with HRM strategies in the banking industry." By reviewing theoretical basis, previous studies and existing documents, business strategies available in the three positions of the Delta model were identified in the banking industry, and they were mitigated and interpreted using banking experts' opinions. Then, using the matching alignment approach from among the Venkaterman approach models, and by the use of alignment model of reference strategic points, adaptation is made between the strategies available in each position and the strategies of the Bamberger and Meshoulam model, which itself was used as the model for determining the human resource strategy in this study. Thus, appropriate human resource strategies were identified for each business strategy in the three positions. The sampling method was a combination of non-probability sampling methods of snowball and judgment. These methods were chosen because of the specific information each step requires, the lack of familiarity of the researcher with experts in the related areas and the limited number of these people.

**Keywords:** alignment, business strategy, human resource management strategy, commercial banks, Delta model

### Introduction

Limitation in resources is among fundamental properties of competition in organizations in the 21st century. In this space, organizations succeed that create maximum value by identification and optimal use of available resources. Available resources and assets of the organization include financial, physical (buildings, equipment and facilities), and human capitals, customer and technology and knowledge capitals to which organizations pay high prices to acquire. This is why they use these resources as fundamental tools to stay competitive in the market space. However, just acquiring these resources will not lead to the organization superiority, and their optimal use will play a very effective role in increasing the organization's competitiveness. In other words, how to attract and use these resources to create maximum value for the organization is the excellence and success factor. The most important and valuable resource among these sources is manpower and organizations must pay great attention to developing suitable strategies for the guidance and management of these resources and use these valuable resources to achieve organizational business objectives and strategies, eliminate competitors and gain a greater share of the market.

Effective organizations are increasingly recognizing that although many factors contribute to their function, human factor is of great importance. Regardless of the size or nature of an organization, its activities and the environment in which it is operating, the organization success is determined by managers' decisions and the behaviors that employees are encouraged to do so. Thus, presently a vital source for competitive advantage in the organization often is not only having the most ingenious product design, the best strategy or marketing, or very strong financial management but also having right systems for HRM. According to the HRM strategic perspective through which the interests of individuals and organizations are aligned, it is necessary to consider employees as

human assets and develop suitable policies and programs as investments in these assets for value-adding in the organization. (Mello, 2010)

In a competitive environment which organizations are constantly competing, vanguard organizations are those who have competitive advantage and the most successful ones are those who have a sustainable competitive advantage. According to the literature on strategic HRM, organizations that make strategic alignment between organizational components will have a sustainable competitive advantage. Increasing attention to this field is due to the idea that an organization's human resources (HR) should be considered a strategic factor, not only because of its impact on the effectiveness of managerial strategy, but also because of its potential role (in creating) a sustainable competitive advantage. (Wang, 2008)

Making alignment and consistency between HRM strategy and business strategy of the organization is a subject that has been proposed as an important component affecting the performance and productivity improvement in organizations. The basic premise of this discussion is that in organizations that business strategy is not aligned with HRM strategy, performance will drop. Thus, achieving greater productivity and better performance in organizations requires more consistency and coordination between the overall strategy of the organization and functional strategies in HRM. (Murray & Kotabe, 2005)

In their studies, thinkers like Wright, Huda, Mahon, Armstrong, Kotabe, Wang and Budhwar have mentioned and described the valuable role of HR as a strategic asset. Organizations that effectively manage selection, attraction, reward and compensation procedures and coordinate them with their organizational strategies will achieve an advantage that cannot be easily copied by competitors. These resources can help create a sustainable competitive advantage for organizations and its sustainability leads to synergy in the organization. Given the normality distribution hypothesis for "the abilities and skills of individuals", Wright et al. (1992) mentioned four characteristics for HR to create a sustainable competitive advantage for the organization and enter in an unrivaled space: first, for human resources to be a source for creating sustainable competitive advantage, they must be "value-adding" for the organization. Second, a source should be "rare" to be able to create sustainable competitive advantage.

Third, for human resources to be a factor for outshining competitors and eliminating them from the competition scene, they must be "non-imitable". Using "unique historical conditions," "causal ambiguity" and "social complexity" concepts, Wright et al. tried to show non-imitability of the advantage caused by human resources. Finally, a resource should lack suitable substitutes to be considered a factor for value-adding. (Wright and McMahan, 1992)

Today, the importance of bilateral communication between business strategy and HRM strategy is undeniable. Lengnig Hall lists three main reasons for it:

1. Alignment provides a set of solutions to solve complex problems in the organization.
2. Alignment ensures that human resource is given special attention in the goal-setting and evaluation of implementation capabilities stages.
3. Alignment limits the ignorance of human resource as a factor for gaining sustainable competitive advantage and a key resource of organizational competence. (Budhwar, 2000)

In the light of economic and social development plans and given current environmental conditions, the banking system in Iran is the eve of major changes in structural dimensions, deregulation, IT development and restructuring HRM practices. In case of unwillingness to scholarly inquiry and improper actions to deal with current situations and improper management of the transition stage, waves of environmental changes such as globalization, membership in the

WTO, adoption of private banks, deregulation and operation of foreign banks in free trade zones and the like will go in crisis all Iranian banks in general and commercial banks in particular.

In current situations, commercial banks must put emphasis on value-creation and innovation in products and services and simultaneously creating shared value for the customer and organization, and keeping the customer in the system and competitors out. They should be able to align innovation with productivity, price and cost. If they fail in aligning values with innovation, then technology innovators and market leaders in the banking industry will take advantage of it. Entering such areas in these units requires differentiating the organization from competitors and trying to have a clear and unique strategic position in the market and strengthening and mobilizing available resources and finally the optimal use of these resources. At present human resources are the most important resource in the hands of banks in terms of quality and quantity. Large volume of personnel working in banks multiplies the importance of their alignment with strategic objectives and exploiting the power and capabilities of this valuable resource. This study was conducted in the strategic HRM area. Given that the most important challenge for any organization in implementing any strategy is to create adaptive processes to support the new strategy and to create alignment in the whole organization to achieve it, the necessity (rationale) of the research is discovered.

Studies conducted by the Researcher on the documents related to HRM strategies in some commercial banks in the last five years and interviews with experts in these banks illustrates the fact that banks now have relatively fixed strategies and actions in various areas in HRM, especially wage, training, retention and staffing, and these items did not have significant changes proportionate with environmental changes and conditions governing the organization and with their strategic repositioning. It should be noted that recently some banks have initiated efforts in the HRM area to make necessary changes in accordance with environmental requirements of such as privatization. With different views, various scholars and researchers have designed models in order to align business strategies with HRM strategies but none of which have addressed the alignment of business strategies with HRM strategies based on the organization's strategic position, and organizational and environmental conditions governing it. Thus the study's innovation compared to similar studies is that it examines the alignment of business strategy with strategic HRM (hiring, promotion, training, etc.) based on the organization's strategic position in commercial banks. Since one of the most important tasks of managers in the banking industry is to determine the strategic position of the organization, the model used in this study can be an effective tool to describe this position and explain business strategies and HRM strategies commensurate with it in the current and desired situations. Given above, the main problem of this study is how to align HRM strategies with business strategies in commercial banks based on their strategic positions.

### **Theoretical basics of the research**

#### ***Business strategies***

Business strategy is a set of interrelated decisions that bring about some competitive advantage for the organization compared to competitors. Miles and Snow proposed general strategies of the organization as follows: defensive, analyst, reactive and passive. Schuler and Jackson introduced a classification for competitive strategies similar to Porter including cost leadership strategy, innovation, and quality improvement. (Farahi, 2006)

#### ***HR Strategies***

Strategy in HRM can be defined as the solution of choice for achieving goals and in line with organizational strategy. (Mirsepasi, 2011) In fact, HR strategies adjust the organization's purposes on various aspects of HRM policies and practices. (Armstrong, 2010) Dowling and Schuler described facilitation, integration and deployment strategies as the main HRM strategies.

"Facilitation" refers to a long-term approach to staff management based on a careful selection of the best people and investing in them through training and establishing long-term relations. In this strategy, staff development is of high value, but the organization has just a facilitating role in the development process. "Deployment" refers to a more short-term approach. In this philosophy, employees are selected based on skills, and the least training is presented to them. Rewards are typically personal and motivation-driven. Dyer and Holder define the three strategies as motivation, investment and engagement (involvement) (Hunng, 2001). In another classification, Bay et al. pointed to the buy-bureaucratic strategy and the build-organic strategy among main HRM strategies. The buy strategy focuses on cost control and is aligned with the cost leadership strategy. Companies that use the buy strategy in the HRM hire their managers from outside the organization, use less training programs, accurately define job descriptions, evaluate job experience higher in calculating salary and benefits and limit employee involvement decision-making. But the "build" strategy focuses on improving middle managers within the organization for administrative posts, widely appreciates training programs, addresses job enrichment and job is widely defined, payments are calculated based on performance and employees in a wide range are allowed to participate in decision-making. According to Lepak, companies that use the "build" strategy can develop a set of established employees. Such employees are very committed to the company and can easily interact with each other, while in the "buy" strategy employees have the least amount of cooperation and commitment. Hence, knowledge sharing rarely happens in such companies (Shih & Chiang, 2005)

Schuler and Jackson claim that what is needed for staff to implement strategies should be designed as a contingency plan based on the HRM approach in order to achieve that strategy. Schuler states human resources areas which must be aligned with the business strategy as follows: planning, staffing, evaluation, salary, training and development, and employee relations. In addition to internal coherence, these areas should be aligned with management premises and values about staff which is "personnel management philosophy". Schuler suggests that for the cost-reduction, focus and differentiation business strategies, one should take advantage of the deployment, integration and facilitation HRM strategy. (Kelliher & Prett, 2001) Organizations that use the cost-reduction strategy must tightly control and reduce costs to be able to achieve economies of scale. For this purpose, the organization must apply standard operating procedures, functional behavioral assessment, close monitoring and feedback getting. (Liao, 2005) In other words, the HR strategy should recruit from outside, attract manpower with the ability to quickly perform tasks and minimize training costs. Job content should be limited, and job solutions should be designed based on specialization and performance evaluation as short term and individualistic. Payments are made based on the equality with staff from outside the organization and financial incentives are rarely presented. Job security is very low due to the emphasis on technology. (Hunng, 2001) Bamberger and Meshoulam listed four ideal types of main HR strategies as follows: (Bamberger, 2000)

*The commitment strategy* exists in organizations that use the internal labor market and control the product or productivity. In these organizations, the HR sub-system acts to select staff, and develop and support their career path with high precision. Overall, it focuses on the provision and promotion of staff from within the organization. The performance evaluation and reward sub-system highlights the principle of internal equality among employees and performance-based payments are made at individual and group levels. Jobs are extensive, rich and self-managed, and creativity and innovation are very high. Commitment to the organization is high and employees are committed to the organization.

*The free agent strategy* - which is the result of a combination of external labor market and product control - exists in organizations in which the career path development and support is limited and most posts are supplied externally. The principle of external equality is emphasized and

payments are made based on skills. People have a lot of autonomy. The labor culture is used as a tool for control. In such organizations, there are high and fixed expectations for performance and competency is awarded. Organizational commitment is low and people know their task and job (rather than organization) as their representative.

*In the paternal strategy* – which is the result of crossing internal labor market and process/behavior control – the career path development and support is moderate, the principle of internal equality is emphasized and performance evaluation systems are used limitedly. Process control is performed by supervisors and strict control is exercised. There is somewhat creativity and innovation, and performance expectation is moderate. Organizational commitment is moderate and the organization has an instrumental aspect.

*In the secondary strategy* – which is the result of using external labor market and process - there is no career path development and support but there is a high dependency on temporary or contract employees. The principle of external equality is highlighted and opportunities for employee participation are limited. A strict control is exerted on the process by supervisors, and employees are not allowed to comment. In this strategy, creativity is very low, organizational commitment is limited and the organization takes a purely instrumental role. (Bamberger, 2000)

#### ***Alignment of HR and organizational strategies***

Hall identified three major reasons for detecting the importance of aligning HR strategies and organizational strategies. The first reason is that integration and alignment lead to a range of solutions for complex organizational problems. Second, it ensures that all human, technical and financial resources play a role in goal-setting and also capacities to implement these goals are assessed. Finally, it decreases inattention to human resource as a vital source for gaining organizational competence and organizational benefits. (Othman, 2000)

For successful integration and alignment of HR strategies with organizational strategies, HR managers should be seen as part of strategic planning mechanism for internal alignment between HR policies and strategic initiatives made by senior managers. (Othman, 2000)

Establishment, expansion, development and preservation of systems in an organization in which there is a suitable level of alignment between HR strategies and organizational strategies is a very important task of the organization leader. When there is alignment between organizational strategic and HR strategies in an organization, its performance can increase. (Carmeli & Tishler, 2004)

Hall Beach suggests that instead of separating HR strategy from the organization's strategy, employees can be managed more effectively through integrating HRM strategy with corporate strategy. On the other hand, it will improve organizational performance. Lack of integration between HRM and strategic business planning process will increasingly lead to the failure of strategy implementation (Othman, 2000)

Strategic integration aims to achieve close links between business strategies and HR strategies (vertical integration) and also to ensure that HRM practices have the reinforcing role for the mentioned bilateral relations (horizontal integration). Strategic integration can enhance the credibility and effectiveness of HRM practices. Vertical integration means that HRM practices are designed to support the achievement of corporate goals. Horizontal integration reflects the internal coherence of HRM practices and activities.

Boxal, Porsel and Wright (2007) argue that strategic HR management covers all overall HR strategies that are in line with organizations and their business units and also the measurement of impacts of this alignment on performance. (Boxal, 2007) Jarwalt and Randmalio express that probably the most important point in strategic HRM is conceptualization and to pay attention to strategic integration. This strategic alignment refers to the alignment of HR management systems

with the ultimate strategic goals of the organization (vertical HRM integration) and alignment among HRM practices and systems (horizontal HRM integration). In other words, employee selection and recruitment, development and improvement, performance appraisal, reward and other important HR aspects should consider the organization big map. HR strategies should develop and improve overall strategies of the organization and they should also be seen in its strategic plan. HR strategies are directing programs that address human subjects related to the business. These strategies are very important because they help managers determine how to manage staff to achieve business strategies. HR strategies can make an alignment between HR practices and corporate strategies. (Othman, 2000)

### **Literature Review**

Bear explained the alignment of business strategy with HRM strategy in terms of factors affecting alignment. According to his research, one factor affecting successful HRM alignment is the awareness of HR personnel about their own roles. Another factor is direct access to senior management through formal reporting mechanisms and informal networks. Devolution of HRM responsibilities to line forces is another effective factor in strategic HRM alignment.

Getger and Moon described the alignment of strategic management and HRM in a model. They acknowledged that due to the increasing complexity and decreasing predictability, it is necessary to provide a conceptual significant model that can help integrate diverse ideas and approaches.

In his studies, Sisan mentioned four features for the alignment of HRM with business planning including delegating HR managers, individualism in employee relations management, emphasis on maintaining employee commitment and emphasis on innovation.

Using vertical alignment approach and strategic integration in his studies, Hoslid showed that organizations that align and link their HRM practices with their competitive strategies have higher financial performance. Using the same approach, Wright et al. conducted a research in 97 manufacturing companies. They showed that alignment improved the companies' performance in the competitive strategy implementation. In particular, their findings on the link between "high-performance HR practices" and the "quality improvement" competitive strategy were very significant.

Miles and Snow proposed "build", "attraction" and "assignment" strategies for HR systems in line with defensive, offensive and analyst strategies.

Dyer and Holder offered another kind of classification for HRM strategies in correspondence with business competitive strategies. They introduced "encouragement", "investment" and "involvement" strategies for HRM in correspondence with the competitive strategy typology of Schuler and Jackson.

In correspondence with their typology of competitive strategies of the organization, Jackson and Schuler also proposed the HR "utilization" strategy for the cost reduction strategy, the "facilitation" strategy in correspondence with the product innovation strategy, and the "integration" strategy to support the quality improvement strategy in the organization.

Another study was conducted by Ehsan Azaddokht, supervised by Dr. Mohaghar entitled "identification of the organization's strategic position." Using the Delta model, that study analyzed the organization's strategic position, and analyzed and explained the results using the system dynamics approach.

The master thesis of Harry Reddy at MIT supervised by Professor Hax was conducted in the Delta Triangle subject in 1999. It explored innovation and strategy in the global banking and used the Delta model to achieve desired results. In that study, the main bank was the Citibank. Related

discussions and analyses in the strategic position field were based on the mentioned bank. In that paper, Harry Reddy explained different positions of various banks in the Delta Triangle according to the characteristics and requirements of each position.

- Earn Hachu and SS Liu conducted a study entitled "effects of aligning organizational culture and business strategy with HR system on firm performance" in China. They examined the alignment of culture and business strategies through encouraging human resources and utilizing HR systems and its effects on performance. That study was conducted using empirical data from 451 companies in South China. Results show that alignment between HR and organizational culture and business strategy is very important in these companies.

- In another study entitled "designing a model for alignment of HRM strategy with business strategy," Tabarsa et al. reviewed the strategic HRM and alignment literature. A desk study of resources showed that each expert has provided a framework from his/her viewpoint, but it does not have the desired comprehensiveness. To address this deficiency, the proposed model was designed through qualitative content analysis of experts' comments in six dimensions and thirty components.

### **Conceptual model**

A review of the study's theoretical basics showed many experts have done studies on the alignment of HR strategies with organizational strategies such as Vankaterman, Norton and Kaplan, Van Don and Drazin, Joyce, Slokam, Glinio, Sivasobramnian and, Delry and Dotri in relation to alignment in the organization and also Sheehan, Kelliher and Perth, Hunng, Budvar, Hiogolagson, Meshoulam, Beard and Snell, Olian, Pun, Mitchell, Liea, Lama, Kerbridge, ottman, Jalwart, Sherman, Gerer, Reynolds, Herforx, Marchigton, Wilinkson, Khadem, Armstrong, Geniger, Scarborough and Miller. By reviewing the material collected in this study, the Researcher selected the adaptive approach among existing approaches, according to the classification made by Vankaterman. The main reason for using this approach is the limited number of variables in this study according to Vankaterman's definition (strategies and actions) and a need for high precision in the formulation of the alignment relationship between them. In this approach, regardless of a criterion variable such as performance or profitability, the two variables are paired and aligned with each other very closely in several states. Also the type of alignment examined in this study is vertical according to definitions. In this alignment, business strategies are first developed and then they are cascaded to lower levels of the organization according to Kaplan and Norton's definition. Next, various units such HR department, goals and strategies and ultimately their actions are designed and developed in line with them. The reason for using this approach is its compliance with the research title and objectives. After reviewing existing alignment models, the combinational coordination model (strategic reference points) was selected for choosing an HR strategy proportionate with business strategies. This model was selected because what is necessary for the alignment of organizational elements such as business strategy and HR strategy is to achieve a fundamental framework that shows the possibility of judgment about alignment level between these elements. It seems that the strategic reference framework matrix can be helpful. In fact, the reference point is a hypothetical benchmark that is formed in the minds of managers based on which they measure their organization's status. The strategic reference points theory introduces a combinational approach from rational and natural approaches. It makes consistency between the two approaches. By considering key criteria, it identifies general priorities of the system and includes them in the strategy so that all stakeholder groups are directed according to principles and tenets. Fingenbam and Thomas defined strategic reference points as goals or standards used by managers to assess their options and also determine organizational priorities for strategic decision-making. Although the mentioned researchers recommended a three-dimensional matrix (internal, external, and time), but

for simplicity, two-dimensional models have been given more attention. Attention to the environment and control as a strategic reference points for leveling and alignment of organizational elements is the common aspect of most typologies in the organizational level. This research uses these models. Literature review shows that foreign scholars such as Kaplan and Norton, Vankaterman, Kozinz, David, Kurt, Bear and Katoriav and some domestic scholars such as Rahnavard, Seyed Javadin, and Arabi have used strategic reference points in their studies. In the present study, various models were also examined for the classification of HR strategies. Among them, the Bamberger and Meshoulam's model was selected because, on one hand, it had compatibility with the strategic reference points model due to considering two dimensions of the environment and control in a 2\*2 matrix for the introduction of HR strategy types. On the other hand, most researchers reviewed in the Research Literature section used this model to extract HR strategies due to its simplicity and universality.

### **Research Question**

- What are business strategies proportionate with HRM strategies in commercial banks?

### **Methodology**

The present study is descriptive-survival in terms of data collection method, and an applied research in terms of objective. Also, it is a combinational research. Using the Delta model in the first stage, the strategic position of commercial banks was determined. The second stage is called identifying business strategies in which competitive strategies were determined in current and desirable situations in consistent with strategic positions in the Delta Triangle. In the third stage called determining dominant HR strategies, HR strategies were extracted according to the situation of each business strategy based on strategic reference points of the Hall model.

The population included all experts in the strategic management, HRM and banking fields. Sampling method was a combination of the snowball and judgmental non-probability sampling methods. This method was selected because of specific information required for each stage and lack of familiarity of the researcher with experts in the respective areas and the number of these people. This study was conducted as a fieldwork and desk study. For collecting theoretical information and the research literature, library resources were used and for field data collection, interview and questionnaire were used.

### **Results**

To answer the main research question by reviewing theoretical basics and previous studies and expert assessment, a conceptual model was designed. The first part of the model is the strategic position stage. Different organizations use a variety of methods, including SWAT, Boston Consulting Group matrix, GE network planning, Hofer and Schendel pattern, position and action evaluation matrix, Porter's competitive method, adaptive method, Delta method and other similar methods for strategic positioning. But to determine current position of the commercial banks studied in this research, features and parameters provided by Hax and Wilde in the Delta model. Hax and Wilde proposed ten indicators (indexes) as key elements in strategic positioning that are used by each of the three strategic positions (superior product, providing comprehensive solutions to customers, and system locking) in a different way. By collecting and analyzing the information required in connection with these indicators and their weights in commercial banks, their strategic position can be realized on the Delta Triangle. Clearly, determining the current strategic position of Iranian commercial banks can greatly help fit that position and also plan to upgrade and move towards higher positions; it is an analogy of improvement in this industry. The second stage of the research process model is the selection of business strategies commensurate with each position. The



superior product position is based on classic competition forms (cost reduction or product differentiation). The cost reduction strategy is one of two competitive strategies that can be adopted by banks in the superior product position. Selecting such a strategy requires reducing cost of banking services compared to other competitors in the market. Also, it increases price benefits for them and, in turn, increases the acceptability of services. Consequently, increasing the number of customers, sales to each customer and finally total sales will be followed by higher income levels and ultimately improved profitability and productivity. In fact, using the cost reduction strategy for their services, banks can attract more customers. Being in a low-cost position makes their income and return on investment (ROI) higher than the industry average despite strong competitive factors. This cost position allows banks to use a shield against other competitors, because lower cost means that they can still gain adequate income and the expected profit while competitors' profit is spending for competition.

Factors that may lead to lower costs usually create entry barriers for new entrants into the industry in terms of scale benefits and cost benefits. Finally, the low-cost position puts these units in a better position to deal with alternative services compared to other competitors within the industry. So the low-cost strategic position can protect banks against five competitive factors. Bargaining other competitors can continue only until the elimination of the next best competitor's profit and can cause gradual erosion of that competitor, and lower-performance rivals get into trouble with competitive pressures from the very first moment.

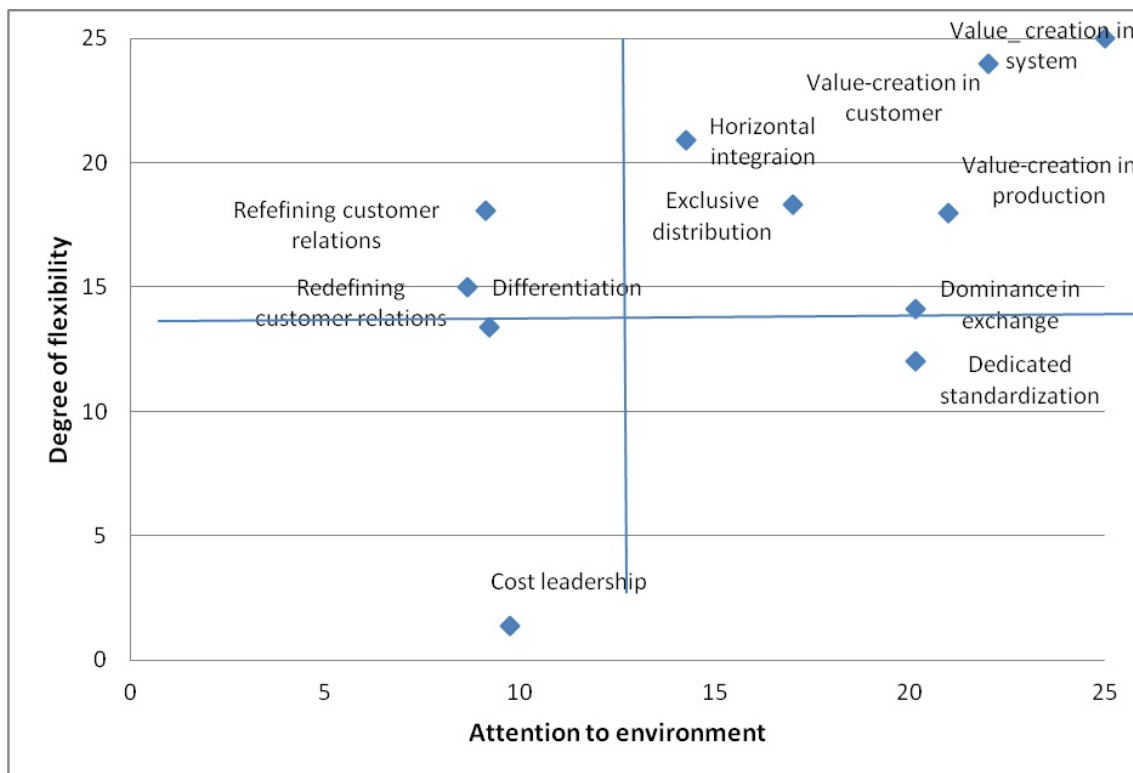
The product differentiation strategy is another strategy that is consistent with the superior product position. The superior product strategy has an intra-organizational and relatively limited nature. Through increasing return to scale, simplifying the processing service of provided services and acquiring more market share, a bank can achieve the finished cost leadership. On the other hand, the increase of customers' desired features in service can achieve the differentiation strategy, which is applicable using new technologies, increasing credibility, and exclusive and desirable features in services. In the mentioned strategy, inherent qualifications and superiorities of a service will attract more customers. To implement this strategy, any bank should quickly introduce its services to customers so that any service offered by the bank is the first available service, that is, a leading service in the market. At present, using the differentiation strategy and offering new banking services, Iranian commercial banks try to lead the market even for a short time, and gain more market share. The adoption of differentiation strategy in banks is based on different features of services offered by them which will increase service benefits and their acceptability and thus increase the number of customers and sales to each customer and ultimately profitability. An important issue in the banking industry today is the threat from imitators. It is quite common in the industry to intimate or copy services. As soon as a bank offers a new service accepted by customers, other banks offer it in other ways even better and more customer-friendly. So, the differentiation position strategy in the superior product option is not sufficient to sustain long-term interests in banks. Also, the cost reduction strategy alone cannot meet banks' requirements in current competitive conditions because it cannot create a remarkable success. Moreover, many players can simultaneously benefit from this strategy and it has negative consequences for banks including intensive competition of imitators and harmful effects on profit margins and profitability. In this regard, to enter an unrivaled atmosphere and increase available share of resources, as well as growth and survival, the Blue Ocean approach recommends the simultaneous use of the cost leadership and differentiation strategies which is the same concept as value creating innovation in products. In fact, commercial banks can get ahead of others by paying attention to both cost and because it is not easy to imitate and copy a unique service that is generated with minimum cost and needs specific features and abilities in the body of that organization. To transfer from the "superior product" strategic

position - which is solely limited to within the organization - to the "providing comprehensive solutions to customers" strategic position, one must apply different ways to attract customers. Furthermore, there is a significant need for mental changes. Unlike previous strategies which communicate with clients through inherent characteristics of services, this strategy considers proximity to customers as communication path to customers. Customer relationship is strengthened through customizing banking services. To achieve this strategic position, three options can be considered: first, redefining the process of attracting bank clients and making commitment in them. It means that customers should be carefully classified and placed in categories that reflect their distinctions and priorities. In fact, specific services should be provided for customers according to their category and group. An obvious example of this option is a new customer classification that has been made in some commercial banks and determines how they are serving. Gold, Platinum and lead customers have specific definitions for banks and they are served by specific services in accordance with their conditions. The second option is to focus on how to use the organization capabilities to do some activities more efficiently that used to be done by customers. This process can be called integration with customers. It includes services such passing checks, opening accounts, doing banking operations at work or home by the bank for some clients. The third option focuses on broadening services deliverable to customers. This option can be called horizontal service broadening. For example, some banks have established money changers or insurance units to satisfy customers' needs in these areas. The adoption of outlined strategies in this position will lead to competitive advantage for the organization, but to exit from the competition scene and enter into the blue ocean space and gain a greater share of resources and create new demands in the market, the organization must pay attention to the three strategies, offer new and distinct services to customers and also reduce costs for the organization and customer. The good space in this position is called value creation for the customer which paves the way for a new and unrivaled space by focusing on creating shared value for the customer and the organization and offering new services proportionate with customer types and needs, and minimizing the cost of providing these services for the organization and particularly the customer.

The system locking option is at the vertex of strategic position triangle in the Delta model. It is difficult for any organization to achieve this option due to its unique characteristics. Hax and Wide (2002) introduced a variety of ways to reach such a position in the business environment including proprietary standardization, exclusive distribution and dominance in exchange. In this strategy, instead of limited focus on customer service, the bank considers all important organizations in the banking industry involved in the economic value creation. Based on this strategy, banks move towards developing, attracting and retaining available supplements in the industry. Supplements are organizations whose products or services complement each other. Insurance, stock exchange, investment companies, money changers, and the like can be considered as supplements to the banking industry. How to look at overall structure of the system is of utmost importance in the locking strategy. According to this strategy, the main goal of the bank is to keep customers in and competitors out of the system. To achieve these goals, banks must design special standards for their services. Such standards must be unchangeable and also their change cost must be very high. Another important point on the locking system strategic position is that once such a position is reached, it is not easily last due to network effects, because the customer wants a service with the most supplements and on the other hand, supplement-makers tend to produce a service that has the highest demand. Accordingly, a positive and helpful loop is formed. A very powerful method to achieve the mentioned strategic position is to create and acquire the banking industry standards. In this position, banks can also establish additional credibility to sell their services by creating exclusive or basic channels. In this way, banks use the dedicated channel in the market positioning

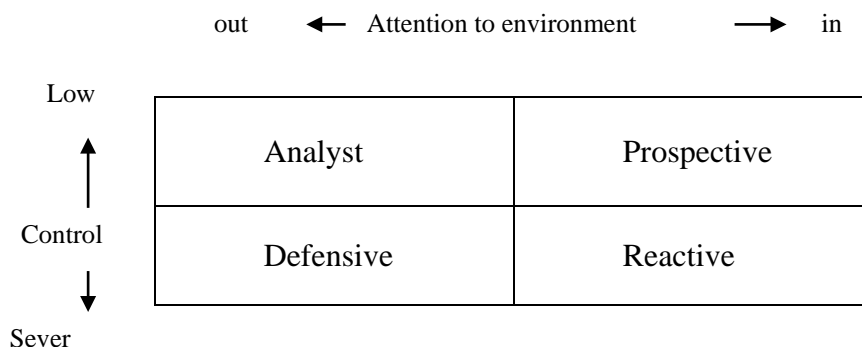
strategy. It is very important to use this strategy to attract customers and keep competitors out of the system. When it is very difficult to implement the dedicated standardization procedure and create exclusive channels and involve supplements, the dominance in exchanges methods is a relatively easier method to reach these areas. If a bank knows how to increase the number of its customers, it will be able to achieve dominance in exchanges by internal dedicated strategies. Finally, it should be noted that although any bank in general has not the capacity and capability to achieve the system locking strategic position and the implementation of the mentioned strategies in the system locking position is far more difficult than the other two strategies and entering this arena requires specific abilities in the organization, there is competition in this position at a limited level. To go out of this competition and enter in an unrivaled atmosphere, banks can adopt the value creating innovation strategy in the system which leads to unique and distinctive conditions in the system along with minimum cost for the organization and especially for the customer. So, they can get ahead of others and operate without an unrivaled and relaxed atmosphere for a long time.

The third phase of the research model is to select HR strategy commensurate with the banking business strategy. To coordinate business strategies with HR strategies, it is necessary to establish a relationship between them by selecting an appropriate model. For this purpose, the strategic reference points model was used. Strategic reference points are points for coordination. If all the elements and systems of the organization are coordinated with them, then a multilateral coordination will occur in the organization. As previously noted, in this study, eight business strategies were determined in different positions of the Delta Triangle and three value creation strategies were defined in the blue ocean space. In the third step, using a questionnaire and survey of experts, the position of each of these strategies and also value creation strategies in the product, customer and system were identified in the Hall matrix using the control and attention to the environment strategic points. These positions are clearly visible in the following figure.



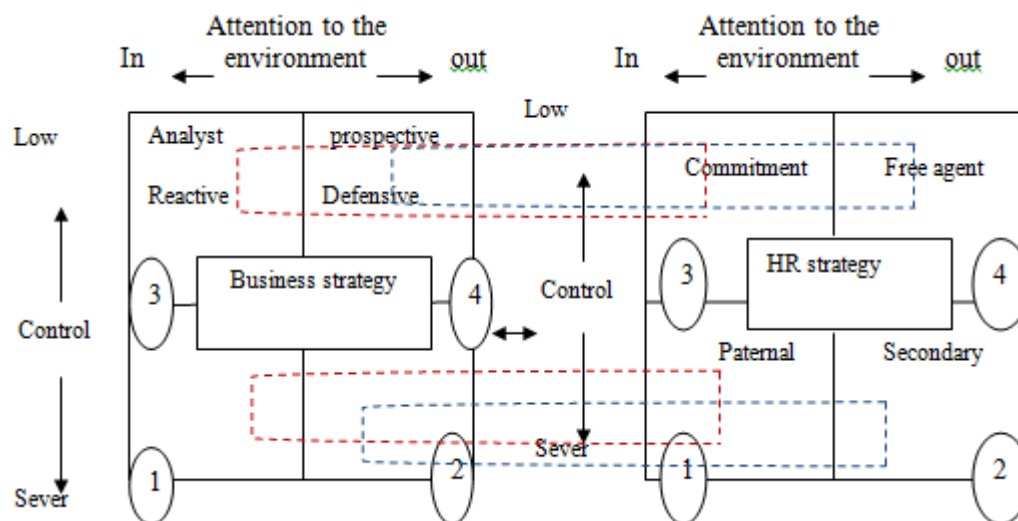
**Figure 1: Positioning business strategies in the strategic reference points matrix**

Another group of strategies addressed in this study are HR strategies whose type was selected based on the Bamberger and Meshoulam model. The reason for selecting this model was its higher consistency with the Hall model compared to than models. Since the strategic reference points used in the model, i.e. internal and external market and control severity are consistent with the strategic reference points of the Hall model, we can coordinate the two concepts by selecting corresponding squares of business strategy and HR strategy in this matrix according to their strategic reference points. In this section, for simplicity and faster understanding of the presented concepts on adaptability of organizational strategy and HR strategy using strategic reference points, we put their corresponding matrixes side by side and compare them. In this section, to make coherency between the concepts of the eleven business strategies used in the study and classify them, the matrix for four strategies of Miles and Snow was used as an intermediate model.



**Figure 2 - Miles and Snow's strategy model using strategic reference points**

As can be seen in the following diagram, prospective strategy is coordinated with free agent strategy, analyst strategy with commitment strategy, reactive strategy with secondary strategy and defensive strategy with paternal strategy of the organization.



**Figure 3: Alignment of business strategies with HR strategies using SRP**

Given that the business strategies studies in this research were positioned using experts' opinions in the strategic reference points matrix according to the control and environment variables, one can determine the HRM strategies coordinated with each one by comparing the position of these strategies and Bamberger and Meshoulam's HR strategy matrix. This selection can lead to synergy,

higher performance and productivity of human resources in commercial banks in different environmental conditions over time according to their different strategic positions. The results of this comparison are as follows:

1. If banks' business strategy is defensive strategies (cost leadership), the paternal strategy should be used for HRM.

2. If bank's business strategy is analyst strategies (differentiation, redefinition of customer relationship and customer integration), the HRM strategy should be designed commensurate with the commitment strategy characteristics.

3. If bank's business strategy is reactive strategies (dedicated standardization), the HRM strategy of secondary type is a good option for them.

4. If the prospective strategy (horizontal development, dominance in exchange, exclusive distribution and value creation) is selected for banks, the free agent strategy should be used for their HRM.

Above materials are summarized in the following table:

**Table 1: Adapting business strategies and HR strategies**

Organization Strategy	Business Strategy	HR Strategy
Prospective	Horizontal development, dominance in exchange, exclusive distribution, value creation	Free agent
Analytical	Redefinition of customer relationship, customer integration, differentiation	Commitment
Reactive	Dedicated standardization	Secondary
Defensive	Cost leadership	Paternal

### Conclusions and Suggestions:

The first and most important task of managers in the banking industry is to determine the organization's strategic position. The model used in this study is an effective tool to describe this position in current and desired situations for these units. The designed model covers all strategic varieties for operating in the competitive environment and moving towards a new unrivaled space. This model is the main guide for the strategy formulation and implementation process for banks in which the selection of a strategic position is based on accumulated experiences of management without resorting to detailed analysis. It also converts the activity which is done implicitly by most organizations into an explicit process.

The selection of strategic option using the Delta Triangular model has a profound effect on the organization's mission. The adoption of superior strategic position requires producing and offering differentiated or concentrated banking services as the most important aspect of the competition field. The success of a bank in this position in the competition scene is guaranteed by achieving the cost leadership position and/or high resolution of services. To move from this position towards the blue ocean space, we recommend the combination of both strategies, i.e. value-creating innovation in the product. In the "providing comprehensive solutions to customers" strategic position in which the customer is considered as the most important aspect in the practical field, activities that lead to the customer commitment, building strong relationships with him/her and providing customized services, have a significant role in the success of a bank. For direct entry from this position to the blue ocean space, innovation and cost leadership for the customer and creating shared value called value creating innovation for the customer is suggested. Finally, the system locking option introduces supplements for the banking industry as insurance and stock exchange and brokerage as a new dimension to the practical field. The success factor in this position is to develop

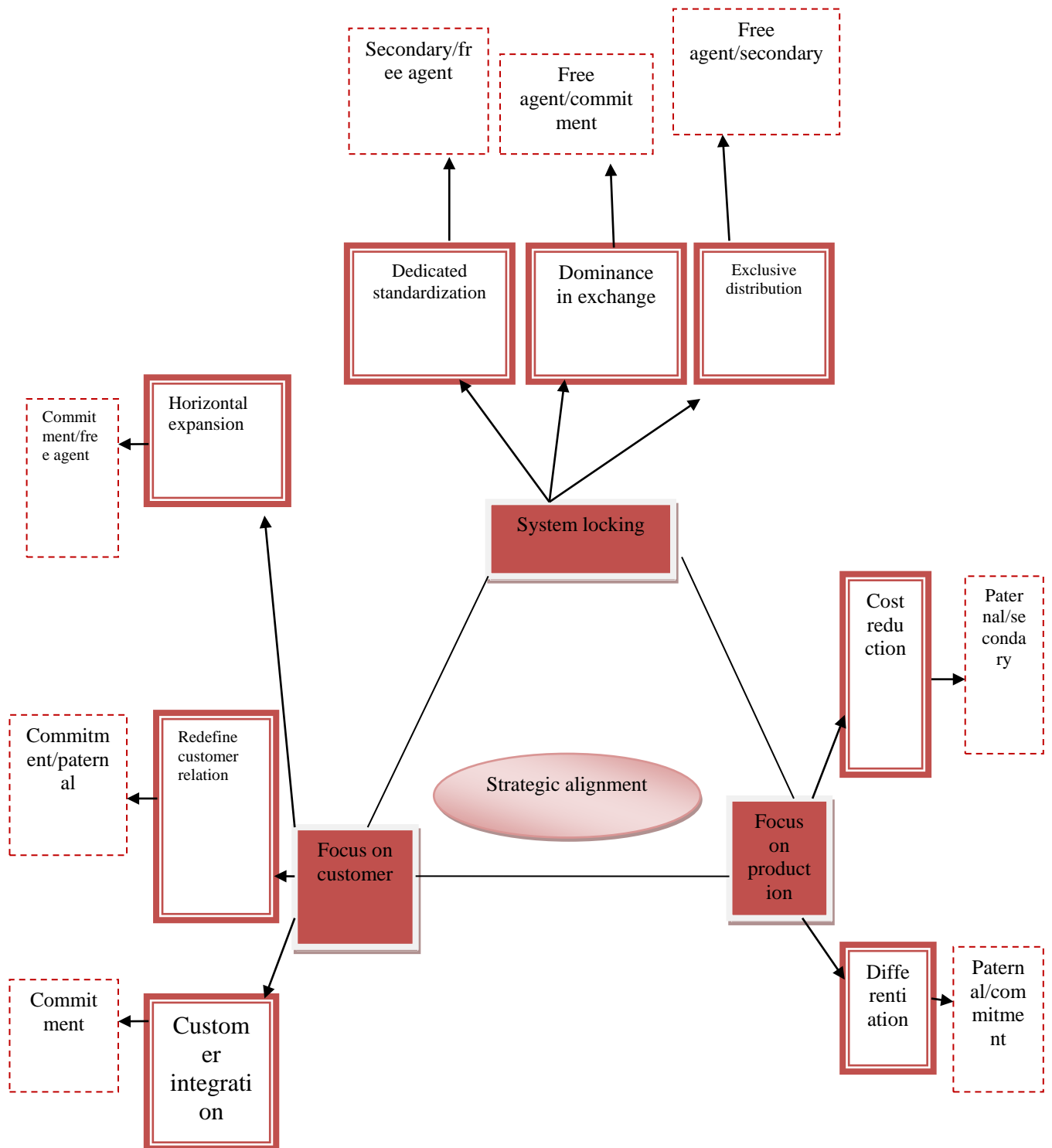
a suitable architecture in the system and to lock supplements to keep customers in and competitors out. To move from this position to the blue ocean space which has the least distance than other positions, one must attempt to create innovation in the system combined with cost leadership, in fact, to move to value creating innovation in the system. It should be noted that in the two available strategic positions in the Delta model (providing comprehensive solutions to customers and system locking), fierce competition is switched with establishing a strong relationship with the customer and customer commitment. Accordingly, the structure of the banking industry is viewed from the perspective of customers and supplements.

It can be clearly stated that existing managerial frameworks in the banking industry will not response challenges faced by managers in today's changing environment. The hybrid model could be considered because of three reasons: first, the model defines strategic positions that represent new profitable resources. Second, it prescribes activities related to each of the strategic positions and thereby providing a kind of consistency between strategy direction and implementation of. Third, it introduces adaptive processes based on the ability to respond to vague and uncertain environments. At present, banks' main objective from creating advantage among competitors by relying on their resources and capabilities is to achieve a prominent position in terms of performance in the market based on customer orientation. The key of this issue is to achieve sustainable competitive advantages based on identifying and understanding customer needs and focusing on the customer and also process improvement in the customer's viewpoint. Sustainable competitive advantages refer to those competitive advantages that are valuable to customers, cannot easily be imitated and copied by competitors and bring about a decent performance for the organization by taking advantage of the organization's merits.

The importance and unique position of human resources in the organization's situation makes any expert in this field to see human resources as the most valuable organizational capital independently. The idea that human resources can be a value-creating and advantageous factor for organizations is not limited to this research. Scholl and McMahon discussed about investment capability in HRM as a tool to gain and maintain competitive advantage. By presenting a path/objective matrix, they showed that how HRM can create sustainable competitive advantage. In this matrix, "objectives" of HR practices include both "backward" and "forward" activities in the organization. Potential "paths" include "focus on cost and efficiency" and "focus on product differentiation." Finally, they present examples of companies in each square in the matrix.

Alrich also discussed about how human resources create sustainable competitive advantage based on the "resource-based" theoretical approach. By developing Porter's competitive advantage model, he considers "organizational culture", "distinctive competencies" and "strategic coherency" as a mediating factor in the "strategy-competitive advantage" relationship. He then outlines a discussion about how HR practices can be applied by companies to develop strategies that will create a sustainable competitive advantage. He makes emphasis on "the relationship between human resource, strategies, and competitive advantage."

According to the characteristics mentioned in connection with HR, executives of banks and other institutions for achieving organizational goals and objectives and entering into new areas should attempt to align HR (i.e. the most valuable organizational resources) strategies with business strategies after strategic positioning and selecting appropriate business strategies. HRM strategies can be used as a "menu" of options for HR managers to select suitable strategies in order to move towards the organization's business strategy depending on organizational conditions and strategic position with high efficiency and make the required coordination and balance between each HR strategy with other strategies of the organization. Given above, the final model is presented as follows:



**Figure 4: Conceptual model**

According to the results, the following suggestions are presented:

1. The first phase of the research model was about strategic positioning of commercial banks. Since the organization's want or future plans are not the only criteria to determine its current position, and the position is determined according to its status from the perspective of each of the

ten indicators of the Delta model, it is suggested that managers and decision makers in the banking system pave the way for their organizations towards top positions by examining these indicators and adapting their organizational requirements with the requirements of each position in the Delta model.

2. Given the evolution of the Delta model among the three positions, it is suggested that associated managers consider HRM practices according to organizational and environmental conditions commensurate with each position in the organization's strategies and long-term plans in the HR area.

3. What is an important and fundamental principle in the process of influencing customers in the banking environment is the attraction of managers and individuals associated with customers. Individual attraction can result from high skills, high knowledge, ethics, sense of humor, altruism, and any certain characteristic that makes a person look attractive and respectful for others. Therefore, it is suggested that for selecting employees in organizations that try to be in the "providing comprehensive solutions to the customer" or "system locking" position, their appearance and behavior must be considered especially for the front office staff and those who are in direct contact with customers.

4. In every community, there are usually a set of norms, traditions and customs that give some people a special status. Banks should pay attention to these customs and cultural parameters in selecting employees associated with customers especially in the "providing comprehensive services to the customer" position. For example, one can point to traditional communities in which the youth or women have not higher or equal status compared to elderly men. In such cases, it is not good that such individuals are stationed to attract and retain customers. Also, in some social classes, there is a set of principles, criteria and indicators that if ignored by vendors may lead to rejection from these classes. For example, in an academic area with a high educational level, people should be selected who observe behavioral rules of those classes.

5. To enter in the dedicated banking services, banks are suggested to target specific and wealthy customers who require unique services in various financial, banking and investment fields, and use all of their capacity, expertise and resources to meet customers' needs, therefore, paving the way to enter in the "system locking" position, and to use HRM practices commensurate with this position and the free agent strategy.

6. Organizations in the "providing comprehensive solutions to customers" position must pay attention to the coordination of hired individuals with characteristics of customers and their tastes and desires in the employee identification and selection stage. In this stage, all employees who deal with customers in any way should have the skills needed to attract and retain customers and make them loyal. In addition, one of the most critical steps in customer orientation is employee training because of the variety of tastes and expectations of customers. Employee training is more important, particularly when there are new technology and methods, new packages and products and new customers. After employee selection and training, their appointment in appropriate posts in line with customers' characteristics and expectations is also very important. Good forces may be recruited and trained in a bank but are appointed in improper places. Therefore, using human resources in appropriate places is a bet for success. Also retaining qualified and successful personnel for the attraction, retention, and loyalty of customers is considered a principle. Organizations that seek for customer loyal must create job security and stability for employees. High displacement of efficient forces will lead to disperse and loss of customers.

7. Organizations that are in the "superior product" position should hire employees who have the lowest cost to organization and provide them with a series of public training and the use of



Taylor's managerial techniques like time and motion study to take maximum advantage of existing employees and get more shares of the market by providing massive amounts of services.

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