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## Integrative approach in human resources strategy formulation (Case study: MDN Company)

Dariush Gholamzadeh<sup>a</sup>, Sonya Jalali<sup>b, b\*</sup><sup>a, b</sup> *Tehran Azad University Central Branch, Tehran, 1311773591, Iran*

### Abstract

HR strategy is the pattern of HR-related decisions. That is, the gestalt of negotiated people related policies and practices in use indeed the formulation and enactment of an HR strategy designed to link HR policies and practices with the strategic goals and objective of the firm.

The purpose of this research is Human resources Strategy formulation for MDN Company. Integrative Model is used in this research, which is made from composition of rational and incremental attitude concepts, and according to strategic references points theory, particularly two main variables: internal labor market and/or external labor market and quality and quantity of control on work force or product of the work force, it introduces four main strategies, named paternalistic Strategy, commitment Strategy, free-agent strategy and secondary strategy. This model is a strategic human resources model that practically and really integrates company's strategies, human resources strategies and between operational systems.

This research is implemented by survey research pattern. Population universe of the study includes directors of the company, which measure each determining variables of strategic reference points for every strategic occupations of the company. Data gathering instruments include questionnaire and interviewing. After processing of the data, strategic coordinates of the occupations were determined and appropriate strategic pattern of each occupation was identified. The results demonstrate that the appropriate strategy for the main occupations is the commitment Strategy .and proper strategy for service jobs is secondary strategy Commitment attitude is a framework for reliance on the company's success in achieving its objectives.

*Keywords*, Strategy formulation, Human resources strategy, Strategic human resource management, Strategic reference points, Integrative approach

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### 1. Introduction

Human resource management has become more important to general management, largely as a result of its role in providing competitive advantage, the rush to competitiveness, and an awareness of the demands of the technologically advanced environment of the future (Miles & Snow, 1985). Strategist Michael Porter (1985) has found that human resource management is a key to obtaining competitive advantage. In a growing number of organizations, human resources are now viewed as a source of competitive advantage. There is greater recognition that distinctive

\* Corresponding author. Tel. + 98-21-225-54416 fax. + 98-21-225-54416

E-mail address: [Sonya\\_jalali@yahoo.com](mailto:Sonya_jalali@yahoo.com)

competencies are obtained through highly developed employee skills, distinctive organizational cultures, management processes, and systems. This is in contrast to traditional emphasis on transferable resources, such as equipment that can be purchased by competitors. Increasingly, it is being recognized that competitive advantage can be obtained with a high-quality workforce, which enables organizations to compete on the basis of market responsiveness, product and service quality, differentiated products, and technological innovation, instead of reliance on low costs (Quinn, James, Thomas, Doorley, and Penny, 1990) Paquette. The process of human resource management in any organization can not be a static phenomenon considering dynamism and continuous changes of the environment. Looking upon organizations as living, dynamic, and learning phenomena necessitates an approach which can be called strategic approach. It is obvious that in case of developing an appropriate strategy for human resources of the organization, human resource management sub processes such as recruitment, employment, human resource development, performance management and reward, promotion, maintenance and personnel relations can all be designed and developed in a coordinated assortment and with utmost productivity.

The integrative model of human resource strategy formulation is derived from the combination of rational and progressive approaches, relying on strategic reference points and especially the two main variables: the amount of attention to internal labor market or external labor market in addition to the quantity and quality of control over labor process or labor product, defines four major strategies called Paternalistic, Commitment, Secondary and Free-Agent. This model is a strategic model of human resource that establishes real integration between corporation strategies and human resource strategy and also among operational systems. (Bamberger and Meshoulam, 2000).

## **2. Literature Review And Hypotheses**

### *2.1. Human Resource Strategy*

Human resource strategy focuses on the alignment of the organization's human resource practices, policies, and programs with corporate and strategic business unit plans. Consistent human resource policies and practices are important concerns of general management as well as the human resource function (Craft, 1992). Differences in human resource management policies and practices across industries demonstrate that policies and personnel practices vary according to the environment in which companies operate. However, industrial categories do not explain all such differences because variations in company strategies also determine human resource policies and practices.

Human resource strategy has been defined by Randall Schuler as follows: "HR strategies are essentially plans and programs to address and solve fundamental strategic issues related to human resources management (Schuler, 1987). According the other definition Human resource strategy is a pattern of decisions dealing with, and in need of, policies and procedures related to human resource. Based on this definition, human resource strategy can be regarded as a result (the result of the existence of organization). The purpose of developing and implementing human resource strategy is to associate policies and human resource procedures with strategic objectives of human resources and organization (Bamberger and Meshoulam, 2000).

### *2.2. Methodologies of Human Resource Strategy Development*

The strategy development approach is one of the main discussions in the field of organization strategy. In fact, it should be noted that there is no standard way to develop human resource strategies in respect to the methodologies of strategy development. In addition, the process of human resource strategy development is often as important as the content of strategy (Boxall& Purcell, 2001). There are two main approaches prevalent in this discussion: Rational Planning Approach (logical-reasoned) and Incremental Approach (step by step). (Bamberger and Meshoulam, 2000)

### *2.3. Logical Models in Human Resource Strategy Development*

The initial researches conducted in the field of human resource strategy development process were basically of normative or imperative nature.

These models were developed in the mid '80s with rational-logical approach, based on organization strategy. The unilateral impact of organization strategy on human resource strategies in these models is depicted in Figure 1. The

normative or imperative patterns are deeply rooted in reasoned planning pattern, and therefore it is assumed that there is a one-sided relationship between the organization strategy and human resource strategy, and human resource strategy is principally based on organization strategy (Bamberger and Meshoulam ,2000).



Fig 1. Logical models in human resource strategy development

2.4. *Incremental Approach to Human Resource Strategy Development*

From the late ‘80s, some models with incremental or step-by-step approach are presented, which consider the role of political and institutional factors both inside and outside the organization in the process of human resource strategy development to be considerably greater than quantitative and technical calculations and factors. These models also managed to present strategic patterns of human resources without organization strategy, because decision making elements include specific factors related to human resource management (i.e., labor market and control procedure). (Bamberger and Meshoulam, 2000).

Of course in those cases where organization strategy does exist, these models maintain their harmony through the establishment of a bilateral relationship. This relationship is shown in Figure 2. Based on special factors of human resource management and in accordance with the main axes of management theories philosophy, natural models are briefly divided into two types: the models based on personnel control, and those based on the labor market.

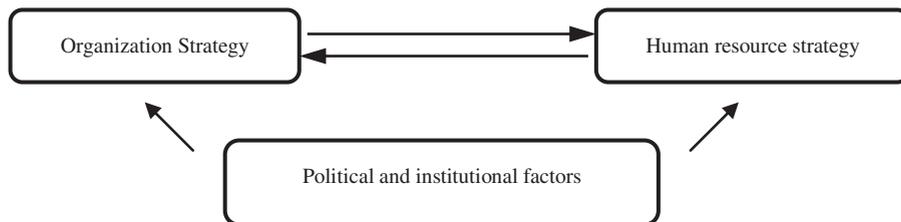


Fig 2. Incremental approach to human resource strategy development

2.5. *Strategic Reference Points Theory*

The scholars have defined the Strategic Reference Points as: outstanding objectives or patterns that organizational decision makers use to assess their approaches or options so that they can thereby adopt strategic decisions and provide the main beneficiary groups with the priorities of the whole system (Bamberger & Fiegenbaim, 1996). The analysts believe that human resource strategy is principally based on setting the goals or reference points which are considered by decision makers of the system and are selected under the influence of rational, political and institutional factors (Bamberger and Meshoulam, 2000).

2.6. *Integrative Approach in Human Resource Strategy Formulation*

Peter Bamberger and Len Meshulam (2000), using the attractive logic of combinative research proposed the application of strategic reference points (SRPs) to develop human resource strategy.

This proposed model relying on strategic reference points and considering two main variables -the amount of attention and reliance on internal labor market or external labor market (SRP1), quantity and quality of control over workforce process or workforce product (SRP2)- defines four major strategies called Paternalistic Strategy,

Commitment Strategy, Secondary Strategy and Free-Agent Strategy. In the content of such a framework, the first dimension ((resource supply)) will deal with ((build or buy)) aspect of human resource strategy. That is the degree or extent of which human resource strategy considers providing required skills inside which will be different from the state of providing workforce and such skills or competences through the free market. The second dimension ((Control)) deals with the degree or extent that resource strategy considers the issue of monitoring personnel behavior. The integrative model of human resource strategy formulation is shown in Figure 3 (Bamberger and Meshoulam , 2000).

external	<b>labor market</b>	internal	
<b>Commitment Strategy</b>		<b>Free-Agent Strategy</b>	product
<b>Paternalistic Strategy</b>		<b>Secondary Strategy</b>	control
			process

Fig 3. Integrative Model of Human Resource Strategy Formulation (Bamberger and Meshoulam)

As shown in Figure 4, the strategic reference points (SRPs) as an intermediary loop converts tendencies of political power in organizations with a practical approach to human resource strategy (Bamberger and Meshoulam ,2000).

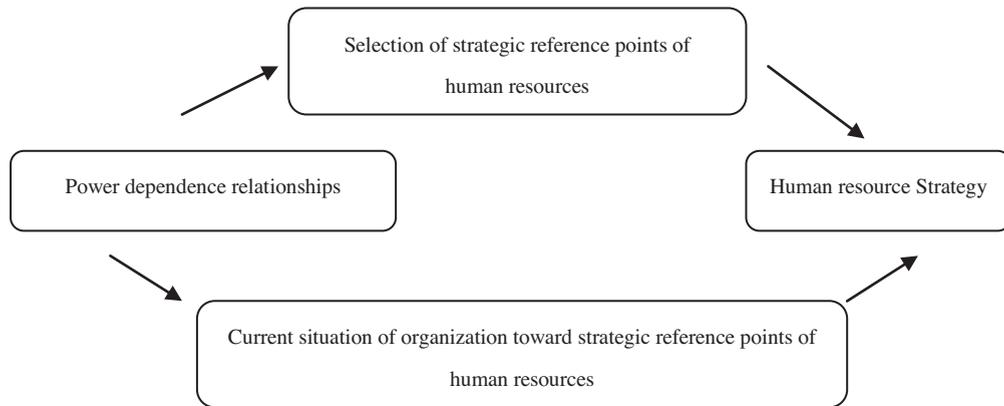


Fig 4 . The process of human resource strategy formulation in integrative model

### 2.7. The Features of Four Strategic Patterns in Integrative Model

**Secondary Strategy:** This strategy is appropriate for simple, recurring and standardizable occupations for which the required workforce is adequately available in the labor market outside the corporation and there is no need to train and maintain such employees (Bamberger and Meshoulam, 2000).

**Paternalistic Strategy:** This strategy also is applied for simple, recurring and standardizable occupations but with the difference that the corporation management prefers to maintain and upgrade the existing employees and to make them coordinated with the organizational culture of corporation (Bamberger and Meshoulam, 2000).

**Free-Agent Strategy:** This strategy is appropriate for those sophisticated and specialized occupations that constant and formal recruitment of related experts necessitates high costs for the corporation, because the corporation needs such occupations for short terms and temporarily (Bamberger and Meshoulam ,2000).

**Commitment Strategy:** This strategy also is used for sophisticated and specialized occupations, but the corporation constantly needs experts active in such businesses and their replacement is not easily feasible. Therefore, it is necessary to have an effective approach towards the labor market within the organization (Bamberger and Meshoulam, 2000).

## 3. Research Methodology

### 3.1. Research Questions

- What are the appropriate strategies for human resource management in this organization?
- What are the appropriate strategies for required manpower supply in this organization?
- What are the appropriate strategies for performance evaluation and reward in this organization?
- What are the appropriate strategies for relationships with personnel in this organization?

### 3.2. Research Method

This research is an applied study in terms of objectives criterion and in terms of data gathering criteria is heuristic-descriptive which is carried out using field study patterns. The research data are extracted through documents analysis,

questionnaire and visiting interviews and completing the questionnaire by the subjects. The statistical population consists of 20 people of senior managers and board of directors of MDN Corporation who are the main decision makers in taking strategic decisions of the organization and middle managers and experienced experts within the organization whose views by influencing decision makers' assessments indirectly affect the process of human resource strategy formulation

3.3. Analyses and Results

Considering that the features of strategic occupations make up the logic of integrative model for human resource strategy formulation, accordingly in order to develop strategy for human resource there should be distinguished difference between organizational jobs in terms of strategic reference points of integrative model and developed model (A'rabi & Moure'i 2002). In MDN Corporation four strategic occupation groups are identified:

- Managerial Occupations: jobs which undertake the responsibility for planning, organizing, leading and controlling the affairs of the organization.
- Major Occupations (key): jobs which are responsible for the main missions of the organization.
- Specialized Occupations: jobs which support the main occupations.
- Service Occupations: simple jobs which provide necessary facilities for above occupations .

Sub-strategic reference points are the variables whose average values are used to calculate the value of a main SRP (A'rabi & Moure'I, 2002). The sub-strategic reference points which outline the basis of present study questionnaire are shown in tables 1.

Table 1 Sub-SRPs of Integrative Model

<b>SRP1: Control (efficiency process)</b>	<b>SRP2: labor market (internal/external)</b>
Sub-SRPs related to necessity of efficiency control (lack of process control)	Sub-SRPs related to external labor market
Amount of complexity	Existence of workforce with suitable quality
Complexity due to changes in technology	Availability of required suitable workforce
Extents of need for creativity	Positive impacts of globalization and immigration process on the labor market
Need for elbow room	Insignificance of job stability for job applicants
Need for diversity of skills	Absence of demand for commitment and loyalty to the company
need for higher education	Absence of demand for people's matching with organizational culture
need for skills and experience	Absence of demand for learning in the company
need for flexibility	applicability of company's knowledge in other organizations

After designing the questionnaire and conducting validity and reliability tests the methodology was implemented in Corporation and 20 experts (influential people of organization) measured the value of every determining variable of strategic reference points for each strategic jobs of the corporation.

After collecting the data all raw data were inserted in spreadsheet and average and standard deviation of responses for each question and the number of strategic jobs were calculated at percentage in order to calculate the values of a main SRP from all related sub-SRPs. If the value of each main SRPs is more than 50 percent the response will be "yes" otherwise it will be "no". Using the values of main SRPs coordinates which are displayed in Tables 2 appropriate strategy of human resource is determined first in integrative model and then in developed model.

Table 2 Values of Main SRPs Coordinates of Integrative Model

Occupations				Main SRPs of Integrative Model		Values
Service	Specialized	Major	Managerial			
25	62	70	75	output control necessity	SRP1	Average
58	43	36	37	tendency to external labor market	SRP2	
10	11	11	12	output control necessity	SRP1	Standard deviation
16	18	18	20	tendency to external labor market	SRP2	

**Analysis of SRP1 Results (the Rate of Output Control Necessity):**As shown in Table 2in managerial jobs with an average of 75%, major jobs with an average of 70% and specialized jobs with an average of 62% there is a tendency to control personnel output. But for service jobs, only the rate of 25% emphasized on output control, in other words managerial, major and specialized jobs in MDN Corporation are assessed sophisticated and service jobs are evaluated primitive.

**Analysis of SRP2 Results (the Rate of Tendency to External Labor Market):**The tendency to external labor markets is 37% in managerial jobs, 36% in major jobs and 43% in specialized jobs, in other words there is a tendency in managerial, major and specialized jobs toward internal labor market (building workforce). On the other hand, the tendency to external labor market in service jobs is assessed 58%, in other words, in service jobs there is more tendency toward the external labor market (buying workforce). By analyzing the results of SRP1 and SRP2 the appropriate strategy is determined for strategic jobs in integrative model:

Managerial, major and specialized jobs: output control necessity: Yes, tendency to external labor market: No,

Service jobs: output control necessity: No, tendency to external labor market: Yes

		SRP2	
		No	Yes
SRP1	Yes	Secondary Strategy (Service Occupations)	Paternalistic Strategy
	No	Free-Agent Strategy	Commitment Strategy (managerial, major and specialized Occupations)

Fig 5 . The Way to Develop Human Resource Strategy in Integrative Model

As shown in Figure 5, in integrative model the appropriate strategy for managerial, major and specialized jobs in MDN Corporation is commitment strategy and for service jobs is secondary strategy. Considering the fact that in managerial, major and specialized jobs, the tendency of respondents to commitment strategy was widely revealed, there is no need to analyze responses to these jobs in the developed model SRPs and only answers to service jobs are studied.

#### 4. Conclusion

Results from analysis of data and information suggest that the appropriate strategy for managerial, major and specialized jobs in MDN Corporation is commitment strategy and proper strategy for service jobs is secondary strategy. According to research questions the research achievements are presented in the form of suitable strategies in following subsystems manpower supply, performance evaluation and reward and relationship with personnel.

##### 4.1. *Strategic Axis of Human Resources Supply Subsystem*

According to commitment strategy, to recruit personnel in managerial, major and specialized jobs the recruitment channels should be limited. It means that job competition should be limited more on existing staff, informal ways for recruitment should be used such as referring to representatives of individuals to recruit in these jobs and potential capabilities of individuals should be considered to take predetermined job career more than current knowledge and skills. Complex and innovative ways should be used in selection of individuals.

Regarding staff training and development since the goals of organization in these occupations is ((building human capitals)) intense investment should be conducted to train and promote personnel. To this end, training programs should be executed in two dimensions of individual and organizational dynamisms. The promotion of personnel and managers should take place according to job career and merit.

In service jobs along with secondary strategy the knowledge, skills and abilities which are based on the selected job must be considered the basis of selection and for recruitment different and more formal methods must be used and the main selection index should be regarded current merits of individual. There is no high emphasis on training in these occupations, but training programs design aimed at training skills in desired jobs which have mostly practical and workshop aspects, it is recommended to perform internal redeployments based on current performance index and individual competence.

##### 4.2. *Strategic Axis of Performance Evaluation and reward Subsystem*

According to commitment strategy the payment system should be designed in such a way that procedure stability is preserved within the organization, for this purpose the works which have the same values should be paid identically, also in order to observe the principle of external equality the amount of financial payments to personnel of these jobs must be at least equal to the rate of labor market. In order to encourage risk taking and create motivation among the personnel mixed salaries should be used that is a percentage of financial payments should be done variably and based on performance results, the way of rewarding should be in such a way that encourages teamwork and spiritual rewards (such as works being challenging, career path development and participation in affairs) should be used more than material rewards and to evaluate the performance of personnel the 360-degree feedback method should be used.

According to secondary strategy the works which have the same values should be paid identically, because the process of these jobs is; stable, standardizable and on schedule. On the other hand, in order to observe the principle of external equality and recruitment of more skillful individuals the amount of financial payments to personnel of these jobs must be at least equal to the rate of labor market. On the other hand to observe the principle of external equality and recruit more skilled manpower, the amount of material payments to staff of such jobs must be equal to the rate of the labor market. Also for equality of the staff seniority, skill rate and performance criteria should be considered as the bases of payment, material rewards should be used more than spiritual rewards and when evaluating performance the emphasis should be on the comments of individual's direct supervisor.

##### 4.3. *Strategic Axis of Relationships with Personnel Subsystem*

In occupations with commitment strategy, the description must be designed in a flexible manner, the authority of operation and responsibility of work quality should be assigned to personnel and then their output should be controlled. The programs to help personnel should be implemented such as assistance to solve personal problems of staff which barrier their effective performance.

In jobs with secondary strategy, duties description must be developed and applied precisely and in a standard and formal form. And in order to control the process of work performance Taylorism method (indirect control) should be used. And informal mechanisms based on employee-supervisor relationships should be designed to state personnel objections and to consider them.

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