



**Aligning Strategy Typology and Human Resource Management in  
a Transitional Environment: The Case of Huabo Group**

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Thesis submitted as partial requirement for the conferral of the degree of

**Doctor of Management**

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Instituto Universitário de Lisboa

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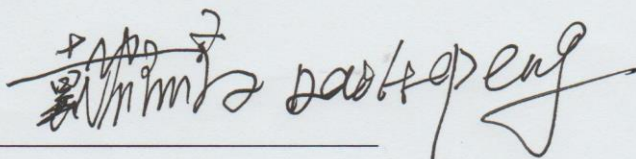
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## **Abstract**

In a transitional society like China, it is a challenge to align an enterprise human resource management with its strategy while adapting to a dynamic external environment. There is limited studies in this regard, particularly on how private enterprises may align human resource management with strategy typology in a changing environment of emerging economy. Guided by the theoretical framework of strategy typology and human resources management alignment proposed by Miles and Snow (1984), this study investigates Huabo Group, a pharmaceutical distribution firm in Chongqing of China as a case study because this firm has developed and grown in a very dynamic, complex and hostile environment due to the rapid change of Chinese pharmaceuticals industry. Thus it provides a very illustrative sample to examine strategy typology and human resources management alignment in emerging market like China.

Based on quantitative and qualitative data through survey and interview/focus group, this study: (1) finds and justifies the prospector strategy of Huabo Group under transitional external environment; (2) identifies and discusses the gaps and issues of aligning Huabo's human resources management and prospector strategy; (3) proposes strategies to improve its human resources system to better align and support its strategy for the enterprise sustainable growth in a rapid changing environment. The study provides an illustrative case from Chinese pharmaceuticals industry to manage the challenges of aligning human resource management with organizational strategy while adapting to external environment in emerging economy, thus enriching theoretical literatures. The research results provide valuable reference for similar enterprises to give consideration to human resources management alignment during strategy adjustment under rapid changing emerging market like China.

**Keywords:** Strategy Typology; Human Resource Management; Alignment of Strategy and Human Resource Management, Chinese Pharmaceutical Industry

**JEL :** M50; M19





## Resumo

Numa sociedade em transição, como a chinesa, alinhar a gestão de recursos humanos de uma empresa com a sua estratégia e em simultâneo adaptar-se ao ambiente dinâmico externo constitui um desafio. A investigação sobre este assunto tem sido limitada, especialmente sobre como as empresas privadas podem alinhar a gestão de recursos humanos com uma tipologia de estratégia num ambiente mutável de uma economia emergente. Guiado pela matriz teórica da tipologia estratégica de Miles e Snow (1984), este estudo investiga o Grupo Huabo, uma empresa de distribuição farmacêutica em Chongqin na China, tomando-o como um caso de estudo por esta empresa se ter desenvolvido e crescido num ambiente hostil, complexo e muito dinâmico devido às rápidas mudanças na indústria farmacêutica chinesa. Desta forma, constitui um caso muito ilustrativo para examinar o alinhamento entre a tipologia estratégica e a gestão de recursos humanos num mercado emergente como o da China.

Com base em dados quantitativos e qualitativos decorrentes de questionário e entrevistas/grupos focais, este estudo: 1) descobre e justifica a estratégia prospetora do grupo Huabo no quadro de um ambiente externo em transição, 2) identifica e discute as discrepâncias e os desafios de alinhar a gestão dos recursos humanos da Huabo com a estratégia prospetora, e 3) propõe estratégias para melhorar o seu sistema de recursos humanos com vista a um melhor alinhamento e apoio estratégico que favoreça o crescimento sustentável da empresa num ambiente em mudança rápida. O estudo faculta um caso ilustrativo da indústria farmacêutica chinesa para gerir o desafio do alinhamento da gestão de recursos humanos com a estratégia organizacional no quadro da adaptação a um ambiente externo numa economia emergente, assim enriquecendo a literatura teórica. A investigação constitui uma referência útil para empresas similares que queiram considerar o alinhamento da gestão de recursos humanos durante o ajustamento estratégico em condições de mercado emergente em rápida mutação tal como o da China.

**Palavras-chave:** Estratégia corporativa; Gestão dos recursos humanos; Correspondência entre gestão dos recursos humanos e estratégia corporativa; Indústria farmacêutica na China

**JEL :** M50; M19



## 摘要

本文以 Mile & Snow (1984)提出的战略与人力资源管理匹配的理论框架为指导，以重庆华博集团为例研究在转型环境下企业战略与人力资源管理的匹配。

基于访谈，小组焦点座谈（Focus Group）和问卷调查所获得的研究数据，本文得出以下结论：1）华博集团医药业务采取领先者战略类型及此战略选项的战略理论逻辑；（2）明确华博领先者战略与人力资源管理各个核心功能模块在匹配方面存在的问题；（3）为提高人力资源管理体系以匹配公司战略提出具体的改善策略。

本研究以个案研究的方式深入地剖析了在中国这类新兴经济体急剧变化的外部环境下，民营企业如何因应外部环境调整战略的同时并兼顾人力资源管理匹配性以取得可持续发展，丰富了现有以定量研究为主的理论文献。此外，本案例也为类似企业的战略管理和人力资源管理匹配实践提供了有价值的参考。

**关键词：** 企业战略；人力资源管理；人力资源管理与企业战略匹配；中国医药行业

**JEL 分类号：** M50； M19



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# Contents

Chapter 1: Introduction .....	1
1.1 Research background .....	1
1.1.1 Industrial background.....	1
1.1.2 Theoretical background.....	3
1.2 Research objectives and questions .....	5
1.2.1 Research objectives .....	5
1.2.2 Research questions .....	6
1.3 Structure of the thesis.....	6
1.4 Technical roadmap of the study.....	7
 Chapter 2: Literature Review and Theoretical Framework.....	9
2.1 Strategy.....	9
2.1.1 Strategy and its typology.....	9
2.1.2 The theory of competitive advantage and resource of enterprise.....	15
2.2 Strategic human resources management .....	17
2.2.1 Strategic human resources management .....	17
2.2.2 Strategic human resources role and framework .....	20
2.3 Strategy and human resources management alignment .....	25
2.3.1 Research on strategy and human resources management alignment .....	25
2.3.1.1 Strategy typology proposed by miles and snow and human resources management alignment.....	27
2.3.1.2 Strategy and human resources management alignment proposed by Schuler.....	28
2.3.2 Chinese researches on corporate strategy and human resources strategy alignment .....	33
2.4 Summary .....	35
 Chapter 3: Pharmaceutical Distribution Industry and Huabo Group .....	37
3.1 Pharmaceutical distribution industry in China .....	37
3.1.1 General introduction.....	37
3.1.2 Recent development of Chinese pharmaceutical distribution industry .....	38
3.2 Overview of Huabo Group.....	46

3.2.1 Introduction of Huabo Group .....	46
3.2.2 Current status of Huabo Group .....	49
3.3 Pharmaceutical business strategy of Huabo Junwei.....	52
3.4 Human resource management in Huabo Group .....	57
3.4.1 Background of human resource management in Huabo Group .....	57
3.4.2 Current status of human resources in Huabo Group .....	58
3.5 Summary .....	61

Chapter 4: Research Design and Methods .....	63
4.1 Case study method .....	63
4.2 Interview and focus group .....	64
4.2.1 Sample selection.....	64
4.2.2 Interview and focus group.....	64
4.2.3 Interview process.....	67
4.2.4 Data analysis from interview and focus group.....	70
4.3 Questionnaire method .....	70
4.3.1 Questionnaire design .....	70
4.3.2 Questionnaire contents .....	70
4.3.2.1 Measurement of strategy category .....	70
4.3.2.2 Measurement of human resource management.....	72
4.3.3 Collection of questionnaire data.....	72
4.3.3.1 Data collection.....	72
4.3.3.2 Description of questionnaire samples .....	72
4.4 Validity and Reliability.....	75
4.5 Summary .....	76
 Chapter 5: Strategy and Human Resources Management Alignment Analysis in Huabo Group .....	 77
5.1 Analysis of interviews information .....	77
5.1.1 Strategy of Huabo Group .....	77
5.1.2 Alignment status of strategy and human resource management of Huabo Group .....	78
5.1.2.1 Human resources planning .....	79
5.1.2.2 Staff recruitment and selection.....	80
5.1.2.3 Staff training and development .....	80

5.1.2.4 Performance appraisal .....	81
5.1.2.5 Remuneration .....	81
5.1.2.6 Staff promotion.....	82
5.2 Survey results .....	84
5.2.1 Strategy type of pharmaceutical business in Huabo Group .....	84
5.2.2 Practices of human resource management .....	85
5.2.2.1 Recruitment .....	85
5.2.2.2 Training and development.....	86
5.2.2.3 Performance appraisal .....	86
5.2.2.4 Compensation and incentives.....	86
5.2.2.5 Relationship of Huabo Group and its employees.....	86
5.2.2.6 Satisfaction, organizational commitment and intention to stay in Huabo Group .....	87
5.3 Factors hinder the alignment of enterprise strategy and human resources management of Huabo Group .....	88
5.3.1 Strategic orientation of Huabo Group .....	88

5.3.2 Role of human resources in Huabo Group .....	89
5.3.3 The alignment of strategy and human resources management of Huabo Group .....	89
5.4 Causes for alignment issues of strategy and human resources management in Huabo Group .....	95
5.4.1 Human resources planning .....	95
5.4.2 Recruitment and selection .....	95
5.4.3 Training and development .....	96
5.4.4 Performance appraisal .....	97
5.4.5 The unattractive salary .....	97
5.5 Summary .....	97
 Chapter 6: Discussion.....	101
6.1 Industry environment and strategic orientation.....	101
6.2 Alignment of strategy and human resources management in Huabo Group.....	103
6.2.1 Human resources planning: analysis of the supply and demand of human resources to attract right talents .....	103
6.2.2 Recruitment and selection: strengthening talent introduction mechanism and improving core competitiveness in the Group .....	104
6.2.3 Employee training and development: conducting specialized trainings and broadening	

promotion ladders.....	107
6.2.4 Performance appraisal: establishment of comprehensive performance appraisal system .....	109
6.2.5 Compensation and incentives: perfecting compensation and motivation system and cultivating talents .....	109
6.3 Summary .....	110
 Chapter 7: Conclusion.....	113
7.1 Conclusion.....	113
7.2 Contribution and implication .....	116
7.3 Research limitation and prospect .....	117
Bibliography.....	119
Appendix 1 Interview Outline of HR Management .....	131
Appendix 2 Statistics on Questionnaire Survey of HR Managers .....	141





## List of Tables

Table 2-1 Milestones of Strategic Management.....	9
Table 2-2 Business Strategies and Human Resources Managemant Systems .....	15
Table 2-3 Human Resources Management Classification.....	23
Table 2-4 Human Resources Frame Aligning with Strategy Type .....	29
Table 2-5 Human Resources Frame Aligning with Strategy Type .....	31
Table 2-6 Human Resource Management and Strategy Type Alignment .....	32
Table 3-1 Evolution History of Pharmaceutical distribution Industry .....	37
Table 3-2 TMT of Huabo Group .....	61
Table 4-1 Basic Information of Interviewees .....	66
Table 4-2 One-on-one Interviewee List.....	68
Table 4-3 List of Interviewee in Group Discussion .....	69
Table 4-4 Measurement Items of Human Resources .....	74
Table 4-5 Personal Information Statistics of Survey Respondents .....	75
Table 4-6 Validity and Reliability .....	76
Table 5-1 Summary of Interview Results.....	83
Table 5-2 The Alignment Situation of Enterprise Strategy and Human Resources Management of Huabo Group.....	94



## List of Figures

Figure 1-1 Technical Roadmap .....	8
Figure 3-1 Sales Trends of Pharmaceutical Distribution Industry in Year 2012-2016 .....	39
Figure 3-2 Number of Retail Pharmacies in Year 2013-2016 .....	41
Figure 3-3 Percentages of Business Incomes of Pharmaceutical Wholesalers with Different Scales in National Market.....	43
Figure 3-4 Corporate Structure of Subsidiary Corporations in Huabo Group .....	47
Figure 3-5 Distribution of Major Clients in Huabo Group .....	50
Figure 3-6 Analysis of Pharmaceuticals Industry Related to Huabo Group .....	52
Figure 3-7 Organization Structure of Huabo Group .....	59
Figure 3-8 Organization Structure of B2C Platform of Pharmaceutical E-commerce Enterprises.....	60
Figure 5-1 Stages of the Group .....	85
Figure 5-2 Proportion of Employee-Reported Strategy of Huabo Group .....	85



## **List of Abbreviations**

TMT	Top Management Team
CSR	Corporate Social Responsibility
PIMS	Profit Impact of Marketing Strategy
SWOT	SWOT: Strengths Weaknesses Opportunities Threats
MNC	Multinational Corporation
PAP	People's Armed Police
GSP	Good Supply Practice







## Chapter 1: Introduction

### 1.1 Research background

#### 1.1.1 Industrial background

In the early days of People's Republic of China since its founding in 1949, there was hardly any sound public health system due to wars for years. During the planned economy, the country was the natural and exclusive organizer of medical and health services. In this period, the actual healthcare and medical payers in this period were enterprises, which means the enterprises covered medical and health service for their employees, and sometimes, the enterprise-based health services also covered employees' families.

In 1978, the Third Plenary Session of the Eleventh Central Committee of the Communist Party of China carried out the reform and opening-up policy. Then, China started to transit from planned economy (an economic system in which the government controls and regulates production, distribution, prices, and others) to market economy (resources allocation by the market). During this period, policy background of Chinese medical health system has changed a lot and traditional medical insurance system gradually lost its existence conditions. At the beginning of 1980s, some areas started to reform the medical insurance system. For example, only medical cost over a certain amount could apply for reimbursement in appropriate proportions; set a fixed reimbursement amount for certain medical cost; and medical costs reimbursement was combined with personal interests. Continuous exploration and development of these reform practices provided good foundation for undertaking medical costs by employees at the end, reflecting a transition stage from free medical services in planned economy to partially charged medical services after the reform and opening up. On April 28, 1984, the Ministry of Health and the Ministry of Finance jointly published the *Notice on further strengthening free medical service management*, which promoted the reform of free medical services. Local government first took action in the reform of medical service system mainly by means of controlling medical costs through overall social planning and "comprehensive arrangement for serious disease". In April, 1996, the General Office of the State Council forwarded the *Suggestions about expanding pilot area for employee medical insurance system reform*, and conducted pilot work in a wider range. The price management of drugs started from

the formulation of *Interim provisions for drug price management* in August, 1996. At that time, the main objective of drug price adjustment was to “reduce virtual-high prices of drugs and alleviate the burdens derive from high drug costs”. In December, 1998, the State Council clarified the overall goal, basic principles and general framework of medical insurance system reform in the national working conference and required to establish a basic medical insurance system covering all urban employees on a national scale in 1999.

The 2000s witnessed the profound reform of Chinese drug prices. On October 19, 2002, the Central Committee of the Communist Party of China and the State Council issued the *Decision on further strengthening rural health work*, requiring to “*basically establish a nationwide rural health service system and a rural cooperative medical care system which not only satisfy requirements of socialist market economy system but also meet the status quo of economic and social development in all rural areas by 2010*” and the document also clearly pointed out “to establish a new rural cooperative medical care system aiming at comprehensive arrangement for serious diseases step by step”. As of 2006, China lowered drug prices in succession for 23 times in a decade. However, “virtual-high price issue” of Chinese drugs still needs to be settled thoroughly.

Since 2009, a new medical reform was formally launched, and corresponding supporting reform measures were introduced successively. In 2015, Chinese government started to let market decide drug prices and the government stopped to price drugs except for narcotics and category I psychotropic substances, to improve the drug sales & purchase mechanism and set reimbursement ceiling in medical insurance. However, in January, 2017, the Medical Reform Office of the State Council and the National Health and Family Planning Commission among other departments jointly issued a policy to promote the “Two-Invoice System” for drug procurement, aiming to cut middleman or dealers in the distribution process in order to cut drug costs. The “Two-Invoice System” means that invoices shall be issued when drugs are sold from pharmaceutical factories to initial distributors and secondary invoices shall be issued when drugs are sold from initial distributors to hospitals. And the number of initial distributors for each type of drugs shall not be more than two in order to further lower virtual-high prices of drugs and alleviate the burdens of high drug costs. From the perspective of policies, with promotion of medical and health system reform, especially profound reform of drug pricing mechanism, there is a downward trend shown in the terminal market prices of drugs (especially essential drugs and assigned drugs of medical insurance). This, to some extent, will make the distributors difficult to increase prices for the drugs in intermediate distribution process. For enterprises whose primary businesses are drug sale and distribution, along with national drug

pricing policy changes and drug price adjustment due to market competition as well as the subsequent effect on drug sales volume, enterprises encounter huge difficulty to sustain in the market.

In recent years, Chinese governments encourage merger and acquisition among enterprises in pharmaceutical distribution industry, consolidation in the industry, reducing redundant process and improving industry concentration in the provincial market, and attach importance to resources and scale advantages. This set the main direction of centralized bidding policy in pharmaceutical distribution industry. The implementation of medical insurance cost control, bidding cost reduction, secondary bargaining and Two-Invoice System reduced the growth rate of the whole pharmaceutical distribution industry, especially that the Two-Invoice System implemented from 2017 makes it even more difficult for middle and small-sized enterprises to survive in pharmaceutical distribution industry. Under the environment, faced with lower gross profit rate and higher cost, pharmaceutical enterprises have to adjust their business strategy to adapt to the changes of the industrial environment.

### **1.1.2 Theoretical background**

According to the theory of corporate strategy, enterprise should consider dynamic and unstable environment for its growth and development. It also should consider future environmental changes for management. Thus enterprise managers need to research the business environment, to correctly identify the enterprise development direction, and choose suitable business domain, so as to grasp opportunities brought by external environment more accurately and increase the adaptability of business activities to external environment. Then, enterprise strategy can align with external environment to improve the organizational performance.

Around 1980s, business environment changed significantly and intangible assets were considered as the most important factor for enterprise to maintain its sustainable competitive advantages. Along with the acute transformation of technology, economy and society, enterprise experienced a lot of challenges in human resources management. These challenges mainly include: (1) success in market competition, to a large extent, depends on reasonable allocation of knowledge resources and the human resources occupy an increasingly important strategic position in enterprise resources; (2) effective human resources management in enterprise has become a strategic factor determining whether the enterprise is always proactive. Therefore, enterprise must give human resources management the strategic function.

Therefore, enterprises should actively take human resources issues into consideration to ensure that the human resource management align with enterprises strategy. For many enterprises, the existing human resources management system is unable to fit in the newly formulated strategy and a series of problems finally result in the nonalignment between corporate strategy and human resources management.

In fact, as enterprise is a complex system, every strategy implemented by enterprise must align, coordinate and cooperate with each other in order to truly achieve the expected results. First, enterprise strategy is developed by staff and its implementation involves staff, too. Therefore, on the one hand, during development of corporate strategy, the enterprise must take the impact of existing human resources factors into consideration; on the other hand, during implementation of enterprise strategy, it also needs to consider to what extent the human resources can support corporate strategy. We can say that human resources management determines success or failure of corporate strategy to a large extent. However, there is no best human resources management as for enterprise. Instead, alignment and coordination of human resources management and corporate strategy are what enterprise actually needs. Therefore, enterprise needs to consider limitations of human resources management when developing corporate strategy. In addition, human resources management shall be adjusted according to corporate strategy, instead of remaining unchanged. How to achieve human resources management and corporate strategy alignment has become an important topic of universal concerns by Chinese enterprise leaders and managers.

In summary, enterprise strategy shall be adapt to the external environment, and human resources management is of significant importance to enterprise performance. However, most existing researches focus on alignment of individual corporate strategy with environment or on relationship of human resources and enterprise performance, and only limited literatures focus on alignment of human resources management and enterprise strategy. And among these studies, few of them are on pharmaceutical distribution industry. Therefore, under the context of Chinese pharmaceuticals industry reform which result in dynamic changes for the sector, this study will explore how Huabo Group, a Chinese pharmaceutical distribution company adapt its strategy to the changing environment and more importantly to examine the alignment of its human resource management system with its strategy typology in the process of enterprise adapting to challenges of external environment, thus providing new perspective and helpful supplement for related researches.

## **1.2 Research objectives and questions**

### **1.2.1 Research objectives**

As discussed above, Chinese pharmaceutical distribution industry is experiencing a series of reforms. The government implements many new medical reform policies and proposes new management standards for pharmaceuticals industry (e.g. “Two-Invoice System”), changing the traditional business purchase and sale services as well as profit models of the pharmaceutical distribution industry. Government requirements such as lower essential drug prices and strict supervision on pharmaceutical distribution enterprises in the new medical reform policies greatly reduce the profit margin of pharmaceutical enterprises. And this situation makes many of them unable to continue their business operation. Chinese pharmaceutical enterprises are facing great pressures from economic transformation under rapidly changing environment. Dynamism, complexity and hostility of external environment in emerging economy like China set high requirements for enterprise strategic management (Justin & Litsschert, 1994) by grasping opportunities from external environment, effectively recognizing external threats and adjusting enterprise strategy accordingly. Pharmaceutical distribution enterprises have to correctly analyze the policy orientation for medical reform and take measures such as consolidation and merger, focus on concentrated and differentiated fields of drugs, and “Internet+pharmaceutical distribution enterprises”, to improve business practices to ultimately satisfy market demands in a better way and achieve healthy and rapid development. Therefore, on the one hand, the pharmaceutical distribution enterprises need to respond to the opportunities and threats brought by the reform and transformations in the sector by adjusting strategies; on the other hand, they need to effectively integrate internal resources to match with and support enterprise strategy to improve competitive advantages.

Founded in 2002, Chongqing Huabo Pharmaceutical Group has developed into a leading pharmaceutical distribution enterprise in Chongqing region along with the growth of Chinese pharmaceutical distribution industry. In recent years, Huabo Group has also realized the changes in industry and adjusted its corporate strategies. Therefore, Huabo Group is taken as the case target in this study. The main objectives of this study include: 1) theoretically, to provide research results from Chinese enterprise on alignment of organizational strategy and human resources management to enrich literatures on this topic. As a rapidly developing country, China’s economic conditions and enterprise practices provide a good context for researches on alignment of strategy and human resources management. 2) Practically, on the

one hand, through exploring strategy typology and investigating the alignment of strategy and human resources management in Huabo Group by application of related theories, this study provide implications to promote the development of Huabo Group; on the other hand, this study provide implication for similar enterprises in emerging market regarding alignment of strategy and human resource management.

### **1.2.2 Research questions**

The following aspects will be researched in this study: (1) what is the strategy type of Huabo Group that may effectively adapt to a rapidly changing external environment with Chinese economy transformation; (2) to what extent, does its business strategy align with the human resources management; (3) how to improve its human resources system to better align with and support the current strategy of Huabo Group.

## **1.3 Structure of the thesis**

Contents of the thesis are divided into six chapters:

Chapter 1: introduction; this chapter mainly includes three parts: research background; research objectives and questions; structure and chapters of the thesis.

Chapter 2: related literature review and theoretical framework; this chapter mainly describes related connotations of corporate strategies, the theory of competitive advantage and resource of enterprise, related connotations and role/framework of strategic human resources management, and results of researches on corporate strategy and human resources management alignment, providing solid theoretical basis for later status analysis, problem recognition and suggestions proposal as for Huabo Group.

Chapter 3: This chapter mainly includes basic information and strategic human resources of Huabo Group, introduces the industry background and basic profile of Huabo Group and explains the strategy, human resources background and strategic transformation requirements of Huabo Group.

Chapter 4: research design and methods; in this study, the case study method, the interview method and the questionnaire method are selected and Huabo Group is taken as research objective to discuss corporate strategy and human resources management alignment among pharmaceutical distribution enterprises.

Chapter 5: According to basic information of Huabo Group, interview and questionnaire methods are adopted to research the strategy type of Huabo Group and find out the shortages

of human resources management and strategy implementation.

Chapter 6: This chapter provides improvement suggestions for current situations of Huabo Group. Among all the available enterprise resources, human resources are the most innovative, dynamic and explosive resources. As a result, in order to achieve strategic objectives of enterprise, human resources are to be sufficiently explored, developed and utilized.

Chapter 7: This chapter summarizes the study and points out the necessity for Huabo Group to adopt strategic human resources management when it faces with fierce market competition. And this chapter describes theoretical significance and practical implication of doing research on Huabo Group's strategy and human resources management alignment. Finally, this chapter gives the main conclusion of this study.

## **1.4 Technical roadmap of the study**

The study includes seven chapters with the research idea as shown in Figure 1-1:

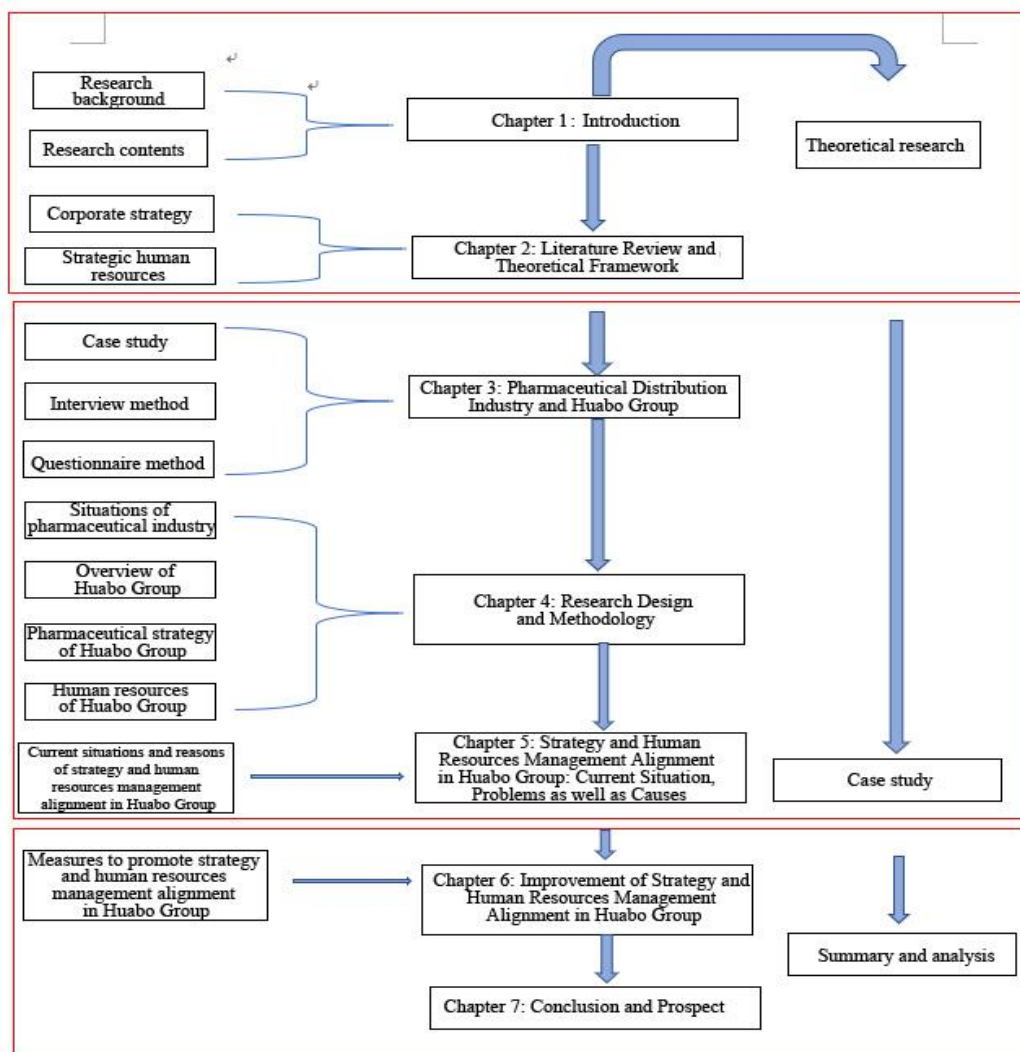


Figure 1-1 Technical Roadmap



## Chapter 2: Literature Review and Theoretical Framework

### 2.1 Strategy

#### 2.1.1 Strategy and its typology

The word “strategy” is evolved from the Greek word “strategos” (meaning military strategies and tactics). Then, it gradually becomes a military term and mainly represents tactics that military generals use to lead and organize armies for combats. In Chinese dictionary, *Ci Hai*, “strategy” is described as “overall planning and leading toward wars”. In modern society, the meaning of “strategy” gradually represent directive, global and farsighted plans, measures and schemes. Recently, Ma (2017) summarizes the developing history of strategic management as shown in Table 2-1.

Table 2-1 Milestones of Strategic Management

1960s	
Dominant Paradigm	Business policy (Learned et al., 1965), Enterprise policy research and strategic analysis framework by Harvard Business School(SWOT)
Corporate Strategy	Business history (Chandler, 1962), impact of alignment of business unit organizational structure and diversification strategy on enterprise business performance; diversification strategy (Gort, 1962), early economics considerations of enterprise diversification strategy; Corporate Strategy (Ansoff, 1965), discussion on enterprise strategy by Ansoff: enterprise growth matrix, synergistic effect, competitive advantages; corporate structure and multinational strategy (Fouraker & Stopford, 1968), corporate structure and multinational strategy
Business Strategy	Studies of industry structure (Caves, 1964), the S-C-P analysis paradigm in industrial economics, academic foundation for Potter revolution
Strategy Process/ Top Management Team (TMT)	General managers and general management process (Koontz, 1961); behavioral decision making (Cyert & March, 1963), behavioral decision theory(predecessor of TMT research)
1970s	
Dominant Paradigm	Strategic planning (Steiner, 1979), scenario analysis, strategic planning and formulation framework and tool

Corporate Strategy	Concept of corporate strategy (Andrews, 1971); diversification strategy and performance (Rumelt, 1974): inter-business correlation and synergistic effect; simultaneous equation model (Schendel & Patton, 1978), use simultaneous equation to determine corporate strategy; CSR (Carroll, 1979) enterprise social responsibility performance
Business Strategy	Typology of generic strategies (Miles & Snow, 1978), basic strategy typology method and ideal types; PIMS (Buzzell et al., 1975), impact of strategic planning on business profitability
Strategy Process/TMT	Decision making as a political process (Bower, 1970; Pettigrew, 1973), structure of nonstructural decision; emergent strategy as patterns (Mintzberg, 1978)

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1980s

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Dominant Paradigm	Industry analysis (Porter, 1980), analysis of industrial structure and strategic positioning by Porter; Resource-based View (RBV) (Wernerfelt, 1984); stakeholder approach (Freeman, 1984)
Corporate Strategy	Dominant logics (Prahalad & Bettis, 1986); multimarket competition (Karnani & Wernerfelt, 1985); Joint ventures (Kogut, 1988); global strategy (Ghoshal, 1987)
Business Strategy	Generic strategies (Porter, 1980); strategic group (Dess & Davis, 1984); first mover advantage (Lieberman & Montgomery, 1988)
Strategy Process/TMT	Logical incrementalism (Quinn, 1980); upper echelon: CEO and top management team TMT (Hambrick & Mason, 1984), ; fast decision making (Eisenhardt, 1989)

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1990s

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Dominant Paradigm	Resource-Based View of the Firms (Barney, 1991); Austrian approach (Jacobson, 1992)
Corporate Strategy	Core competence (Prahalad & Hame, 1990); internal corporate venturing (Burgelman, 1994); parenting advantage (Goold et al., 1994); cooperative strategy (Dyer & Singh, 1998); international diversification (Hitt et al., 1997)

Business Strategy	Hyper-competition (D'Aveni, 1994); Coopetition (Brandenburger & Nalebuff, 1996); game theory and strategy (Camerer, 1991; Saloner, 1991; Parkhe, 1993); winner takes all (Hill, 1997), competition for industry standard
Strategy Process/TMT	Absorptive capacity, learning, knowledge, transfer (Cohen & Levinthal, 1990; Levinthal & March, 1993; Szulanski, 1996), strategy process for organizational learning; knowledge-based view (Grant, 1996); corporate political-strategy (Hillman & Hitt, 1999)
2000s	
Dominant Paradigm	Dynamic capabilities (Eisenhardt & Martin, 2000; Teece, 2007), continuous development of dynamic capability research, micro-foundation of dynamic capability (strategy)
Corporate Strategy	Strategic alliance and networks (Gulati et al., 2000); real options approach (Adner & Levinthal, 2004); corporate entrepreneurship strategy (Ireland et al., 2003)
Business Strategy	Business model and E-business value creation (Amit & Zott, 2001); blue ocean strategy (Kim & Mauborgne, 2005); strategy and the Internet (Porter, 2001)
Strategy Process/TMT	Knowledge flows within MNC (Gupta & Govindarajan, 2000); upper echelon revisited (Carpenter et al., 2004; Hambrick, 2007); strategy as practice (Whittington, 2003; Johnson et al., 2003; Jarzabkowski, 2004, Jarzabkowski; 2005;), strategy as combination of practice and activity
2010s	
Dominant Paradigm	Micro foundations of strategy (Barney & Felin, 2013); strategic entrepreneurship (Hitt et al., 2011)
Corporate Strategy	Corporate social responsibility (Carroll & Shabana, 2010); corporate political activity and strategy (Hillman et al., 2004; Lux et al., 2011; Wang and Qian, 2011), corporate political strategy and its relationship with performance of social responsibility
Business Strategy	Age of temporary competitive advantage (D'Aveni et al., 2010); business model (Teece, 2010; Zott et al., 2011)

Strategy Process/TMT	Behavioral strategy (Powell et al., 2011) and neuro strategy (Powell, 2011),; narcissitic CEOs (Chatterjee 2007; Hambrick, 2011); social performance of CEO and TMT (Chin et al., 2013)
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Source: Ma (2017).

Chandler (1962) pioneered the research on strategic management. He analyzes the interrelationship of environment, strategy, and corporate structure in his book *Strategy and structure: chapters in the history of the American industrial enterprise* and divides the management decisions into two levels: strategic decisions and tactical decisions. Ansoff argues that connotation, content and inner structure of corporate strategy are accompanied by each other in his book *Corporate strategy* in 1965. Such strategy attaches great importance to external environment of enterprise, especially the target market of enterprise products. Andrews (1971) argues that: Strategy is objective, intention or purpose and the pattern of main plans prepared in order to achieve them. Such a pattern plays a decisive role in determining businesses an enterprise is performing or shall perform and the business types. In addition, it is closely related to external environment of enterprise. Therefore, strategy is the evolution and development of long-term plan. It reflects two basic characteristics: foresightedness and subjectivity. Foresightedness means that strategy is formulated before the business activity is conducted; the subjectivity represents the subjective vision of enterprise senior executives for the future development of the enterprise. Steiner (1972) argues that enterprise strategy represents counterattack to the actual and potential actions of competitors. Porter (1985) introduces economic concepts into researches on enterprise strategy, arguing that the purpose of enterprise strategy is to earn above-average profits.

In the 21st century, the dynamic capability theory becomes the main paradigm in the field of strategic management. Kim (2015) proposes the strategic conception of new market space; Sushil (2015) proposes that there is dynamism and uncertainty of environment itself, but no one in previous strategic management paradigms is found to be sufficient to cope with the increasing uncertainty of environment. Therefore, it is necessary to give flexibility to modern strategic management. Both for the organization and the ecosystem, strategy flexibility shall be given priority.

In 1980s, Chinese scholars placed their strategic management researches mainly on combination of existing domestic strategic management theories based on introduction of foreign classic strategic management books to conduct further researches and comparative

analyses. At the beginning of 1990s, with development of strategic management theories, Chinese scholars proposed many strategic management thoughts and explored a theory of corporate strategy suitable for actual development of Chinese companies. Liu (2010) argues that the enterprise strategy is global planning of development goals and ways to achieve the goals based on industry environment and company capability for main purposes of survival and development. Wang and Tang (2008) have studied the aspects of enterprise strategic transformation and argued that environment discrimination ability, management and control ability, resource optimization ability and sustainable innovation ability are four aspects forming the strategic transformation. These four aspects together with the marketing environment determine the direction, time and level of enterprise strategic transformation. Zeng and Wang (2010) propose the theory of strategic space. They argue that, the strategic level should be analyzed comprehensively from different aspects of strategic elements.

Different scholars have conducted researches on strategy from different aspects, continuously supplementing its definition as time goes on. In general, strategy refers to the integrated, global and long-term development direction and planning prepared by company making use of internal organization advantages and disadvantages and adapting to opportunities and challenges in external environment. It involves relationship between enterprise and environment, determination of enterprise mission, establishment of enterprise objective, basic development guideline, preparation of competitive strategy and other contents. In other words, strategy refers to a series of guidelines and countermeasures developed by company based on the enterprise objective developed from evolution of enterprise mission, the macro-environment/micro-environment and the enterprise strength. These guidelines help company achieve its goals. It plays a leading role in integral enterprise development, directs enterprise to analyze opportunities, threats, strength and weakness in different stages of development, and help enterprise prepare policies fit for its developing rules. Effective execution of strategy can ensure sufficient allocation and utilization of enterprise resources and make full use of limited resources, so as to gain best possible results. When formulating strategy, enterprise shall take full consideration of limitations by external environment and internal resources and set a practical strategic target based on environment and resources.

In researches on strategic management, scholars propose a number of typologies such as Miles and Snow (1978) and Porter (1980).

(1) Miles and Snow (1978) typology consist of four strategy types: *Prospector Strategy*, *Defender Strategy*, *Analyzer Strategy* and *Reactor Strategy* based on dynamic of products and

markets (see Table 2-2). The prospector strategy attaches great importance to development and innovation opportunities, and tries to search for new breakthrough points with a broad market domain. In contrast, for firm with defender strategy, its target market is a narrow market segment; it pays great attention to control over market and operational efficiency of market, instead of opportunities outside the existing market. While prospector strategy and defender strategy represents at the opposite ends of a continuum of strategic proactiveness, analyzer strategy fall between prospectors and defenders (Peng, Tan, & Tong, 2004). The analyzer strategy not only maintains traditional products and services, but also tries to search for new breakthrough opportunities meanwhile. Lastly, the reactor strategy represents dependent responses to adaptive cycles and lacks stable strategic direction. Miles and Snow argue that, the reactor strategy is a *residual strategy*, which may occur only when other three strategies cannot work.

(2) Porter (1980) divides the competitive strategy into three basic strategic types based on competitive strategy and competitive goals, namely *cost leadership strategy*, *differentiation strategy* and *focus strategy*. They each have their own characteristics: Enterprises implementing the cost leadership strategy have a higher percentage of market share and low-cost advantage; they achieve success by operation efficiency, economies of scale, procurement of cheap raw materials, control of production cost and other methods. Enterprises implementing the differentiation strategy emphasize high quality, innovative products, brand image and quality services; they enhance corporate value through unique products and services. Therefore, enterprises lay emphasis on investing funds to research customer demand, so as to win success by differentiation. Enterprises implementing the focus strategy have either cost focus strategy or differentiation focus strategy for a specific target of market segment. They select either cost focus strategy or differentiation focus strategy against specific target, such as specific customer/geographic area/product type, to satisfy demands of target groups to gain competitive advantages.

As discussed earlier, Chinese drugs regulators encourage merger and acquisition among enterprises in pharmaceutical distribution industry, to consolidate the industry, reduce logistics and distribution costs, and improve industry concentration in the market for advantages of economy of scale.

Table 2-2 Business Strategies and Human Resources Management Systems

Organizational/Managerial Characteristics	Type A (Defender)	Type B (Prospector)	Type AB (Analyzer)
Product-Market Strategy	Limited, stable product line Predictable markets Growth through market penetration Emphasis: “deep”	Broad, changing product line Changing markets Growth through product development and market development Emphasis: “broad”	Stable and changing product line Predictable and changing markets Growth mostly through market development Emphasis: “deep” and “focused”
Research and Development Production	Limited mostly to product improvement High volume-low cost Emphasis on efficiency and process engineering	Extensive, emphasis on “first-to-market” Customized and prototypical Emphasis on effectiveness and product design	Focused, emphasis on “second-to-market” High volume, low cost; some prototypical Emphasis on process engineering and product or brand management
Marketing	Limited mostly to sales	Focused heavily on market research	Utilizes extensive marketing campaigns
Organization Structure	Functional	Divisional	Functional and matrix
Control Process	Centralized	Decentralized	Mostly centralized, but decentralized in marketing and brand management
Dominant Coalition	CEO Production Finance/accounting	CEO Product research and development Market research	CEO Marketing Process engineering
Business Planning Sequence	Plan-Act-Evaluate	Act-Evaluate-Plan	Evaluate-Plan-Act

Source: Miles and Snow (1984).

Accordingly, products and services in the pharmaceutical distribution industry are experiencing dramatic changes. The strategy typologies proposed by Miles and Snow is mainly based on the dynamic of products and markets. Such a typology is well matched with the radically changing product and market environments faced by Chinese pharmaceutical distribution enterprises. Therefore, this study will employ the Miles and Snow typology.

### 2.1.2 The theory of competitive advantage and resource of enterprise

The Resource-Based View (RBV) (Wernerfelt, 1984; Barney, 1991) is one of the important

theories in strategic management fields. RBV helps to explain the competitive advantage sources of a company and the significant differences of sustained competitive advantages in the same industry. According to RBV, performance differences among enterprises are caused by different internal strategic resources, driving the research emphasis of strategic management to shift from external environment to internal resources of enterprise. The theory provides theoretical support for strategic position of human resources management and thus is highly recognized and emphasized by scholars in the field of human resources management.

The resource based theory is first proposed in the book *The theory of the growth of the firm* by Penrose (Penrose, 1959). This theory is based on two basic assumptions: (1) resource heterogeneity. Penrose argues that enterprise resources is heterogeneous, instead of homogeneous, thus it is possible for enterprise to gain unique competitive advantages. It is the foundation of the theory of competitive advantage and resource of enterprise. (2) Resource immobility. Penrose argues that perfect mobility of heterogeneous resources is impossible, thus different production factors result in different production efficiency. In turn, efficiency difference makes it possible to maintain the resource heterogeneity.

When Wernerfelt published *A resource-based view of the firm on Strategic Management Journal* in 1984, laying a theoretical foundation for RBV, more and more scholars have conducted researches on this field and the theory has developed into one of the important theories in strategic management field in 1990s. Wernerfelt argues that internal environment means much more than external environment for an enterprise and it is critical to create and maintain competitive advantages of enterprise. ; Wernerfelt also classify resources into two types: tangible and intangible.

Based on research by Wernerfelt, Barney (1991) developed a theoretical framework of competitive advantage and resource of enterprise and proposed the “VRIO” model. He argues that firm resources include all assets, organizational processes, firm attributes, information, knowledge, and capabilities. He divides resources into three categories: physical capital resources, human capital resources and organizational capital resources. He also distinguishes the concepts of common resources and strategic resources, believing that strategic resource factors forming the unique competitive advantages of enterprise must have four characteristics: value, rareness, high imitation cost and high replacement cost.

Barney analyzes the resources attributes from a static perspective, while Leonard (2005) summarizes the methods and processes for enterprise resource integration from a dynamic perspective. He believes that, in order to achieve resource integration, enterprise should first



find out and establish core competence. On this basis, enterprise should utilize decision-making methods to plan, manage and assess factors related logistics to achieve overall optimization.

Most researches on the theory of competitive advantage and resource of enterprise by Chinese scholars are conducted after 1990s. Bao (2001) argues that, enterprise has two typical resources, i.e. enterprise assets and enterprise potentials. Enterprise assets refer to valuable products or services provided by enterprise; enterprise potentials refer to the capability of enterprise to utilize technology, knowledge, and method. Ma (2008) argues that, resource integration mainly includes four types: integration of individual resources and organizational capital resources, integration of internal resources and external resources, integration of new resources and traditional resources, and integration of transverse resources and longitudinal resources. Chen (2009) has conducted researches on impact of strategies and resources on growth performance of growing enterprises and mature enterprises, and classified enterprise resources as universal resources (including two types: human resources and financial resources) and dedicated resources. Though there are a lot of researches on the theory of competitive advantage and resource of enterprise, resource definition proposed by scholars are still too single and unclear. And present researches on the theory mainly focus on theoretical exposition, lacking support from empirical data. Therefore, it is difficult to select a strategy that is best matched with resources from the qualitative analysis perspective.

## **2.2 Strategic human resources management**

### **2.2.1 Strategic human resources management**

Strategic human resources management involves two research fields, i.e. human resources management and strategic management. It is a combination of strategic management and human resources and a crossing field based on the two fields. As for definition of strategic human resources management, scholars have their own point of views. Some scholars argue that, research on strategic human resources management is to understand the relationship between organizational performance and human resources management. Most scholars argue that, strategic human resources management refers to long-term planning related to human resources development and management prepared by enterprise based on organizational strategy with full consideration of employee expectation, in order to adapt to external environmental changes and maintain development. Strategic human resources management gives important guidance to development and management of human resources, forms an integral part of organizational

strategy, and also provides great guarantee for implementation of organizational strategy. Compared with traditional human resources management, strategic human resources management is global, long-range, stable and adaptable. Its main characteristic is that it combines with enterprise strategic goal and considers the strategic goal as a starting point to systematically design and implement human resources development and management activities, making the strategic goal match with the overall competitive strategy of enterprise, thus to improve enterprise competitiveness and finally achieve the overall strategic goal.

About 1980s, survival and development environments of enterprise changed greatly, and the key factor to maintain the competitive advantages of enterprise changed from material assets to intangible assets. The acute transformation of technology, economy and society also brought great changes to strategic environment of enterprise, resulting in new challenges to human resources management. Research on human resources experienced a great breakthrough, which shifts the research from micro orientation to macro orientation. Such macro orientation is usually termed “strategic human resources management”. One of the most important changes is that human resources management begins to step onto the historical stage as a strategy contributor to enterprise. Research on human resources management develops from micro level to macro level.

Walker (1978) proposed to combine strategic planning and human resources planning, which is the first time to sprout the thought of strategic human resources management. Devanna, Fombrum, and Tichy (1984) developed the fundamental framework of strategic human resources management. According to their research, enterprise external environment causes impact on organizational strategy, corporate structure and human resources management. Through mutual regulation and adjustment, the three factors may make organization rapidly adapt to environmental changes. Similarly, the organization itself has to actively adjust strategy, corporate structure and human resources management in order to develop integrated strategic human resources management and carry out human resources management from strategic level. Schuler (1992) proposed the 5P model for strategic human resources management which includes five aspects, i.e. human resources policies, human resources philosophy, human resources programs, human resources practices and human resources processes. The five aspects are interconnected and form a unified whole based on organizational hierarchy in order to match up with organizational strategic objectives through human resources management in a more effective way. Wright et al., (2001) argue that HRM practice system includes four aspects: employee selection, training, assessment and compensation. Bowen and Ostroff (2004)

argue that the strategic human resources management process includes four aspects: uniqueness, consistency, commonality and strategic human resources management atmosphere.

As for human resources management concepts in China, the most commonly used one at very early time was the concept of labor. Since 1980s, the human resources management concept was brought into use in China as China opened to the outside world with presence of foreign-invested enterprises and moved from planned economy to a more market-oriented economy. With increasingly fierce domestic market competition, talent competition gradually becomes the core content of domestic market competition, and human resources start to become important strategic resources for enterprise. Peng (2003) argues that strategic objectives should be satisfied by proper utilization of five factors: human resources planning, employee recruitment, employee training, performance management and compensation management system. Wang (2012) asserts that, strategic human resources practices include six aspects: careful selection, extensive training, internal promotion, employment guarantee, incentive compensation and employee engagement. Yu (2014) argues that, strategic human resources practices include human resources planning, employee recruitment, employee training, incentive, performance assessment and cross-cultural management.

Liu et al., (2010) have studied on impact of alignment of four human resources management systems (including commitment type, market type, control type and cooperation type) and four organizational cultures (including developmental type, rational type, bureaucratic type and team culture type) on organizational performance from the perspective of alignment; Ma (2014) has conducted researches on establishment of theoretical model from a micro level of enterprise social responsibility from the perspective of interested party and used human resources management as an intervening variable to disclose the mediation mechanism of relationship between enterprise social responsibility and organizational performance. Some scholars also argue that the human resources strategy refers to alignment of human resources management and enterprise strategy in essence, including internal and external alignment. Lan (2015) has conducted researches on corporate strategy and culture of Dell. According to his research, the human resources management of Dell shows a representative “performance”-oriented characteristic and aims at reducing enterprise cost and improving work efficiency. He has also conducted researches on impact of corporate strategy and culture on human resources management, arguing that enterprise culture is a unique and informal system in an enterprise and plays an important role in enterprise human resources management. Cultural background also has an effect on human resources management. For

example, Chinese traditional culture advocates “the golden mean”, thus human resources management of Chinese enterprises shows a parenting type and emphasizes a harmonious interpersonal relationship. While American culture advocates rule of law, emphasizes individual striving and attaches great importance to science and quantitative analysis. Therefore, human resources management of American enterprises shows legal and normalized characteristics. Liao (2016) argues that enterprise strategy and human resources management shall be combined in order to exploit the advantages of enterprise resources to the full and gain competitive advantages.

The rich theoretical frameworks about strategic human resources management literature reflect constantly deepening of strategic human resources management researches. In practice, enterprise not only has to make sure that human resources management align with overall enterprise strategy during strategic management, but also actively takes human resources management into consideration during formulation of enterprise strategy, making sure the strategic vision position of human resources management. Thus, it is necessary to conduct researches on human resources management and strategy alignment.

### **2.2.2 Strategic human resources role and framework**

According to the strategic human resources theory, human resources are considered as an organic component of overall strategy, and human resources management is performed from a strategic perspective, which is more advanced than traditional human resources management. Ulrich (1998) proposes four key roles of human resources: strategic partner, change agent, administrative expert and employee champion. Human resources management plays a unique role in driving human capital expansion, gaining sustained competitive advantages and directing human resources management practices for enterprise. According to researches of most scholars, human resources are a major resource of competitive advantage for enterprise. Scarce and inimitable human resources will bring higher performance for enterprise. Wright et al., (2001) propose the concept of organizational “human capital pool”, that is to say, highly skilled and inspired labor has a great potential to form organizational competitive advantages. Hitt (2001) found that human capital causes direct impact on organizational performance. Gao and Zhao (2001) point out the important role of human resources for enterprise in gaining sustained competitive advantages from three aspects: value, scarcity and imitateness of resources. Yang (2006) suggests that, strategic human resources management mainly affects organizational employee team characteristics through intermediate variables, thus building a

relationship with three factors that affect organizational performance indexes. The main employee team characteristics refer to human capital, employee motivation and employee turnover. The three main factors that affect organizational performance include human cost, organizational knowledge creativity and market orientation. Li (2008) argues that, strategic human resources management may help to promote employee capacity development, so as to improve organizational performance. Its action mechanism is mainly reflected in two aspects: 1, strategic human resources management considers human capital as intellectual capital and effectively attracts, develops and maintains human capital, thus making direct contributions to organizational performance; 2, strategic human resources management may promote organizational performance indirectly. “People-centered” strategic human resources management attaches importance to motivating employees. It forms good organizational climate and cohesion, attracts employees and stimulates potentials and creativity of staff by affecting their attitudes, thus to improve job satisfaction of employees; it stimulates employee commitment to the organization to reduce employee turnover rate and improve organizational performance. In general, human resources are a key internal resource of enterprise. Advantages over human resources are difficult to be imitated and replaced by other enterprises. Therefore, human resources strategy is able to bring sustainable core competence for enterprise and enables enterprise to gain competitive advantages for a long run.

Typology of human resources management forms an indispensable part of researches on human resources management. Domestic and foreign scholars have conducted various researches on typology of human resources strategies from different perspectives, mainly including the following categories:

Schuler proposes three types of human resources management modes: accumulation, utilization and facilitation.

1) Accumulation emphasizes on performing human resources management in the long run, paying attention to talent training, and recruiting employees through selection; taking permanent employment as the principle and treating all employees based on the principle of fairness; taking position and length of service as the basis of compensation with slow employee promotion speed in general; developing employee skills and knowledge by training to activate greatest potentials of them.

2) Utilization emphasizes on performing human resources management in the short run and providing less training for employees; filling a position immediately once it is vacant, adopting the non-lifetime employment system with fast employee promotion speed and

measuring the salary system on a personal basis; paying attention to alignment of employee capability, knowledge and job.

3) Facilitation falls in between accumulation and utilization. It requires employee to acquire technical abilities and maintain a good relationship with colleagues. Employees mainly improve their capabilities and knowledge on their own.

Stace and Dunphy (1994) propose four types of human resources management modes: parenting type, developmental type, task type and transformational type (see Table 2-3).

1) In parenting type, enterprise selects command-driven human resources management according to overall strategy in order to promote sustainable development. It is mainly used to in enterprises pursuing for stability and avoiding changes;

2) In developmental type, enterprise adopts progressive human resources management with change strategy in order to adapt to environmental changes and development when enterprise is in a continuously developing and changing environment;

3) In task type, enterprise adopts a top-down command-driven human resources management when it faces partial changes, and enterprise adopting this type relies on effective management to a large extent;

4) In transformational type, enterprise adopts high-pressure and command-driven human resources management when it is entirely unable to adapt to environmental changes and thus gets into trouble.

Table 2-3 Human Resources Management Classification

Type of HR Practices	Features	Management Style	Change Degree
Parenting Type	(1) Control human resources management in a centralized way; (2) Emphasize on process, precedent and consistency; (3) Conduct organizational and method researches; (4) Adopt strict internal appointment and removal system; (5) Underline operation and supervision; (6) Take rewards and punishment and agreement as management methods.	Give priority to command-driven management	Basically stable, with minor adjustments
Developmental Type	(1) Pay attention to developing individuals and teams; (2) Give priority to internal recruitment; (3) Pay attention to development and training; (4) Use "internal motivation" more often than "external motivation"; (5) Consider overall development of enterprise first; (6) Emphasize overall enterprise culture; (7) Emphasize performance management.	Give priority to consultive management with supplement of command-driven management	Progressive, constantly changing
Task Type	(1) Attach great importance to achievement and performance management; (2) Emphasize human resources planning and routine job inspection; (3) Attach importance to material rewards; (4) Combine internal with external recruitments; (5) Prepare regular skill training plans; (6) Attach importance to enterprise culture.	Give priority to command-driven management with supplement of consultive management.	Partial changing
Transformational Type	(1) Perform significant changes to corporate structure and entirely adjust positions; (2) Adjust employee structure and save costs by downsizing; (3) Hire core talents by external recruitment; (4) Attach importance to team training and form new culture; (5) Get rid of traditional customs and abolish old cultures; (6) Build a new human resources system suitable for business environment.	Combine command-driven management with high-pressure management	Overall changing

Source: Chen, Yu, and Cheng (2011)

The scholars in American Cornell University classify human resources management modes into three types from the perspectives of employer monitoring and employee performance control: inducement, investment and involvement (Batt & Colvin, 2011). 1) Inducement human resources management means that enterprise mainly attracts employee from other enterprises by generous remuneration (such as salary and welfare) to form its employee team. With such strategy, enterprise maintains a simple employment relationship with its employees and adopts a scientific management mode proposed by Taylor.

Employees are required to undertake heavy work. Therefore, such enterprise has high employee turnover rate. 2) Investment strategy means that enterprise mainly forms its high-quality employee team by development within the enterprise. With such strategy, enterprise will maintain a long-term and stable working relationship with its employees. Enterprise usually recruits different types of employees to improve its resilience. It attaches importance to employee development and training and considers employees as its best investee. It tries to create a harmonious cultural atmosphere and good labor relations and pays attention to building a belonging consciousness for employees. 3) Involvement strategy means refers to a strategy falling in between attraction and investment strategies. It pays attention to building a sense of participation for employees. Enterprise gives much decision-making power to ordinary employees and makes most of them participate in decision making to improve their enthusiasm and creativity, so as to improve their sense of belonging and responsibility.

Currently, there are some researches on human resources management typology in China. Yang and Liu (2003) classify human resources management into three types: balance type, innovation type and response type. Balance type attaches great importance to internal and external balance and alignment and considers that human resources come from internal and external information exchange in an enterprise. This type emphasizes coordination and alignment. Innovation type attaches great importance to building organizational culture and considers that organization can create various innovative enterprise cultures to encourage innovative behaviors from employees. Response type means that enterprise responds to environmental changes and corporate strategy in a negative way. Human resources strategy is simply subject to enterprise strategy and considered as a follow-up strategy.

Zhao (2011) divides human resources management into investment, attraction and involvement types based on the role of enterprise in human resources management. Enterprise with investment type human resources management always recruits different types of employees in order to utilize their various professional skills, maintains a long-term and stable



working relationship with employees, and attaches importance to training and continuing education; employees are always guaranteed for their work and generally considered as investee by enterprise. Enterprise with attraction type human resources management will control the number of employees to the utmost extent mainly in order to control costs; employee recruitment and selection are relatively simple due to segmentation of most jobs, thus resulting in low training expenses; in general, enterprise will not consider employees as investee and maintains a simple and direct benefit exchange relationship with employees. Enterprise with involvement type human resources management will delegate a lot of decision-making power to ordinary employees and enables most employees to participate in decision making, so as to improve their initiative and creativity, strengthen their sense of belonging and reduce employee turnover rate. Ma, et al (2016) proposes that human resources management in Chinese enterprises includes two types: control approach and commitment approach. Control type focuses on supervision of procedure and performance process, while commitment type focuses on employee participation and high-end needs of employees. Ma and colleagues argue that control approach of human resources management is the premise of commitment approach and that local enterprises in China shall first build foundation for human resources management and adopt control approach well before promoting commitment approach human resources management.

## **2.3 Strategy and human resources management alignment**

### **2.3.1 Research on strategy and human resources management alignment**

Alignment is a two-way activity. As for corporate strategy and human resources management alignment, there are two key factors, i.e. corporate strategy and human resources management. The key link is the “alignment”, which means "be equal to" and "match with". According to the contingency theory, there is no optimal human resources model in enterprises. The impact of human resources management on organizational performance depends on its alignment with the strategy. If they align with each other, human resources management will have a positive effect on enterprise performance.

Kaplan and Norton (2006) defined the strategy alignment: Organization achieves harmony and consistency of various strategic characteristics inside the organization by a series of activities. Venkatraman (1989) argues that the real purpose of strategy alignment is to build and maintain a close and consistent relationship between human resources strategy and corporate

strategy.

The internal mechanism of human resources strategy and strategy alignment is: Preparation and implementation of enterprise strategy need support from human resources and enterprise may gain human resources advantages by planning and implementing proper human resources strategy to obtain economic benefits; during preparation of enterprise strategy, it will provides strategic direction for preparation and implementation of human resources strategy, help to improve efficiency of human resources management and create a much more favorable environment for planning and implementation of human resources strategy, thus to achieve sustainable enterprise development.

Due to the differences of strategy typology methods, different scholars propose their own opinions on strategy and human resources management alignment. They conduct different researches on relationships between enterprise strategy and human resources management according to different classification methods of strategy.

Based on the interactional and interdependent relationship between corporate strategy and human resources management, Lewin and Mitchell (1994) point out that corporate strategy and human resources management alignment can help enterprise to discover market opportunities, improve its internal organizational advantages, and help it to achieve its strategic objectives. Lengnickhall (1988) argues that, corporate strategy will affect and be affected by human resources management. They are interactional and interdependent. Human resources management is not the only factor in but has a direct impact on the formation of corporate strategy, so it is possible to align enterprise strategy with human resources management.

Andrew (2001) argues that along with increasingly fierce competition among enterprises, and increasing restructuring, acquisitions and mergers of the enterprises, human resources management must be able to adapt to environmental changes and align with corresponding corporate strategy. The most representative theories include: the theory of corporate strategy and human resources management alignment proposed by Miles and Snow; the commitment type and control type human resources management systems proposed by Bae (1997), which respectively correspond to differentiation strategy and cost leadership strategy proposed by Porter (1980).

Gomez-Mejia, Balkin, and Cardy (2008) discuss human resources aligning with the three competitive strategies proposed by Porter (1980): If enterprise adopts the cost leadership strategy, it mainly gains competitive advantages by low costs. Under such a mode, human resources management attaches great importance to effectiveness and low-cost production,

instead of creativity and innovation by employees. Therefore, human resources management aligning with the cost leadership strategy is the cost-reduction type. If enterprise adopts the differentiation strategy, it mainly gains core competence by innovation of products or services. Under such a mode, enterprise always owns a strong marketing capability and features product quality. Therefore, human resources management aligning with the differentiation strategy is the innovation type emphasizing innovation and flexibility. If enterprise adopts the focus strategy, this strategy combines cost leadership strategy and differentiation strategy, therefore human resources management aligning with this strategy are the combination of management under cost leadership strategy and differentiation strategy.

Strategy and human resources management alignment is a dynamic and sustainable process. Strategy and human resources management alignment results in three aspects of competitive advantages: (1) Achieve “strategic consistency”. Enterprise will gradually improves its executive force and adaptability, thus to better satisfy market demands. (2) Interaction between strategy and human resources management will effectively integrate flexibility, feasibility and cost planning on strategic human resources managements. (3) Strategy and human resources management alignment is in favor of continuously improving core competence.

### **2.3.1.1 Strategy typology proposed by Miles and Snow and human resources management alignment**

According to Miles and Snow (1984), what determines the success of enterprise is not a certain strategy type adopted. If the strategy adopted aligns with environment, technology and structure of enterprise, it will lead to success. According to the research conducted by Miles and Snow (1984), when enterprise adopts a different type of strategy, there will always be different human resources management type aligning with the strategy type (see Table 2-45). In addition, Gomez-Mejia et al. (1988) came to similar conclusions of Miles and Snow which are summarized as follows:

(1) When enterprise adopts the defender strategy, it faces narrow market and mainly emphasizes on production efficiency and cost control with centralized management mode inside organization. Human resources management aligning with this strategy mainly includes: 1) provide detailed and specific job descriptions; 2) perform short-term and result-oriented performance appraisals and focus on individual appraisals; 3) focus on basic training for employees.

(2) When enterprise adopts the prospector strategy, it needs to continually develop new products and markets with decentralized management mode inside organization. Human resources aligning with this strategy have characteristics as follows: 1) provide limited and informal work plans and inexplicit job descriptions; 2) talents are recruited mainly from external markets; 3) the salary system mainly focuses on external competition, instead of internal equity, with relatively high proportion of compensation changes.

(3) When enterprise adopts the analyzer strategy, it will seek for new products and market opportunities on the one hand, and will also maintain the stability of existing market on the other hand. Therefore, both stable and innovative employees are needed and human resources aligning with this strategy have characteristics as follows: 1) provide relatively explicit job descriptions; 2) perform both individual and group performance appraisals, most of which are short-term and process-oriented; 3) talents are recruited mainly from external market; 4) usually conduct continuous trainings; 5) the salary system focuses on internal fair performance. In general, allocation type human resources management is adopted.

#### **2.3.1.2 Strategy and human resources management alignment proposed by Schuler**

Schuler proposes three strategies: innovation, quality-enhancement and cost-reduction strategy (Schuler, 1989). The innovation strategy mainly focuses on providing differentiated products and services. The quality-enhancement strategy mainly focuses on improvement of quality (or service) quality. Enterprise adopting the cost-reduction strategy usually becomes the lowest-cost manufacturer to gain competitive advantages. As previously mentioned, Schuler divides human resources management into three types according to employment ideality, employee role, marketing environment and operating cost of enterprise: facilitation, accumulation and utilization. According to Schuler, different strategies need different employee role behaviors, thus requiring different human resources management practices. Table 2-5 shows the HRM practice forms aligning with the strategy types proposed by Schuler. The HRM practice form in line with the innovation strategy is helpful to cultivate cooperative employee behaviors, while facilitation human resources management model falls in between accumulation and utilization types and requires employees to gain technical capabilities and to maintain a good relationship with colleagues.

Usually, quality improvement also represents improvement of production process and method and employees always behave in a relatively repetitive and predictable way.

Table 2-4 Human Resources Frame Aligning with Strategy Type

Human Resources Management System	Type A (Defender)	Type B (Prospector)	Type AB (Analyzer)
Basic strategy	Building human resources	Acquiring human resources	Allocating human resources
Recruitment, selection, and placement	Emphasis: "make" Little recruiting above entry level Selection based on weeding out undesirable employees	Emphasis: "buy" Sophisticated recruiting at all levels Selection may involve pre-employment psychological testing	Emphasis: "make" & "buy" Mixed recruiting & selection approaches
Staff planning Training and development	Formal, extensive Skill building Extensive training programs	Informal, limited Skill identification & acquisition Limited training programs	Formal, extensive Skill building & acquisition Extensive training programs Limited outside recruitment
Performance appraisal	Process-oriented procedure (for example, based on critical incidents or production targets) Identification of training needs Individual/group performance evaluations Time-series comparisons (for example, previous years' performance)	Results-oriented procedure (for example, management by objectives or profit targets) Identification of staffing needs Division/corporate performance evaluations Cross-sectional comparisons (for example, other companies during same period)	Mostly process-oriented procedure Identification of training and staffing needs Individual/group/ Division performance evaluations Mostly time-series, some cross-sectional comparisons
Compensation	Oriented toward position in organization hierarchy Internal consistency Total compensation heavily oriented toward cash and driven by superior/subordinate differentials	Oriented toward performance External competitiveness Total compensation heavily oriented toward incentives and driven by recruitment needs	Mostly oriented toward hierarchy, some performance considerations Internal consistency and external competitiveness Cash and incentive compensation

Source: Adapted from Canadian Pacific Ltd, © 1980

They perform low-risk activities and keep organizational commitments. Enterprise adopting such strategy type requires employees to devote themselves to production or service process in a more dedicated way and gain the flexible ability. With fewer job classifications,

HRM practices of quality-enhancement strategy include timely feedback system and facilitated teamwork with decision making and responsibility becoming a part in job description for each employee, and job classification will be more flexible correspondingly.

The quality-enhancement strategy will promote employees' commitment to the organization and make full use of their human capital to create value. A small number of employees may also provide high output. As quality of products or services improves, demand for products will increase, and only partial employees are needed to complete the increased demand. The HRM practices of quality-enhancement strategy promotes quality enhancement by guaranteeing highly reliable behaviors of individuals and these individuals are regarded as a whole with organizational objectives. The corresponding accumulation human resources management emphasizes to treat human resources in the long run, pays attention to talent training, treats employees based on the principle of fairness, and focuses on developing employee skills and knowledge through training.

The characteristics of cost-reduction strategy include performing tight control, fund minimization, pursuing for economies of scale, primarily autonomous or individual activity, high concern for quality of output (goods or services) and a relatively high degree of comfort with stability. For such enterprises, the primary focus is to increase productivity, that is, output cost per person. This can mean a reduction in the number of employees and/or a reduction in wage levels. Cost reduction may also be pursued by increased use of part-time employees, subcontractors, work simplification, measurement procedures, automation, work rule changes, and job assignment flexibility. Therefore, cost-reduction strategy mainly aims at reducing the unit production cost per employee. The HRM practice form in line with the cost-reduction strategy maximizes production efficiency and minimizes costs mainly by monitoring and closely controlling the behaviors of employees in production or service. The corresponding utilization human resources management emphasizes that human resources management shall be regarded from a short-term perspective and provides less training for employees.

Based on the strategy typologies and alignment frameworks by Miles and Snow as well as Schuler, strategy and human resources management alignment is summarized in Table 2-5, 2-6:

Table 2-5 Human Resources Frame Aligning with Strategy Type

Strategy Type	Innovation Strategy	Quality-Enhancement Strategy	Cost-Reduction Strategy
HR Practices Type	Facilitation	Accumulation	Utilization
Human Resources Planning	Provide more flexibility and takes minimal control with high degree of participation by employees	Relatively fixed and explicit job descriptions	Relatively fixed (stable) and explicit job descriptions; Narrowly designed jobs and narrowly defined career paths
Employee Recruitment and Selection	Pay attention to external recruitment, select highly skilled employees, require close interaction and coordination among groups of individuals	High levels of employee participation in decisions relevant to immediate work conditions and the job itself	Mainly perform internal recruitment, reduce the number of employees and increase use of part-time employees
Training and Development	Allow employees to develop skills; Broad career paths to reinforce the development of a broad range of skills	Extensively and continuous training and development of employees	Minimal levels of employee training and development with fewer career paths
Performance Appraisal	Conduct performance appraisals based on long-term objective, it is more likely to reflect longer-term and group-based achievements	A mix of individual and group criteria for performance appraisal that is mostly short term and results oriented	Short-term, results-oriented performance appraisals
Compensation	Pay rates tend to be low, but allow employees to be stockholders and have more freedom to choose the mix of components (salary, bonus and stock options)	Relatively egalitarian treatment of employees and some guarantees of employment security; Emphasize internal equity; Provide some incentives	Adopt a hierarchical salary system and close monitor market pay levels for use in making compensation decisions

Source: Schuler (1989)

Table 2-6 Human Resource Management and Strategy Type Alignment

HR Practices Type	Defender Strategy/ Cost-Reduction Strategy	Prospector Strategy/ Innovation Strategy	Analyzer Strategy/ Quality-Enhancement Strategy
<i>Utilization</i>	<i>Aligned</i>	<i>Unaligned</i>	<i>Slightly unaligned</i>
<i>Facilitation</i>	<i>Unaligned</i>	<i>Aligned</i>	<i>Slightly unaligned</i>
<i>Accumulation</i>	<i>Slightly unaligned</i>	<i>Slightly unaligned</i>	<i>Aligned</i>
Human Resources Planning	Provide relatively fixed (stable) and explicit job descriptions; perform internal construction of human resources	Limited and informal; inexplicit job description; employees being given high flexibility; human resources obtained externally	Relatively fixed and explicit job description with allocation of human resources
Employee Recruitment and Selection	Mainly perform internal recruitment, instead of external recruitment; reduce the number of employees and increase use of part-time employees	Emphasize external recruitment, select highly skilled employees, require close interaction and coordination among groups of individuals, and need high recruitment and selection functions.	Combine internal selection and external recruitment
Training and Development	Formal training plans with narrow career paths	Provide limited training programs	Formal, extensive and continuous employee training & development
Performance Appraisal	Provide short-term, results-oriented performance appraisals; emphasize critical incidents or production targets	Adopt results-oriented procedure; it is more likely to reflect longer-term and group-based achievements	A mix of individual and group criteria for performance appraisal that is mostly short term and results oriented
Compensation	Compensation based mainly on position in organization hierarchy; emphasize on internal consistency	Emphasize individual performance; emphasize external competitiveness instead of internal equity; high-proportion compensation changes exist	Relatively egalitarian treatment of employees and some guarantees of employment security Compensation system takes both internal consistency and external competitiveness into consideration



### **2.3.2 Chinese researches on corporate strategy and human resources strategy alignment**

Currently, opinions on strategic incentive, strategic compensation and compensation strategy are proposed in Chinese researches on enterprise human resources management, and there are theoretical analyses based on related researches in western countries. However, there are no empirical researches on enterprise strategy and human resources policies alignment.

In addition, most Chinese researches on classification and alignment of strategy and human resources management are based on summaries of Western researches. Liu (2005) divides human resources into high and low level groups by clustering analysis and researches the different impacts of different human resources management practice combinations on enterprise performance in the high level group. Xu and Yang (2005) take more than 100 manufacturing enterprises as samples to research supportive human resources practices by regression analysis. According to the research results, there is a certain connection between supportive human resources practices and enterprise performance; the new product flexibility strategy has no effect on human resources practices, while the market modification flexibility strategy has an obvious regulating effect on the relationship between supportive human resources practices and enterprise performance. Zhang (2006) researches the relationship between human resources system and organizational performance, proposes the assumption about the relationship between human resources management activities and organizational performance and about the mediating effect of human resources management effectiveness, and takes the 133 sample enterprises as objects to perform empirical analysis. According to research results, only occupational promotion, performance management and compensation management in human resources management activities have a marked impact on “talent attractiveness”; training development management and compensation management have a marked impact on “enterprise skill level”; compensation management and employee participation have a marked impact on “enterprise employee motivation”. Liu and Zhou (2008) conduct research on four types of human resources practice forms proposed by Lepak and Snell. Their research mainly focuses on the optimal alignment pattern of human resources management practice combination and enterprise strategy. According to the research, on the one hand, enterprise strategy has an obvious impact on human resources practices; on the other hand, interaction between human resources management system and enterprise strategy causes an obvious impact on growth of enterprise profit and sales volume.

Jin and Wang (2001) argue that alignment management is an important human resources

management work. They also emphasize that alignment work plays an important role in improving staff utilization efficiency, enterprise performance and core competence. Luo (2003) describes the dynamic alignment model of human resources. He believes that, only if you are fully aware that human resources management alignment is a non-static and dynamic configuration procedure for human resources and business organization, you will provide employees with proper career development planning, thus to fully motivate their creativity and enthusiasm, improve enterprise productivity and obtain greater economic benefits. Cheng (2009) points out from other perspective that human resources must be treated based on the macro-strategy view in order to well achieve strategy and human resources management alignment. Han (2010) analyzes the significance and role of person-post matching. He proposes that, human resources management and enterprise strategy alignment shall be promoted from several aspects, including defining post responsibilities and incumbent requirements, aligning compensations with post contributions, preparing reasonable incentive systems, and preparing reasonable criteria for performance assessment. Wang (2011) points out that cost leadership strategy pays more attention to internal efficiency and cost minimization, reducing the impact of human capital on enterprise performance. Therefore, control type human resources management best matches. Enterprise adopting innovation strategy requires employees to be active and initiative and to make a long-term commitment to the enterprise. Thus, enterprise is required to take a long-term view to treat employees and adopt investment type human resources. Enterprise adopting quality type strategy requires employees to be highly involved and to have team capacity. Thus, involvement type human resources will satisfy these requirements. Li (2012) discusses the research framework for relationship between strategic human resources management and organizational performance and studies in depth their mechanism of action from five perspectives (including best practices, aligning methods, resource-based view, stakeholder and organizational learning).

Among researches conducted by scholars, some achievements have been obtained for researches on Chinese strategy and human resources management alignment. At the beginning, scholars mainly introduce western research results. Then, they verify, amend and supplement western research theories based on Chinese practices. Now, they perform reflective and innovative researches on problems in current research fields. These research results contribute to the development of research on strategy and human resources management alignment and guide the understanding and promotion of strategy and human resources management alignment in Chinese practices. However, as a whole, current researches on Chinese strategic

human resources management have some shortcomings, mainly including three aspects as follows: First, there are some researches on strategy and human resources management alignment in China. But theoretical researches and empirical researches in this field are not profound enough. Most of them reference and take in western theories. There are no unique Chinese systems and patterns currently. Second, results of researches on strategy and human resources management alignment focus on few topics. Therefore, deepening and development of research topics are an important direction for future deepening of researches on Chinese strategy and human resources management alignment. Third, logic of existing researches on strategy and human resources management alignment is divorced from enterprise management practices.

## **2.4 Summary**

By reviewing domestic and international literatures, it is found that there are gaps in previous researches on relationship between corporate strategy and human resources management, including the following aspects:

First, only a few two-dimensional researches on corporate strategy and human resources have been performed. In existing literature reviews, many scholars often take either strategy or human resources as an independent variable to conduct alignment researches when studying the corporate strategy and human resources management alignment, resulting in research findings which create an unequal relationship between strategy and human resources. Thus, it is unable to uncover the practical alignment relationship between them.

Second, as human resources are limited by inherent characteristics, it is difficult to perform empirical researches on human resources management and strategy alignment. Some scholars only reflect some part of human resources alignment with strategy when conducting researches on aligning factors of corporate strategy and human resources strategy. For example, Yang (2008) summarizes and discusses current situation and characteristics of compensation management systems in Chinese enterprises, propose basic approaches in order to achieve alignment based on basic framework, action mechanism and alignment pattern of compensation and strategy alignment, and finally suggests measures to promote enterprise strategy and compensation alignment. However, alignment between other dimensions of human resources and strategy is ignored in such researches.

Third, most existing researches on strategy and human resources management alignment

are performed by developed regions and countries such as Europe and America for local enterprises. In this case, findings of such researches are generally not applicable to Chinese enterprises.

According to above analyses and existing researches, this study tries to explore the current strategy type of Huabo Group under the condition of national medical reform and problems about strategy and human resources system alignment, and finally provides research results from emerging economy and implication for enterprises in similar context.

## **Chapter 3: Pharmaceutical Distribution Industry and Huabo Group**

This chapter describe the general situation of pharmaceutical distribution industry in which the Huabo Group is engaged and development of Huabo Group Huabo Group. The first part focuses on the development and changes of pharmaceutical distribution, highlighting the dynamic, complex and hostile environment that Huabo Group is facing. The second part focuses on the development of Huabo Group, in particular the evolutions of its strategy and human resource management. In order to better adapt to market demands, promote sustainable and healthy development, and improve competitive advantages, Huabo Group chose a strategy of scale expansion based on practical situations. To realize the strategy, Huabo Group explores markets in drug supply in hospitals vigorously in recent years and has obtained certain achievements. It establishes cooperative relationship for drug supply with more than 20 hospitals in Chongqing and actively integrates resources from its retail pharmacies to make the company bigger and stronger. Since its establishment in 2002, the human resources department of Huabo Group grows from non-existence to specialized function. Huabo Group has established human resources management system with key functions including talent introduction, talent assessment, talent training, performance appraisal, and compensation incentive systems.

### **3.1 Pharmaceutical distribution industry in China**

#### **3.1.1 General introduction**

Specifically, the commercial pharmaceutical distribution means that drugs are procured from pharmaceutical manufacturers and then sold by bulk to distributors, hospitals or pharmacies, in order to obtain profits from price differences in this process. The commercial drug distribution refers to a series of business activities connecting the upstream distributors to end users or customers. Table 3-1 summarizes the key milestones of pharmaceutical distribution industry in China, highlighting the transition from planned economy to market economy.

Table 3-1 Evolution History of Pharmaceutical distribution Industry

Commercial Evolutionary Stage of Pharmaceutical distribution Industry	1950-1983	1984-1998	1999-2014
Economic System	Planned economy	Mainly planned economy with complementary market economy	Market economy
Market Condition	Under conditions of central control and unified purchase and sale, drug demands exceed supply	With economy transition, the unified purchase and sale system is gradually abandoned	The marketization degree improves, national market regulation strengthens, merging, reorganization and acquisition emerge continuously
Competition Pattern	Under conditions of national monopoly and three-level wholesale, modes are regulated by levels	There is still national monopoly, but the three-level wholesale mode is broken Disordered competition increases	Under monopolistic competition market, competition intensifies
Main Market Player	Most of them are state-owned enterprises, such as China National Pharmaceutical Group Corporation	Most of them are state-owned enterprises, such as China National Pharmaceutical Group Corporation	The state-owned enterprises, private enterprises and joint venture enterprises coexist
Number of Wholesale Enterprise	About 2000	Over ten thousands	About 13000

Source: China Drug Retail Development Research Center (2015)

### 3.1.2 Recent development of Chinese pharmaceutical distribution industry

With fast growing global economy, ever increasing global population and fast aging population, there are increasing demands for drugs, so that global pharmaceutical markets have been always on the move. According to statistics, the growth rate of global medicinal and pharmaceutical substances in both 2015 and 2016 exceeds the GDP growth rate of that years. Although the pharmaceutical markets grows rapidly from 2012 to 2016, the growth rates of major markets are relatively low, only 3-6%. Along with development of Chinese pharmaceutical market, which is expected to be the second largest market in the world in 2020 with a global market share increasing to 7.5%, new national medical reform policies and industry management policies and standards are issued, driving the transformation of Chinese pharmaceutical market.

At present, the "Healthy China" policy which is listed in the thirteenth Five-Year Plan in fifth plenary session of the 18th CPC Central Committee will be implemented. A healthy China will better facilitate the transformation of pharmaceutical distribution enterprises and meet the growing health needs of the people. Moreover, the aging of the population provides a huge space for the growth of the pharmaceutical industry. China has the largest aging population in the world, and it will enter the rapid aging stage by 2020. China will, on average, increase 5.96 million aging population every year, with an average annual growth rate of 3.28%. By 2020, the aging population will reach a number of 248 million, and the aging level will reach 17.17%. Among the aging population, there will be 30.67 million elders who are 80 years old and above, accounting for 12.37% of the aging population. Demands for drugs will further increase. The demands for drug continue rising among people with chronic diseases. As living pressure of people increases and the environment is increasingly damaged, chronic diseases outbreak, and the death rate of chronic diseases is rising year by year. People attach more and more attention to chronic diseases, and the government continuously intensifies the implementation of universal health care system, in order to improve the drug affordability of the people. These favorable policies will bring ever-increasing drug demands and also provide favorable conditions for development of pharmaceutical distribution enterprises.

Driven by the above factors, in recent years, the pharmaceutical distribution industry gradually scales up. As seen from Figure 3-1, scales of pharmaceutical distribution markets increased around 20% since 2012. .

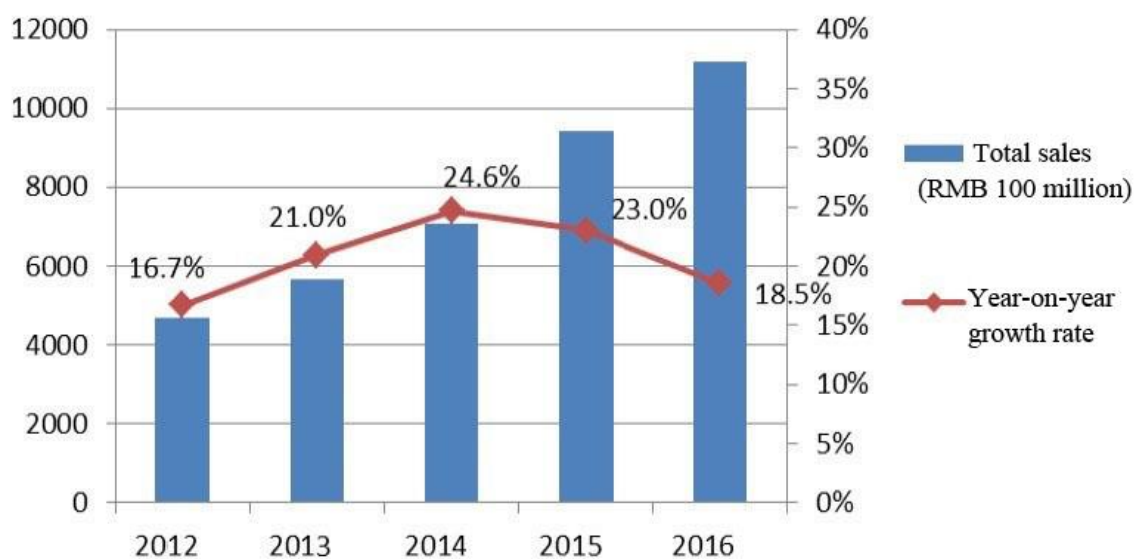


Figure 3-1 Sales Trends of Pharmaceutical Distribution Industry in Year 2012-2016

Data source: China commerce yearbook (2016)

In year 2016, the annual average gross profit rate of the industry is 6.8%, and the annual

average profit margin is 1.7%; the large pharmaceutical wholesalers have a growth rate of 19.4%, higher than the annual average level in the industry, and their annual average profit margin is 2.09%.

As for the number of enterprises, by June 2016, there are totally 14,900 pharmaceutical wholesalers and 3,570 retail chain enterprises in the industry with 5.17 million of employees; by the end of 2016, 17 pharmaceutical distribution enterprises have been listed in stock market with an average market value of RMB 15.254 billion.

The pharmaceutical distribution industry shows following characteristics in recent years:

(1) Growing retail markets

The pharmaceutical distribution market continues to grow stably. In next few years, Chinese medical system reform will continue developing both in scope and in depth. Due to the healthcare reform championed by the government, the coverage of Chinese basic medical system increases a lot covering national basic medical institutions run by local governments and 74.6% village clinics. A universal healthcare insurance system is now being implemented in China. Along with constantly deepening medical reform in China, basic medical institutions in urban and rural areas will be further improved with gradual improvement of public health service level. Under the primary medical reform policies, basic medical institutions continually improve their basic medical levels, leading to rapid growth of drug sales. Trial reform of public hospitals has been further promoted in recent years. Demands for drug markets will be increased continuously and the pharmaceutical distribution industry will continue growing. Therefore, it can be inferred that the annual growth rate of the pharmaceutical distribution industry will maintain 12%-15%. However, the development rate of large pharmaceutical wholesalers and pharmaceutical logistics enterprises will be close to 20%, and the growth rate of pharmaceutical e-commerce enterprises will exceed 20%. In 2016, sales of the top 100 drug retail enterprises account for 34.3% in the drug retail market. Sales of the top 5, top 10 and top 20 enterprises account for 9.6%, 16.3% and 22.9% respectively. Among top 100 drug retail enterprises, the lowest sales amount is RMB 135 million; there are 19 enterprises with sales of more than RMB 1 billion



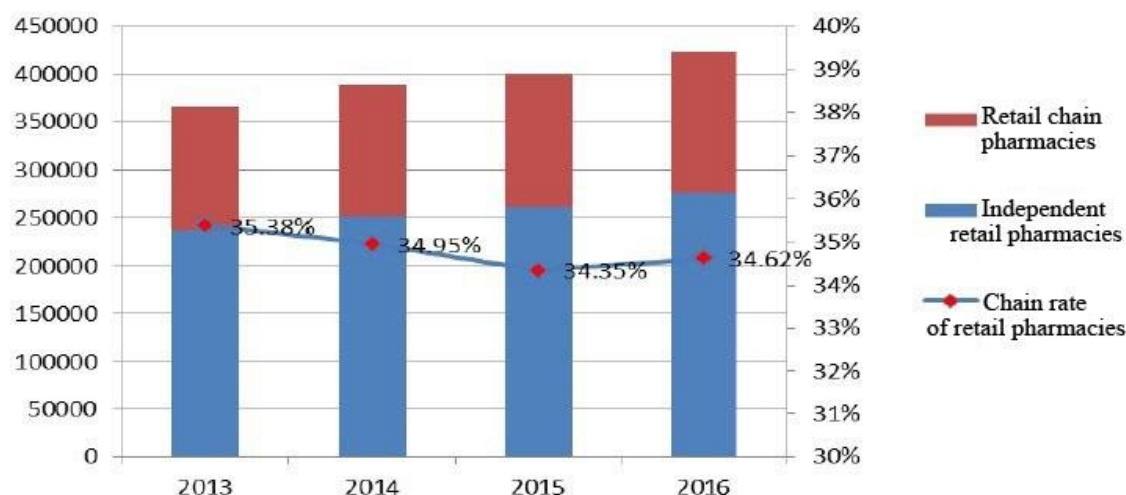


Figure 3-2 Number of Retail Pharmacies in Year 2013-2016  
Data sources: China Industrial Information Network

## (2) Increasing concentration of wholesale markets

With increased market concentration, the pharmaceutical distribution industry is experiencing structural changes. According to the requirements of the 12th Five-Year Plan, China will successively introduce reform and development policies especially for the pharmaceutical distribution industry. Along with the issuing of *Good supply practice for pharmaceutical products*, regulatory policies for the pharmaceutical distribution industry will be adjusted. In this standard, enterprises are required to establish a computer management information system, drug buying and selling channels are also strictly controlled, and storage temperature are required to meet certain requirements. In addition, it requires strengthening invoice management and regulation of drug transport link. These practices will enhance barriers for market access of the pharmaceutical distribution industry and bring profound impact on the industry development.

Moreover, the “Two-Invoice System” will bring significant adjustments to the current pharmaceutical distribution pattern. For enterprises engaged in distribution of clinical products, redundant links will be cut, including invoicing circulation business and businesses of level II and above. Only Level I business will be kept. In a word, the business environment will be changed, “the strong gets stronger and the weak disappears”. The industry concentration will be further improved, large pharmaceutical enterprises will get bigger and stronger, while small pharmaceutical enterprises will gradually disappear. It is estimated that, 10,000 out of 13,000 pharmaceutical distribution enterprises will disappear. Currently, there are 15 listed pharmaceutical distribution enterprises. In addition, some other enterprises are also prepared

for listing. Along with development of the pharmaceutical distribution industry, there will be more pharmaceutical distribution enterprises being listed in stock market. Then, these enterprises are able to become bigger and stronger and continuously improve competitiveness by capital operation. Under the influence of IPO acceleration, industry refinancing and other factors, the capital operation of the pharmaceutical distribution industry becomes more perfect and more promising. For enterprises with terminal teams, the implementation of the "Two-Invoice System" has little influence, because large enterprises can strategically cooperate with large commercial companies. In addition, it is unnecessary to attract investment at a floor price for exclusive drug types as enterprises are financially able to build their own teams. Brand manufacturers with regulated management and self-built terminal teams are always confident. For enterprises building their own teams to develop terminals, there is little impact of policies on them, so that they can even implement the "One-Invoice System". The implementation of the "Two-Invoice System" will make life much more difficult for those pharmaceutical enterprises without terminals and brands. Such a situation will greatly promote the regulation of the pharmaceutical production industry.

In 2016, business incomes of top 100 pharmaceutical wholesalers account for 64% in total business incomes of national pharmaceutical wholesalers, increasing by 1% when compared to 2015. The business incomes of top 10 wholesalers account for 41.9%, increasing by 2.3% when compared than 2015. The business incomes of top 3 pharmaceutical wholesalers account for 28.8%, increasing by 2.2% when compared than 2015. It can be seen that the top pharmaceutical wholesalers drive the industry concentration. As for business incomes, there are 10 enterprises with an income of more than RMB 10 billion, increasing by 2 enterprises when compared to 2015. As illustrated from Figure 3-3, enterprises with main business incomes of more than RMB 10 billion develop quickly and their market shares increase 5% on year-on-year basis; enterprises with incomes of RMB 5-10 billion have their market shares decrease by 2%; enterprises with incomes of RMB 1-5 billion have their market shares remain the same with those in 2015.

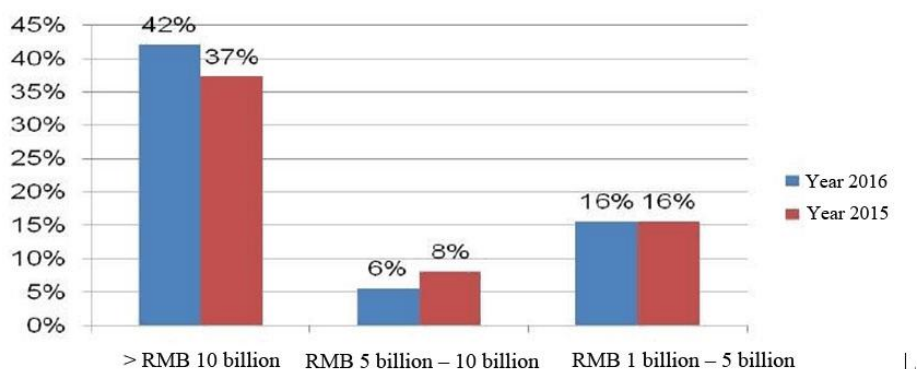


Figure 3-3 Percentages of Business Incomes of Pharmaceutical Wholesalers with Different Scales in National Market

Data sources: China Industrial Information Network

### (3) Changes in pharmaceutical distribution and service models

Currently, the pharmaceutical distribution industry shows trends of market flattening, rise of primary medical care and drugs being brought into the public. Therefore, the profit model and commercial service mode face challenges. Along with the development of medical reform, the whole industry may grasp this opportunity to give full play to advantages of industry innovation and technological innovation, so as to continuously improve the supply chain management and enrich service modes.

Due to implementation of new medical reform, supporting measures and market competition, the gross profit rate of this industry will be further reduced, resulting in severe challenges faced by the traditional business mode. The core competence of pharmaceutical distribution enterprises lies in the innovation of service and business modes, promotion of information technology application to business administration, and improvement of supply chain management. Competitive enterprises will develop value-added pharmaceutical distribution services and have a demonstration effect on other enterprises in the industry. More enterprises will learn from and imitate others and continually deepen and enrich services provided. On this basis, they establish new partnership with downstream customers and upstream suppliers, and reasonably integrate resources, so as to achieve mutual benefit and win-win result, driving the pharmaceutical distribution industry to change to whole industry chain service mode. Along with extended logistics services for hospital drugs, a series of new service modes emerge, including hospital logistics management system, undertaking the peripheral management for hospital drug storehouses, undertaking the pharmacy operation of hospitals and undertaking the pharmacy functions of community health services centers.

Moreover, the application of modern information technologies promotes the comprehensive transformation of the industry. With the continuous progress of "Internet +", the transformation of the pharmaceutical distribution industry through informatization will be further deepened. The pharmaceutical distribution mode based on e-commerce will become a common phenomenon in the industry, and the massive health data will be applied to the pharmaceutical e-commerce, thus forming a new pharmaceutical distribution supply chain system. The interconnected, smart, professional and transregional development of pharmaceutical logistics and service systems, and satisfaction of personalized customized demands will greatly promote seamless connection of hospitals, doctors, patients, pharmacies, enterprises and governments, thus forming an ecosphere of the massive health industry. The traditional pharmaceutical distribution industry has been performed with drastic reform by information-based means, and e-commerce will greatly change the external environment of pharmaceutical distribution enterprises.

#### (4) Decreasing profit margin

Profits for pharmaceutical distribution are affected by many factors. The first pressure comes from reduction of drug prices. In order to increase urbanization, promote household consumption, and guarantee urban residents' medical care, the National Development and Reform Commission reduced the price of medicines twice guiding the pharmaceutical industry to adapt to the reform of medical and health policies. Therefore, the pharmaceutical distribution industry has experienced twice reductions of drug prices on a large scale. Related drugs mainly include immune regulation drugs, blood products, digestants and antineoplastic drugs. The average price cut is about 17%. Second, hospitals continually extend the time to pay the drug distributors, resulting in increasing pressure for cash flow of pharmaceutical distribution enterprises. Third, along with changes of drug use, administration and tendering procurement policies, enterprises face greater pressures for profits. Under such conditions as the rising operating costs of retail enterprises, the policies about increasingly strict controlling costs in health insurance, and the issuing of policies about no added costs in drugs by regulators, the profit margin of retail pharmacies become increasingly smaller.

Chongqing pharmaceutical distribution market where Huabo Group is based, is one of the top ten domestic markets in China. According to 2016 transaction data published by Chongqing Drug Exchange, there are 577 pharmaceutical wholesalers, 43 drug retail enterprises and 10,500 retail pharmacies. Excluding distribution and allocation businesses among pharmaceutical wholesalers, there are about 50 enterprises with sales revenue more than RMB 100 million for

products selling to medical institutions, pharmacies and clinics. Most of the enterprises have sales revenue of tens of millions RMB and they are invoicing circulation platform (The platform refers to pharmaceutical circulation enterprise that can issue formal invoices. In pharmaceutical industry, pharmaceuticals and customers are the most important resources. Sometimes, a team or a natural person has core technology, but they are not willing to pay the cost to set up a company. Therefore, they carry out the pharmaceutical sales business by aid of pharmaceutical circulation enterprise, and pay some fees (company operating expenses, taxes, etc.) to the platform, and the remaining profits are owned by the team or the natural person) Chongqing pharmaceutical distribution market is characterized as numerous enterprises with small scales and low profitability.

On December 30, 2016, Chongqing issued the *Implementation plan of "two-invoice system" for drug procurement in Chongqing public medical institution (trial)*, which has been implemented since December 31, 2016. This document determines that all public medical institutions (including public basic medical institutions) are required to fully implement the “Two-Invoice System”. Enterprises get more opportunities than challenges to directly cooperate with upstream manufacturers. This shows obvious development trends of the pharmaceutical industry: pharmaceutical e-commerce (big data integration, moving to the massive health industry), pharmaceutical logistics (third-party logistics), undertaking of medical service functions, business development brought by in-depth medical system reform, which will become new competitive advantages and profit growth points for the pharmaceutical distribution industry.

Above all, the pharmaceutical distribution industry in which Huabo Group is engaged shows as the characteristics of dynamism (constant change and reform), complexity (with influence from government, technology and competitors) and hostility (competition and consolidation) for its external environment. These attributes result in uncertainty of the external environment, especially in adjustment and changes of government policies. On April 26, 2016, the China State Council issued the *2016 List of major tasks in furtherance of the healthcare and pharmaceutical reforms*, requiring pilot provinces for comprehensive health care reforms to promote the “Two-Invoice System” provincially (only one invoice will be issued respectively from manufacturers to distribution enterprises and from distribution enterprises to medical Institutions) and actively encouraging pilot cities for comprehensive public hospital reforms to promote the system, so as to optimize drug purchasing and selling orders, reduce distribution channels and support medical service price reforms. Thus, business concentration will be

further improved. Promoted by the Chinese government policy of encouraging pharmaceutical distribution enterprises to realize mass business by means of merger and acquisition, regulation of the pharmaceutical distribution industry shows a large-scale trend. Under control of medical insurance costs and implementation of tighter industry policies for hospitals, the growth of the pharmaceuticals industry further slows down. It is expected that the industry growth rate in the future will be close to that of GDP. In the period ahead, structural adjustment will be the industrial trend and the pharmaceuticals industry will gradually pay attention from extensive quantity growth to refined quality improvement.

## **3.2 Overview of Huabo Group**

### **3.2.1 Introduction of Huabo Group**

On April 25, 2002, the Chongqing Huabo Pharmaceutical Co., Ltd. (the predecessor of Huabo Group) was founded. On August 15, 2005, Chongqing Huabo Pharmaceutical Co., Ltd. held a stockholders' meeting and decided to increase the capital by RMB 9 million, thus the registered capital increased from RMB 1 million to RMB 10 million. On January 9, 2006, Chongqing Huabo Pharmaceutical Co., Ltd. held a stockholders' meeting and decided to change the company name to Chongqing Huabo Pharmaceutical Group Co., Ltd. After many years of development, Huabo Group expands its business scope so far to include drug wholesale; sale of health food; wholesale of prepackaged food; wholesale of type II and III medical apparatus and instruments; sale of daily-use chemicals and disinfection preparations (excluding dangerous chemicals); cosmetics, market information consultant, acquisition of traditional Chinese medicinal materials, storage of goods (excluding dangerous chemicals) and self-owned house rent; sales of the following products: electric products, electric appliances, electronic products (excluding electronic publications), household appliances, mechanical and electrical products, sport equipment, experimental instruments/equipment/supplies, chemical products (excluding dangerous chemicals), medical models, computer software/hardware and auxiliary equipment, communication equipment (excluding satellite ground receiving and transmitting equipment), science and education equipment, biological specimens, labor protection appliances (excluding special labor protection appliances).

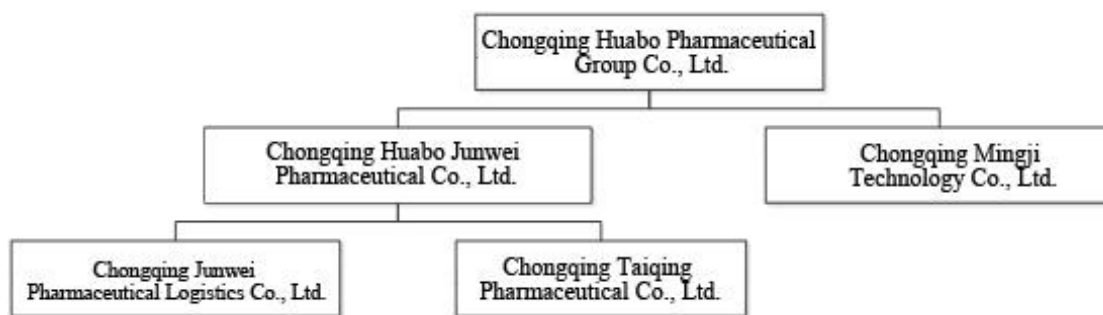


Figure 3-4 Corporate Structure of Subsidiary Corporations in Huabo Group

After years of development, Huabo Group has formed a diversified business mode focusing on drugs. This study mainly focuses on the pharmaceutical business of the group. The main companies in the medicine fields of Huabo Group which are engaged in military health service, agent allocation, commercial distribution, and pharmaceutical industries are discussed as follows:

(1) Funded in 2002, Chongqing Huabo Pharmaceutical Group has been mainly engaged in drug operations and sales since its establishment, and it is the controlling shareholder of some companies as follows. At the end of 2014, the decision-making level in the group company defined Huabo Pharmaceutical as an investment management company. Since it has long been the in-stock supplier of the Medicinal Materials Station of General Logistics Department of the People's Liberation Army, it mainly participates in bidding projects for materials of military health services. At the beginning of 2015, the group company has finished construction of pharmaceutical e-commerce, and the website 366eyao.com has been launched on December 8, 2015.

(2) Chongqing Huabo Junwei Pharmaceutical Co., Ltd. (hereinafter referred to as “Huabo Junwei”) is the main part of Huabo Group (shown in figure 3-4). It is positioned as military health and logistics materials service enterprise. As a regional pharmaceutical commercial enterprise with relatively complete business qualifications, it is mainly engaged in wholesale business of drugs, medical apparatus and instruments, and it mainly conducts business by procuring drugs, medical apparatus and instruments from drug manufacturing enterprises and pharmaceutical distribution enterprises to sell by bulk to hospitals, primary medical institutions, military medical procurement departments and pharmaceutical distributors. The business mode of direct sales and purchasing of hospitals is to obtain distribution qualifications by participating in centralized drug procurement bidding among medical institutions and then sell the contract awarded products to medical institutions to make profits from price difference. Customers mainly include primary, secondary or tertiary hospitals (hospitals in China are organized

according to a 3-tier system that recognizes a hospital's ability to provide medical care, medical education, and conduct medical research. Based on this, hospitals are designated as Primary, Secondary or Tertiary institutions) or primary medical institutions. The company will sign annual purchases and sales agreements with customers at the beginning of each year and has established a long-term good partnership with major customers. Currently, major hospital customers include: the Third Affiliated Hospital (Daping Hospital) of the Third Military Medical University, the First Affiliated Hospital (Southwest Hospital) of Third Military Medical University, PAP Corps Hospital of Chongqing, the maternal and child health hospital of Changshou District of Chongqing, the Hospital of Traditional Chinese Medicine of Changshou District of Chongqing, and the People's Hospital of Changshou District of Chongqing. The company utilizes its network coverage rate formed in Chongqing and its districts and counties to obtain the sole distributor right in these regions authorized by pharmaceutical manufacturer, so as to expand the market share and regional coverage rate. Currently, the company is the sole distributor in Chongqing of Guizhou Bailing Enterprise Group Pharmaceutical Co., Ltd. The company obtains military health service suppliers qualification by participating in open tendering organized by military health service procurement departments, or the company becomes the in-stock supplier of the former General Logistics Department of PLA, the Logistics Department of the former Chinese Armed Police Force and the former military logistics departments of military regions to directly supply materials. The company is establishing and developing the third-party logistics, warehousing and distribution business, in order to provide more efficient warehousing and distribution service for drug manufacturing enterprises and downstream customers, reduce pharmaceutical distribution costs, and achieve a resource sharing model such as drug storage on a commission basis, joint storage and co-administration, and third-party distribution, create benefits for the company. The commercial activities of the company mainly include:

1) Supply materials for military health services, including:

a) The sole supplier of military first-aid packets for the liberation army and armed police; the company has supplied first-aid packets for Chengdu Military Region, Guangzhou Military Region, Shenyang Military Region, the Medicinal Materials Station of General Logistics Department of the People's Liberation Army, Ningxia People's Armed Police (PAP) Corps , Gansu PAP Corps, Hainan PAP Corps, Chongqing PAP Corps, the Medicinal Materials Station of General Logistics Department of the People's Armed Police. b) Military silver ion underwear; The company introduces raw materials from America and commissions other manufacturers to



produce samples for trial by the General Logistics Department of the People's Armed Police. c) Participating in bidding projects of liberation army and armed police and performing material assembly and distribution for contract awarded projects. d) Huabo Junwei is the sole in-stock supplier of the Materials Purchasing Station of the General Logistics Department of the People's Armed Police in Chongqing.

2) Direct sales to hospitals: a) the sole supplier of the PAP Corps Hospital of Chongqing; b) the approved suppliers of the People's Hospital of Changshou District of Chongqing, the Hospital of Traditional Chinese Medicine of Changshou District of Chongqing, the maternal and child health hospital of Changshou District of Chongqing, and affiliated hospitals of the Third Military Medical University.

3) Distribution: the sole distributor in Chongqing of products of Guizhou Bailing Enterprise Group Pharmaceutical Co., Ltd., covering 10 Tier One suppliers and 76 Tier Two suppliers, with the selling network covering administrative regions under the jurisdiction of Chongqing.

### **3.2.2 Current status of Huabo Group**

In the profit structure of Huabo Pharmaceutical, pharmaceutical distribution accounts for 85%, including earnings from directly distributing drugs to the PAP Corps Hospital of Chongqing, more than 40 district hospitals and more than 700 pharmacies. Other 10% profits come from earnings of bulk drug allocation, which mainly performs temporary drug allocation for other pharmaceutical suppliers related to the business. The rest 5% profits mainly come from earnings of proprietary pharmacies and agency incomes of some pharmaceuticals.

However, when compared with the largest pharmaceutical distribution enterprise in Chongqing - Chongqing Pharmaceutical (Group) Co., Ltd. and the second largest- Chongqing Tongjunge Co., Ltd., Huabo Pharmaceutical has no advantages over business scale and income. The total drug sales of the above two enterprises take account of around 60% in the total market share of Chongqing.



Figure 3-5 Distribution of Major Clients in Huabo Group

As the industry concentration is constantly improving, the above two enterprises are easy to further occupy the market with their scale advantages. Huabo Pharmaceutical is less competitive, which is mainly reflected in the following aspects.

(1) The Chongqing Pharmaceutical (Group) Co., Ltd. and the Chongqing Tongjunge Co., Ltd. take control over upstream pharmaceutical manufacturing enterprises by merger and acquisition. Thus these two companies have an advantage on the bargaining power against the suppliers. However, Huabo Pharmaceutical has a relatively small scale and it is difficult with current strength to take control over upstream pharmaceutical manufacturing enterprises. Therefore, it has relatively weaker bargaining power against the suppliers. So that Huabo Pharmaceutical will be in a passive position in case of fluctuations in drug prices.

(2) From the perspective of sales terminals, the Chongqing Pharmaceutical (Group) Co., Ltd. and the Chongqing Tongjunge Co., Ltd. have acquired the majority of hospital terminal customers in Chongqing, which have become a stable marketing channel for pharmaceuticals. In addition, the numbers of retail chain pharmacies of these two enterprises are far more than

that of Huabo Pharmaceutical. Currently, Huabo Pharmaceutical has more than 600 franchised retail pharmacies. However, most of these pharmacies do not depend on Huabo Pharmaceutical for drug supply. They have business transactions with many other pharmaceutical suppliers. Therefore, Huabo Pharmaceutical is less competitive than the above two enterprise both in the number of terminal pharmacies and retail pharmacies.

(3) As for logistics and distribution capability, both the Chongqing Pharmaceutical (Group) Co., Ltd. and the Chongqing Tongjunge Co., Ltd. have established large-scale pharmaceutical logistics centers and have significant advantages over drug distribution. The proposed pharmaceutical logistics center of Huabo Pharmaceutical is currently at an initial stage. It is still a long time for Huabo Pharmaceutical to be able to compete with them. With the establishment of the pharmaceutical logistics center of Huabo Pharmaceutical, its allocation capability for bulk drugs will be further enhanced, and its capability to supply drugs to its chain pharmacies and other parties with cooperative willingness will be further improved, which will help to strengthen existing distribution channels.

Huabo Pharmaceutical faces a high degree of threats from competitors mainly due to transformation and reform of the industry, which brings opportunities to new enterprises. The bargaining power of customers is increasing, which is due to the increasing selectivity caused by the increasing competition in the pharmaceutical distribution industry. However, customers do not have a strong bargaining power on essential drugs and specific drugs. In terms of the bargaining power of suppliers, due to the fierce homogeneous competition in the industry and the construction of suppliers' distribution channels, the bargaining power of Huabo Pharmaceutical is weakened accordingly. As for alternatives, although the external impact is relatively small, the alternative e-commerce services brought by internet are increasingly strengthened. Finally, from the perspective of current market scale, the Chongqing Tongjunge Co., Ltd. has a large market share, while Huabo Pharmaceutical has no comprehensive ability to compete with regional industry leaders. However, Huabo Pharmaceutical can form its unique competitive advantages by adopting differentiated competitive strategies. The following figure 3-6 illustrates and summarizes the industrial context of Huabo Pharmaceutical.

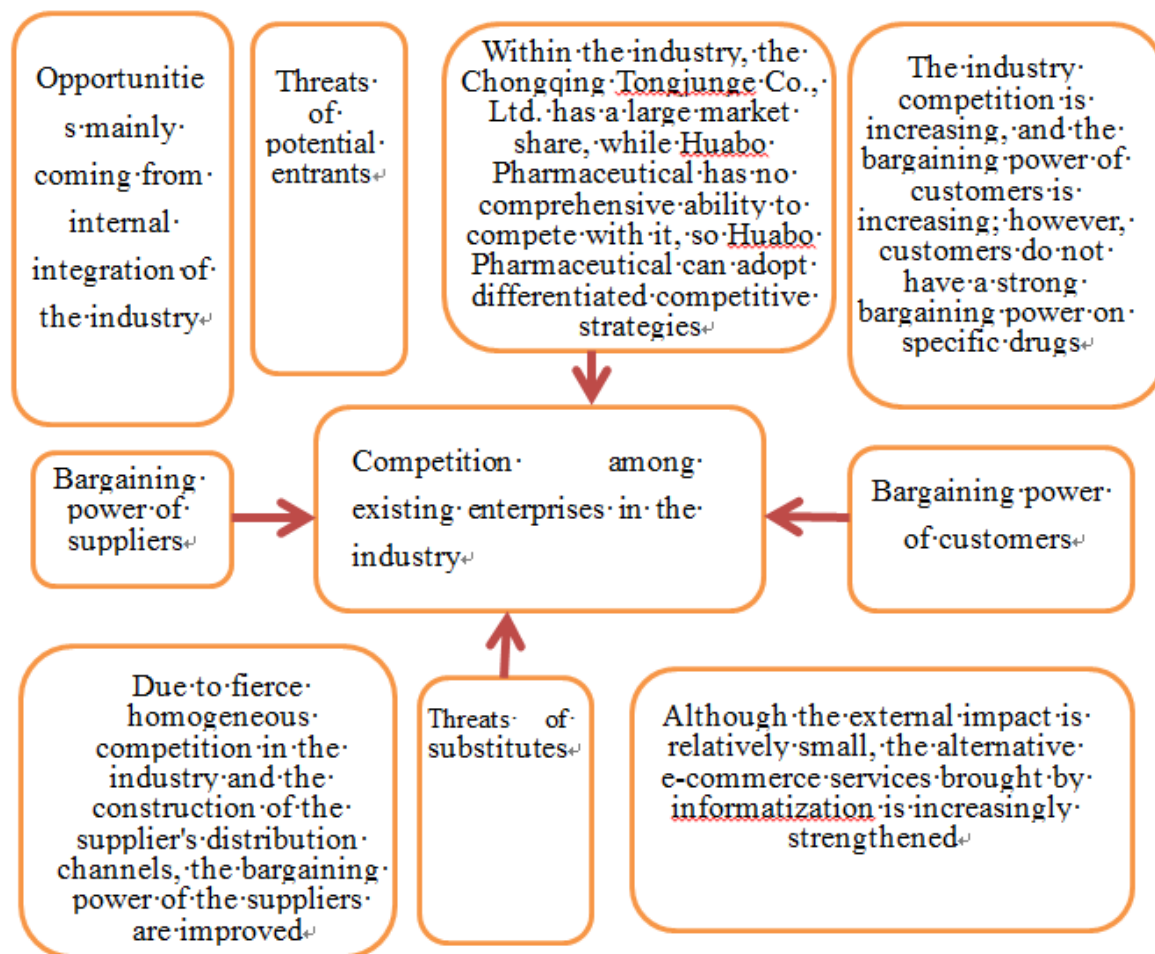


Figure 3-6 Analysis of Pharmaceuticals Industry Related to Huabo Group

### 3.3 Pharmaceutical business strategy of Huabo Junwei

The year 2009 was critical for China to vigorously promote the system of drug bidding and tendering on Internet and the medical compensation system, and to abandon the dependence on drug-sales to support hospital operation (Due to insufficient financial funding from government, Chinese public hospitals have to make profits from selling drugs to patients to maintain hospital operation which lead to many problems). Such policy changes cause certain impact on implementation of original strategies in the enterprise. To adapt to the environment, the company formulated the strategy of scale expansion. To realize the strategy, Huabo Group explored markets for drug supply in hospitals vigorously in recent years and has obtained certain achievements. It establishes cooperative relationship for drug supply with more than 20 hospitals in Chongqing and actively integrates resources from its retail pharmacies to make the company bigger and stronger. The development practices in recent years show that, the development orientation determined by the company at the beginning is correct and its

understandings of its own characteristics, development goals and environment are in line with objective practices. However, along with development and growth of the industry and the implementation of Good Supply Practice (GSP) certification, the concentration rate of the pharmaceutical distribution industry in Chongqing market has been increasing continually and two large-scale pharmaceutical distribution enterprises occupy most of the market: the Chongqing Pharmaceutical (Group) Co., Ltd. and the Chongqing Tongjunge Co., Ltd. Faced with operating pressures such as declined profit margin, industry concentration, and unprecedented challenges such as medical system reform and online finance, the company has to make correct judgments on its market positioning and strategic development direction. The two large-scale pharmaceutical distribution enterprises – the Chongqing Pharmaceutical (Group) Co., Ltd. and the Chongqing Tongjunge Co., Ltd. have overwhelming advantages over both market size and the capabilities of drug allocation and distribution. Most pharmaceutical distribution enterprises are generally difficult to compete with them.

Huabo Group is designed to be a military-civilian integration development enterprise which provides integrated distribution services on medical equipment and medical war material for logistics organizations of the Chinese People's Liberation Army, the Chinese People's Armed Police Force, and some local Armed Forces. Meanwhile, it is also engaged in the research, development and production of medical equipment and it is gradually transforming from a traditional pharmaceutical distribution company to an enterprise undertaking integrated business operation of researching, producing and selling medicine as well as medical equipment. At present, the pharmaceutical distribution industry is in a low-profit era. The company needs to enhance its core competitive advantages of its primary operations, promote business integration and business model innovation, so as to improve its competitive advantages in the industry and achieve its brand effect.

Based on this, Huabo Pharmaceutical will combine integrated military-civilian development, target tasks of overall construction of modern logistic and combat-support disciplines and reforms of medical and health service institutions and adopt stable exchanging-investment-for-market and integrating resource strategies, so as to establish a modern pharmaceutical enterprise with a characteristic of military and civilian integration, and to gradually develop into an integrated supplier for massive health services. In addition, the “Health China” strategy is helpful for transformation and upgrading of pharmaceutical distribution enterprises.

For Huabo Group, the implementation of “Two-Invoice System” will lead to

transformation of its management mode. From the perspective of the industry, the urgent task of pharmaceutical manufacturer enterprise in the implementation of the "Two-Invoice System" is to find a suitable pharmaceutical distribution cooperation to issue the "First Invoice." Besides, due to high cost, the direct medical distribution from pharmaceutical manufacturer companies to county-level pharmaceutical distribution companies in each province is impossible, thus it is required that the selected pharmaceutical distribution companies are equipped with terminal networks that meet the needs of pharmaceutical manufacturer company. For pharmaceutical manufacturer companies, after the business tax is replaced by Value-Added Tax (VAT), formal invoices including marketing, service, and advertising expense are tax-deductible. The problem is rooted in agents. Pharmaceutical manufacturer company which previously issued "lower-nominal-amount-invoice" (the amount shown on the invoice is less than the actual amount) now turns to "higher-nominal-amount-invoice" (the amount shown on the invoice is more than the actual amount). Besides, when issuing value-added tax invoices, pharmaceutical distribution enterprises must obey the rule of issuing legal invoices after the business tax is replaced by Value-Added Tax, so as to allow pharmaceutical manufacturer companies to get reimbursement easily. The key point is the tax paid by pharmaceutical manufacturer companies and pharmaceutical distribution enterprises have both increased, leading to lower profit. Besides, for most enterprises, the most important and difficult problem is how to get these legal invoices. Especially for small agents (small scale pharmaceutical distribution enterprises), they need terminal promotion expenses. How to get proper invoices becomes the toughest task. However this creates opportunities for Huabo to develop partnership with or to acquire the small players in the industry.

Faced with a fiercely changing external environment, defender strategy may finally make companies out of the market. Compared with defender strategies, analyzer strategy tries to explore new development opportunities; however, their main business operations still focus on traditional products and services. Besides, enterprises also face with huge impact of the pharmaceutical industry reform. All these situations make enterprises adopting the analyzer strategy be in a passive position in market competition. Therefore, faced with such fierce environment, the only way for enterprises that want to maintain unique advantages in fierce competition is to adopt prospector/innovative strategy. Such strategy will continually push the enterprises make innovations in business strategies, processes, technologies, products, and organizations. Through products and market development, enterprises increase market share and move forward in the direction of large-scale pharmaceutical commerce and the goal of

long-term survival and development will be achieved finally.

Part of a prospector strategy by Huabo is to pursue mergers and acquisitions (M&A). Through M&A, enterprises can realize economies of scale by absorbing main operations, network, channels, and human resources of the merged company. Those sources will have a major impact on enterprises development and strategy adjustment. Due to fierce competition in the pharmaceutical market, if Huabo cannot seize the opportunity to merge small enterprises in the industry, the competitors will take the opportunity. In addition, compared with large-scale pharmaceutical distributors in the industry, Huabo does not have absolute advantages in its scale and operating capabilities. Therefore, mergers and acquisitions strategy leading to operation scale expands is a necessary choice for Huabo Group to compete with its competitors in the industry. Furthermore, the competition in China's pharmaceutical distribution industry is fierce and the profit will be further reduced; scale operation will gradually become the main profit-gain method. And then, the continuous opening up of the medical distribution market and the active cultivating of large-scale pharmaceutical distribution companies by national policies have further increased the concentration of the pharmaceutical distribution industry. Such kinds of market environment make scale operation become feasible. Finally, Huabo Group has a word-of-mouth and excellent brand effect. Therefore, other enterprises in same industry are willing to work with Huabo.

Another part of prospector strategy by Huabo Group is strategic alliance, because strategic alliance enables Huabo to cooperate extensively with other enterprises even though Huabo is restricted by enterprise's resources and abilities in market expanding process. Besides, the development of pharmaceutical distribution companies also needs to minimize market risks by extensive market cooperation. In market expanding process, the company will select partners based on principle of resources complementary. Sometimes, in order to enter a new market, enterprises may also cooperate with competitor so as to mutually benefit from cooperation. In addition, Huabo Group needs to focus on establishing good relationship between suppliers and customers, through the establishment and maintenance of various such kinds of friendly relationships to enhance the stability of the entire supply chain and improve its core competitiveness. Specifically, Huabo plans to develop the following.

(1) Alliance with armed-police medical and sanitary institutions

With the support of the Armed Police Headquarters, the cooperation model with Chongqing Armed Police Corps Hospital will be replicated with the Sichuan Armed Police Corps Hospital. Because the Armed Police Corps Hospital Preparedness Division has to deal

with emergency frequently, their demand on timely and quickly medical distribution is high. Huabo Pharmaceutical Group will acquire a pharmaceutical wholesale enterprise in Chengdu, a city next to Chongqing and employ local-oriented management and operation mode by distributing medical resources in the nearest place, paying local tax and hiring local workers. Meanwhile, Huabo Pharmaceutical Group strives to become one of the investment managers of these institutions. Therefore, it undertakes the mission of medical and service supply to those medical and sanitary institutions. By taking these efforts, it further promotes the in-depth development of the pharmaceutical e-commerce and pharmaceutical logistics management system. Consequently, Huabo Pharmaceutical Group is on its way to become investors, service providers as well as data integrators in servicing the armed-police medical and sanitary institution

### (2) Development of Pharmaceutical Logistics Center

Taking local features and geographical environment of various counties in Chongqing into consideration, based on the guidance of “one logistics center + two logistics bases”, Huabo Pharmaceutical Group has established a logistics center at the Chongqing Highway logistics base, and then, another two logistics bases are built in east and west of Chongqing to realize the logistics coverage of the surrounding provinces and cities in and nearby Chongqing.

### (3) Development of Pharmaceutical E-Commerce

First, Huabo will integrate current product resources, medical institution resources (doctors, pharmacists, clinical information and patients), chain terminal outlets (nearly 700 chain drugstores), and commercial distribution networks; carry out targeted and differentiated-orientated platform operations; integrate offline operations with online sales and construct online platforms and offline logistics centers to achieve information sharing within Chongqing area on logistics and funds; second, followed by the promotion of national policies and the increasing of customers, Huabo will establish supply chain network of drugs, service network of physician/pharmacist, networks of targeted consumers as well as offline logistics and services stretching into major provincial capital cities and county-level units nationwide. Finally, rooted in drug supply and medical services, Huabo try to transfer the platform into a comprehensive health platform including medical service, supply chain collaboration and big data operations. Thus the Group can realize its business promotion from a product supplier to a comprehensive pharmaceutical corporation providing various health services. And it will also maintain its profits by Supply Chain Finance, value-added service value, and big data marketing.

In the next three years, Huabo Group will invest RMB 717 million in 1) construction of



pharmaceutical logistics center with RMB 360 million; 2) develop military first-aid packets and silver ion underwear, and make them to be official military equipment: RMB 20 million planned; 3) construction of pharmaceutical e-commerce platform with RMB 35 million; 4) acquisition of regional pharmaceutical distribution enterprises; 5) minimum working capital: RMB 300 million.

### **3.4 Human resource management in Huabo Group**

#### **3.4.1 Background of human resource management in Huabo Group**

(1) On the early days from year 2002 to year 2003 when the Group was initially established, the entire Group was in its cradle period. At that time, the Group did not have a human resources management department and did not have the concept of introducing talents.

(2) From 2004 to 2006, the Group entered into its development period. After earning some certain customer groups in the development period, the Group got its commercial reputation. At this stage, the Group introduced its talents through its employees' affection and friendship, and at this stage, employing person by favors and kinship was common phenomenon. Therefore, the Group in this stage was similar to a family enterprise. Usually, recruitment was conducted through unofficial recruiting paths such as hiring people who was introduced to employers by a friend. From a static point of view, at this stage, the Group had a large number of labor resources, but the quality of the employee was not high. And its staff management was administrative imperative management which indicated that the employees were only the production carriers and had not yet been seen as the key productive factors. The managers of the Group treated human resources as labors to be managed and controlled. Although the human resources management department had been initially established, this department was mainly responsible for daily routine work including personnel appraisal, file management, and salary payment. Besides, there was no clear performance appraisal and promotion system in position adjustment. The Group was short for an effective incentive system and a competitive employment mechanism. The positions were mainly adjusted by administration department.

(3) With the further development of the Group (2007-2015), it started to introduce talents into its key positions. At this stage, employees were no longer the subject of management and control. Huabo Group also began to improve its human resources management from aspect of recruitment, staff training, performance appraisal, and compensation management. It can be seen that the functions of its human resources department were more specialized with particular

emphasis on the performance assessment of employees. However, the company's salary system was still in primary shape. Only the distribution method had been changed. Systematic salary management system had not been established. The salary management system had no clear rules and regulations; besides, comprehensive job analysis system and performance appraisal system had not been established either.

(4) As a joint-equity enterprise, the Group became listed company since June 2016; at this stage, the company's reputation and image had been further improved and the company had begun to introduce outstanding talents from large and excellent companies. The understanding of human resources management of Huabo Group had undergone major changes, and there was huge improvement in human resources management and development. Human resources management had transferred to be an important part of enterprise management. The functions of human resource management departments were transferred from traditional staff management to strategic human resource management. The Group had initially established a good human resources management system with talent introduction, evaluation, training, performance appraisal and salary incentive system being the main duties. However, with the economic transformation and development in China, enhancing independent innovation capability is the most important aspect in China's economic transformation. And because of pharmaceutical and health system reform, the competition in the pharmaceutical industry is becoming increasingly fierce. This requires companies to build more effective model to organize employees and optimize talent structure so as to promote the long-term development of the company.

### **3.4.2 Current status of human resources in Huabo Group**

In terms of organizational structure, stockholders meeting is the highest authority in Huabo Group. The company has board of directors and board of supervisors which are responsible for assisting stockholders meeting. The Group has purchasing and supply department, logistics and distribution department, medical support department, quality management department, administrative logistics department, human resources department, finance department and other departments. Figure 3-7 represents organization structure of Huabo Group

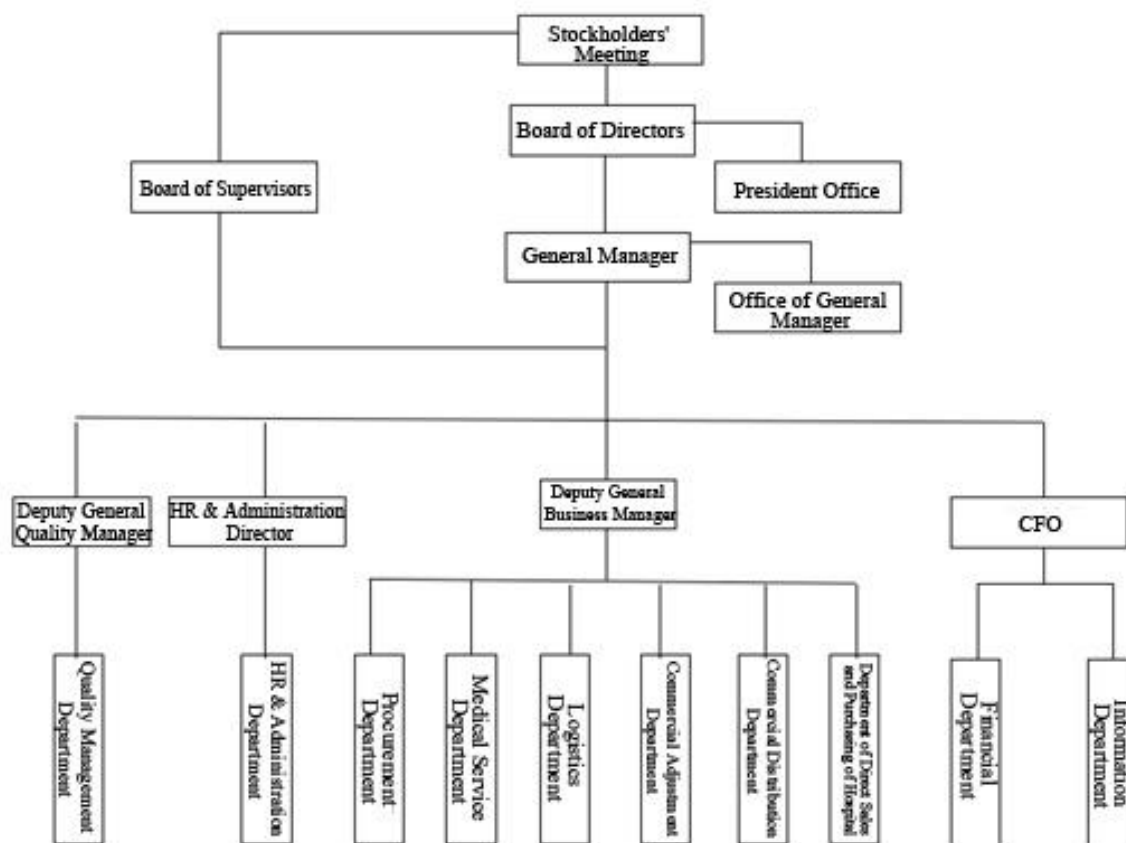


Figure 3-7 Organization Structure of Huabo Group

Chongqing Mingji Technology Co., Ltd., a subsidiary company of Huabo Group, is fully developing two medical e-commerce platforms named as B2C and B2B; combined with the logistics center which is still under construction, Huabo Group strives to adopting a development strategy including online information release with offline cooperation. The existing offline stores are used as show rooms as well as delivery and pick up sites to give full play to the advantages of hypostatic stores. At the same time, the medical mall will be used as a marketing platform to promote and popularize commodities so as to attract a large number of online consumers. With the support of offline pharmacies, the Group vigorously develops online platforms and online marketing.

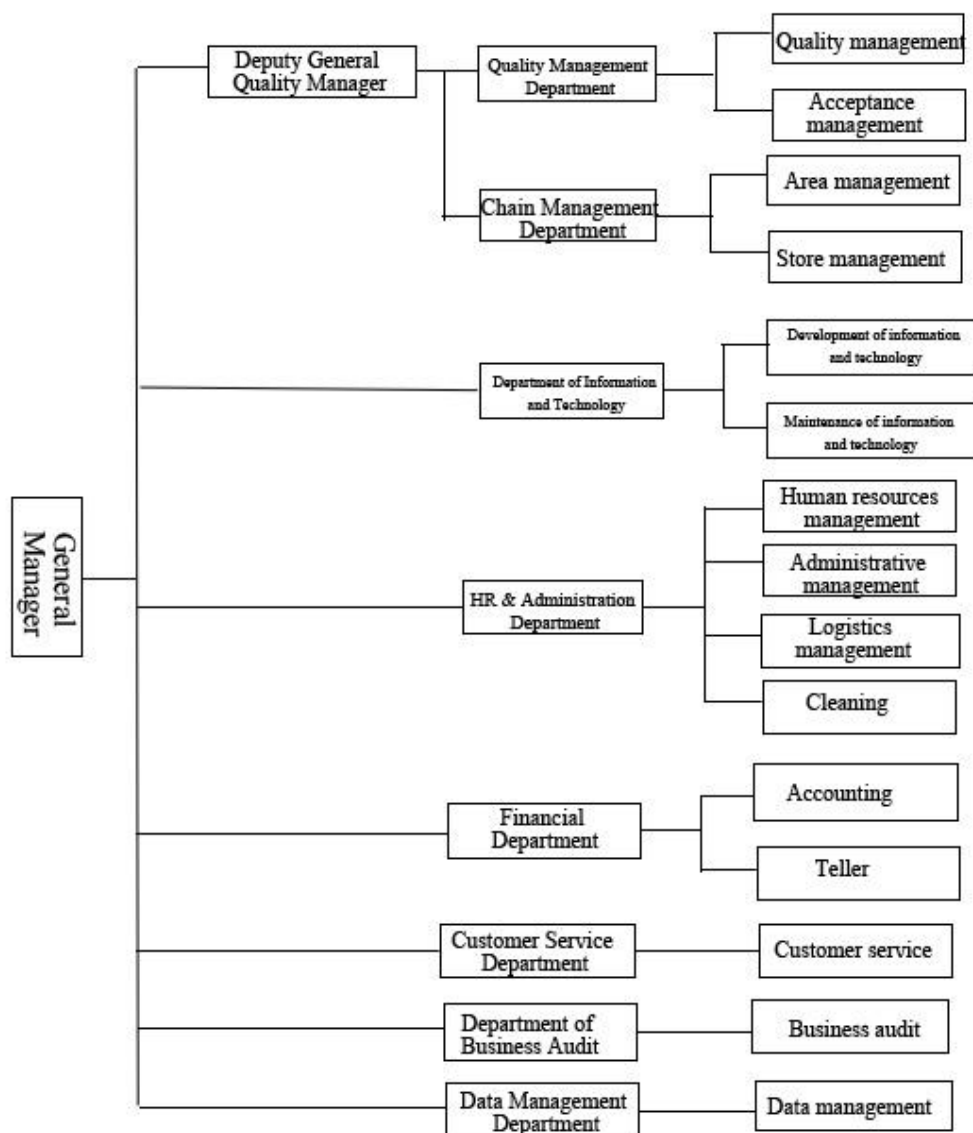


Figure 3-8 Organization Structure of B2C Platform of Pharmaceutical E-commerce Enterprises

As shown in Table 3-2, over 63.6% of Huabo Group's senior executives have at least a bachelor degree, and 36.36% of them have at least a master degree. Furthermore, Executive 7 and Executive 1 have degree of executive master of business administration from the School of Economics and Business Administration of Chongqing University. This is helpful in making Huabo Group aware of the importance of human resources.

As indicated in Table 3-2, 28.3% of employees in Huabo Group have college degree; 65.03% of them own undergraduates degree; 6.67% of them possess master degree.

Academic backgrounds of current employees of Huabo Group cover not only pharmacy, logistics management and information management which are required for business development but also business administration, trade economy, finance & accounting, and

marketing which are related to enterprise operation.

Table 3-2 TMT of Huabo Group

Name	Position	Gender	Age	Education Background	Receive Salary in the Group or Not
Executive 1	General Manager	Female	43	Master	Yes
Executive 2	HR and administration director	Female	44	Degree	Yes
Executive 3	CFO	Female	43	Master	Yes
Executive 4	Director; Deputy General Manager	Male	43	College Degree	Yes
Executive 5	Deputy General Manager	Female	35	Bachelor	Yes
Executive 6	Secretary of the board	Female	27	Degree	Yes
Executive 7	Chairman	Male	42	Master	Yes
Manager 1	Chairman of the Board of Supervisors	Female	29	Degree	Yes
Manager 6	Supervisor	Female	28	College Degree	Yes
Manager 8	Supervisor	Male	36	Bachelor	No
Manager 9	Director	Male	58	College Degree	No

Given the significant transformation of the pharmaceutical distribution industry, and the strategy adjustment that Huabo has to adopt, human resource management of Huabo Group should meet the need of its future business restructuring and optimizing by aligning with the business strategy. In the future, Huabo Group needs to pay more attention to human resource input and improve its incentive mechanism. This will not only help employees to exert their subjective initiative, but also help retain human capital.

### 3.5 Summary

Chongqing pharmaceutical distribution market has the following characteristics in its extensive management mode: the number of companies in the market is large but their scale is small, besides, most companies have single competition method and low profitability. Huabo faces such external market environment. From the establishment of the Group in 2002 to now,

its human resources department has three development stages: non-existence, initial establishment and function specialization; now the Huabo has a profound understanding of human resource management and its human resource management has been further improved. Human resources management had transferred to be an important part of enterprise management. The functions of human resource management departments were transferred from traditional staff management to strategic human resource management. The Group had initially established a good human resources management system with talent introduction, evaluation, training, performance appraisal and salary incentive system being the main duties. The Group also increases its market share through product development and market expansion. While it focuses on developing a large number of new products, market customization is also emphasized. And the Group vigorously expanded the market of hospital drug supply. Now it basically establishes a team that has abundant market competition experience, besides, more than 80% of its employees have at least college degree. The current recruitment process of Huabo has interview; besides, it also provides training programs for employees and explores how to make good human resource planning. Furthermore, a performance management system focusing on financial goals was also established. Generally speaking, Huabo has a good ability to manage its human resources. However, with the economic transformation and development in China, enhancing independent innovation capability is the most important aspect in China's economic transformation. And because of pharmaceutical and health system reform, the competition in the pharmaceutical industry is becoming increasingly fierce. This requires companies including Huabo to build more effective model to organize employees and optimize talent structure so as to promote the long-term development.

## **Chapter 4: Research Design and Methods**

The structural reform in the pharmaceutical distribution industry has entered a deepening stage, leading to great changes in the pharmaceutical distribution industry. In this study, Huabo Group will be taken as the research object to explore strategy typology of a typical enterprise in a dynamic changing environment and the alignment of strategy and human resources management alignment in pharmaceutical distribution industry. Specifically, the case study of Huabo Group of pharmaceutical distribution industry was based on the following reasons:

(1) The structural reform in the pharmaceutical distribution industry has entered a deepening stage, so that the pharmaceutical distribution industry is facing great changes with increasing industry concentration in this industry. Such changes of external environment will generate great impact on business strategies for the enterprises in this sector, and also inevitably force enterprises to adjust strategies to adapt to such changes. Therefore, in this regard, strategy adjustment of the pharmaceutical distribution enterprise provides interesting case for researches on strategy typology.

(2) As a private pharmaceutical distribution company with regional influence, Huabo Group has been adjusting strategies to adapt to external changes and has been experiencing the challenges of aligning human resource management with strategy adjustment, providing first hand data about alignment of human resource management and strategy evolution.

(3) Lastly, the author has been engaged in management and business work in the pharmaceutical distribution industry for a long time with an in-depth understanding of the industry, and more importantly has the accessibility to collect data from various source inside and outside Huabo Group.

The following part will discuss the research methods, including case study, interview, focus group, and survey that are used in this study.

### **4.1 Case study method**

The case study is an effective method to explain questions about “how” and “why”. As an exploratory case study, this study adopts research strategies which are suitable for single case study. Such research method is helpful for exploring conditions and problems in management

practices. By thorough analysis of the case, problems proposed in the research framework will be examined in an in-depth way. In this study, the single case research method is adopted to explore and examine the alignment of human resources management and corporate strategy.

## **4.2 Interview and focus group**

In order to deeply understand existing problems about strategy and human resources management alignment in Huabo Group, semi-structured interviews about current strategy typology and human resources management have been conducted among managers and employees in Huabo Group. Following individual interviews, focus groups were conducted to consolidate the data collected from those interviews.

### **4.2.1 Sample selection**

When selecting the samples for interview and focus group, interviewees' gender, tenure at the company, department/functions and position are taken into account to make sure the sample is representative with good knowledge of the subject (see Table 4-1). The interviewees in the sample range from ordinary employees to top executives, and they are from different departments and function such as marketing, procurement and administration. Specifically, in the interview sample, 6 are top executives, 8 are middle-level managers and 12 are ordinary employees; by gender, 7 persons are male and 19 persons are female.

### **4.2.2 Interview and focus group**

Guided by research questions and literature review, and based on basic human resources conditions in Huabo Group, an interview outline was developed (Appendix 1). The interview outline include enterprise strategy, corporate structure and human resource management (e.g., employee recruitment and selection, employee training and development, performance appraisal, compensation incentive, employee promotion) and other aspects of Huabo Group. To get the most out of interview, the interview outline is specifically developed for different group of interviewees, which means that different interview outlines for different group of interviewees. Specifically, the interviewees consist of the following groups: including 1) top executives: General Manager, Deputy General Manager and Finance Chief Officer); 2) middle management: HR and Administration Director, Head of Procurement Department, Head of Logistics Department, Head of Marketing Department and Finance Manager; 3)frontline



employees.

In the interview with top executives, the author focus on current strategies of Huabo Group, participation of its Human Resources Department in designing strategies, current alignment of strategy and human resources management, the management level of the Human Resources Department and their expectations of Human Resources Department in Huabo Group. During interviews with General Manager and HR & Administration Director, the follow-up questions for them went deeper, because they have worked for many years in the company and are more knowledgeable with the company due to their tenure and positions.

In the interview with the HR & Administration Director, the author obtained data not only on the employee composition, work pattern and efficiency of the Human Resources Department but also on this department's linkage with the strategies. In addition, the author observed and assessed the competency of the HR & Administration Director during the interview. In the interview with General Managers in business departments, the author focused on the service quality and business familiarity of the Human Resources Department.

Lastly, in the interview with frontline employees, the author tried to understand on their job satisfaction, loyalty and their experience in aspects of recruitment and selection, employee training and development, performance appraisal, compensation incentive, promotion opportunities and ladders, team building and so forth.

Table 4-1 Basic Information of Interviewees

S/N	Name	Gender	Title	Years of Working	Functional Department
1	Executive 1	Female	General Manager	12	Management
2	Executive 2	Female	HR and Administration Director	10	Management
3	Executive 3	Female	Chief Financial Officer	10	Management
4	Executive 4	Male	Vice general manager	18	Marketing
5	Manager 1	Female	Deputy Manager in Department of Sales and Purchasing of Hospital	10	Management
6	Manager 2	Male	Head of Procurement Department	16	Management
7	Manager 3	Female	Financial Manager	4	Professional
8	Staff 1	Female	Human Resources Specialist	4	Professional
9	Staff 2	Male	Purchaser	15	Procurement
10	Manager 4	Male	Head of Commercial Distribution Department	14	Marketing
11	Staff 3	Male	Driver in Logistics Department	5	Professional
12	Staff 4	Female	Purchaser	2	Procurement
13	Staff 5	Female	Purchaser	1	Procurement
14	Staff 6	Female	Accountant	3	Professional
15	Staff 7	Female	Cashier	2	Professional
16	Executive 5	Female	Deputy General Quality Manager	3	Management
17	Manager 5	Male	Medical Device Business Department	1	Management
18	Executive 6	Female	Secretary of the Board	2	Professional
19	Staff 8	Female	Quality Control Officer	1	Professional
20	Staff 9	Female	Invoice Clerk	1	Marketing
21	Manager 6	Female	Person in Charge of Information Disclosure	8	Professional
22	Manager 7	Female	Head of Logistics Department	14	Management
23	Staff 10	Female	Customer Service Staff	2	Marketing
24	Staff 11	Female	Indoor Staff	1	Marketing
25	Staff 12	Female	Administrative Commissioner	1	Professional
26	Manager 8	Male	Supervisor	2	Management

In order to guarantee objectivity and effectiveness of interviews, one-on-one in-depth interviews are carried out first with top executives (Table 4-2), then with middle management (e.g. HR & Administration Director, General Managers in business departments, line managers

and lastly ordinary employees in Huabo Group. Following interview, the top executive and middle management and ordinary employees are mixed and divided into groups to carry out focus group session (Table 4-3).

Through focus groups, the author collected data on operating efficiency of Huabo Group, working efficiency of every departments, service quality and business familiarity of Human Resources Department, as well as alignment of the Human Resources Department with the businesses of business department. Some interviewees, such as Head of the Procurement Department and Finance Manager attended not only One-on-one interviews but also focus groups

#### **4.2.3 Interview process**

Before formal interviews started, interviewees were informed the interview purpose and ensured that questions related to state politics, morality, ethics and individual privacy were not covered. It was made clear that the interview information is used for academic research only thus to remove doubts of interviewees and guarantee truth and objectivity of interview results.

Guided by the interview outline, ten semi-structured interviews were conducted with general manager, key managers and one frontline employee (Table 4-2), each from 45 minutes to one hour with a total of seven hours. At the end of interviews, the author thanked interviewees and asked them whether there were any omission and supplement in their answers.

After one-on-one interviews, three focus group sessions (Table 4-3) were conducted and each lasted about 3 hours and half. Information was recorded in both interviews and focus group.

Table 4-2 One-on-one Interviewee List

S/N	Name	Department	Title	Time	Location	Duration
1	Executive 1	Management	General Manager	2017.10 .10	Meeting Room in the Company	1 h
2	Executive 2	Management	HR and Administration Director	2017.10 .10	Meeting Room in the Company	1 h
3	Executive 3	Management	Chief Financial Officer	2017.10 .10	Meeting Room in the Company	45min
4	Executive 4	Marketing position	Vice general manager	2017.10 .10	Meeting Room in the Company	1 h
5	Manager 1	Management	Deputy Manager in Department of Direct Sales & Purchasing of Hospital	2017.10 .10	Meeting Room in the Company	45min
6	Manager 2	Management	Head of Procurement Department	2017.10 .10	Meeting Room in the Company	45min
7	Manager 3	Professional position	Financial Manager	2017.10 .11	Meeting Room in the Company	45min
8	Staff 1	Professional position	Human Resources Specialist	2017.10 .11	Meeting Room in the Company	45min
9	Executive 6	Professional position	Secretary of the Board	2017.10 .12	Meeting Room in the Company	45min
10	Manager 8	Management	Supervisor	2017.10 .13	Meeting Room in the Company	45min

Table 4-3 List of Interviewee in Group Discussion

	S/N	Name	Department	Title
Group No. 1				
Time	2017.10.16			
Location	Meeting Room in the Company			
Duration	3.5h			
	1	Executive 1	Management	General Manager
	2	Executive 2	Management	HR and Administration Director
	3	Executive 3	Management	Chief Financial Officer
	4	Executive 4	Marketing position	Vice general manager
	5	Manager 1	Management	Deputy Manager in Department of Direct Sales and Purchasing of Hospital
	6	Manager 2	Management	Head of Procurement Department
	7	Manager 3	Professional position	Financial Manager
	8	Staff 1	Professional position	
Group No. 2				
Time	2017.10.16			
Location	Meeting Room in the Company			
Duration of	3.5h			
	9	Staff 2	Procurement position	Purchaser
	10	Manager 4	Marketing position	Head of Commercial Distribution Department
	11	Staff 3	Professional position	Driver in Logistics Department
	12	Staff 4	Procurement position	Purchaser
	13	Staff 5	Procurement position	Purchaser
	14	Staff 6	Professional position	Accountant
	15	Staff 7	Professional position	Cashier
	16	Executive 5	Management	Deputy General Quality Manager
	17	Manager 8	Management	Supervisor
Group No. 3				
Time	2017.10.17			
Location	Meeting Room in the Company			
Duration	3.5h			
	18	Manager 5	Management	Medical Device Business Department
	19	Executive 6	Professional position	Secretary of the Board
	20	Manager 6	Professional position	Person in Charge of Information Disclosure
	21	Staff 9	Marketing position	Invoice Clerk
	22	Staff 8	Professional position	Quality Control Officer
	23	Manager 7	Management	Head of Logistics Department
	24	Staff 10	Marketing position	Customer Service Staff
	25	Staff 11	Marketing position	Indoor Staff

#### **4.2.4 Data analysis from interview and focus group**

After interviews, record materials were analyzed. First, distinguish background materials and facts. Due to their speaking habits, interviewees always provided materials which are mixed with facts and background information. List the background materials separately to avoid misleading; list facts separately to perform analysis. Next, interviews were transcribed into written texts. Third find common themes in the data to identify patterns and similarities that could be aligned with the research questions.

### **4.3 Questionnaire method**

The questionnaire method is a common way used for management researches. To complement and validate the data from interview and focus group, this study used questionnaire to collect quantitative data.

#### **4.3.1 Questionnaire design**

The questionnaire design of this study involves the following stages:

(1) Literature review: Study a large number of existing literatures, collect and prepare the scale.

(2) Seek for opinions from experts and scholars. After the questionnaire is drafted, the opinions of tutor, experts in strategy field as well as the opinions of top executives in the enterprise has been asked on questionnaire form, structure and language expressions. Then, the questionnaire draft is amended according to their suggestions to prepare a formal questionnaire for this research.

#### **4.3.2 Questionnaire contents**

##### **4.3.2.1 Measurement of strategy category**

Based on previous research results, the Miles and Snow strategy typology is used for strategy types in the questionnaire which measures business strategies. Under the background of Chinese pharmaceutical system reform, the market is changing quickly. In this study, it is important to understand how the pharmaceutical distribution firm (in the case, Huabo Group)

respond and adjust its strategy. Specifically, three questions (Questions 6-8) in the questionnaire were used to measure the strategy in Huabo Group.

Questions 6-8 for measuring the strategy are as follows:

6. *In your opinion, the enterprise is under which stage:*

☐ A. *Entrepreneurial stage. The enterprise is newly established with unstable enterprise performance. It concentrates capitals and energies on product and market development, with financial strain and small market share.*

☐ B. *Development stage. The enterprise provides stable products and services. Its production is on track and benefit increases rapidly. The enterprise begins to take shape with a certain market share and gradually enters the stage of rapid development.*

☐ C. *Mature stage. The enterprise has a fixed product or service structure and stable enterprise benefits and market share with its development slowing down. Therefore, it has to develop new products and look for new growth points.*

☐ D. *Decline stage. Product or service market shrinks and enterprise benefits reduce.*

7. *Enterprise strategy characteristics are generally shown in the following three types:*

A) *Type A enterprises maintain a certain market in related field and provide relatively stable products and services. In general, enterprises of type A are not market development prospectors in the industry. These enterprises attach little importance to impacts of market changes on enterprise operations. Instead, they focus on maintaining existing markets.*

B) *Type B enterprises selectively enter promising new markets while they maintain relatively stable markets. However, they rarely become prospectors in the industry. Enterprises of Type B pay great attention to behaviors of type C enterprises (the next item). They try to compete with other types of enterprises such as type C through cost control and better services.*

C) *Type C enterprises experience great changes in products and markets. They always try to become prospectors in market, although their efforts sometimes may not succeed. They respond quickly to early market demands and opportunities.*

*Please review operation changes in past 2 years and predict possible changes in next 2 years in Huabo Group. Please select the type which best represents strategic characteristics of Huabo Group from 1---6 (small number represents small changes, while large number represents great changes).*

8. *Which type do you think Huabo Group belongs to?*     ☐ A     ☐ B     ☐ C

#### **4.3.2.2 Measurement of human resource management**

Different scholars use different methods to measure human resources management and their measurement aspects are also different. Li (2002) measures human resources management from four aspects: recruitment, performance appraisal, and employee training as well as compensation strategy. Zhou (2005) measures it from six aspects: human resources planning, appointment, performance appraisal, compensation, human resources development and labor-capital relationship. Scheuler and Jackson (1987) measure it from five aspects: human resources planning, appointment, appraisal, compensation and education training. Gomez-Mejia (1988) measures from six aspects: working process, appointment, labor turnover, performance appraisal, education training and compensation.

This research aims at investigating human resources management in Huabo Group. The human resources management was measured with the scale proposed by Lee, Lee and Wu (2010) because eight human resources management practices are included in this scale: recruitment, training, appraisal, compensation, staff relations, employee's sense of belonging, satisfaction and stay intention of employee (see Table 4-4 on page 74). In total, 28 questions (from Question 9 to Question 36) were included to measure the human resources management in Huabo Group: Questions 9-12 to measure recruitment practices; questions 13-17 to measure employee training and development; questions 18-20 to measure employee appraisal practices; questions 21-23 to measure compensation management; questions 24-27 to measure management of staff relations; questions 28-30 to measure employee satisfaction; questions 31-33 to measure employee sense of belonging; questions 34-36 to measure employee loyalty in the group. All the 28 questions will be evaluated based on 1-7 Likert scale, representing from "strongly disagree" to "strongly agree".

#### **4.3.3 Collection of questionnaire data**

##### **4.3.3.1 Data collection**

From March 2017 to June 2017, 120questionnaire were distributed to Huabo Group employees. After removing incomplete questionnaires, 102 valid questionnaires were collected and the valid response rate is 85%.

##### **4.3.3.2 Description of questionnaire samples**

Among respondents, there are 53 males and 49 females by gender; and the respondents numbers of the Human Resources Department, the Logistics Department, the Finance



Department, the Marketing Department are 16, 10, 22, 12 and 23 respectively; in addition, there are 19 persons from other departments (such as the Quality Inspection Department and the Customer Service Department); by positions, there are 11 top executives, 15 middle-level and line managers and 76 ordinary employees; by years of working, 31.37% of the respondents have worked in the company for less than 3 years, 37.46% of them have worked in the company for 3-5 years, and other respondents have worked in the company for more than 5 years. As for educational background, there are 5 persons with high school degree or below, 27 persons with college degree, 57 persons with bachelor degree and 13 persons with master's degree or above (see Table 4-5).

Table 4-4 Measurement Items of Human Resources

Recruitment	9. The company requires job seeker to take written tests before recruitment
	10. The company performs interviews for job seekers before recruitment
	11. The company prefers internal staff once a position is vacant
	12. The company provides explicit job description for recruitment
Training	13. The company provides rich abundant training activities for employees
	14. Employees in the company usually need to participate in training programs every 1-2 years
	15. The company provides formal trainings for new employees to teach them working skills
	16. The company provides capable employees with promotion prospects
	17. The company provides formal trainings for employees to increase their chances of promotion
Appraisal	18. The company performs formal performance appraisals
	19. The company uses objective data for appraisal
	20. The company gives rewards and punishments to employees according to their performance appraisal results
Compensation	21. The company implements an incentive system to encourage employees to achieve company goals
	22. The company reasonable rewards persons contributing to the company
	23. The company provides salaries and welfares higher than those in other peer companies
Employment Relationship	24. The company takes advices from management team members before making a decision when it settles a matter
	25. The company encourages employee teams to try to solve problems on their own as much as possible
	26. Over the past six months, the company has adjusted some of its practices according to employee opinions
	27. The company regularly issues its goals or plans to employees
Employee Satisfaction	28. I would like to recommend my friends to work in Huabo Group
	29. In general, I'm very satisfied with my work in Huabo Group
	30. I'm willing to reject a job with higher salary in order to stay at Huabo Group
Employee Sense of Belonging	31. I would like to work harder to help the company succeed
	32. I'm proud to work in Huabo Group
	33. I have a strong sense of belonging in Huabo Group
Employee Loyalty	34. I plan to continue my career in Huabo Group
	35. I will not leave Huabo Group for at least the next 12 months
	36. I will not consider looking for a job outside within half a year

Table 4-5 Personal Information Statistics of Survey Respondents

		Frequency	Percentage	Valid Percentage
Gender	Male	53	52	52
	Female	49	48	48
	In total	102	100	100
Position	Top management	11	10.8	10.8
	Middle & line managers	15	14.7	14.7
	Employee	76	74.5	74.5
	In total	102	100	100
Years of Working	<3 (excluding)	32	31.37	31.37
	>5 (including)	32	31.37	31.37
	3-5 years	38	37.46	37.46
	In total	102	100	100
Education	High school degree or below	5	4.9	4.9
	Junior college degree	27	26.5	26.5
	Bachelor's degree	57	55.9	55.9
	Master degree or above	13	12.7	12.7
	In total	102	100	100

#### 4.4 Validity and Reliability

Using framework proposed by Gibbert et al. (2008) for an investigation of the methodological rigor of case studies, details on the measures that were used in this study are shown in Table 4-6 in order to ensure validity and reliability.

Table 4-6 Validity and Reliability

Criterion	Measure	Treatment within study	Fulfillment
<b>Internal validity</b>	Research framework derived from literature	Basic frameworks are based on Miles and Snow (1984) and Schuler (1989), as well as the empirical study by Tan (2002).	Yes
<b>Construct validity</b>	Data triangulation	Data collected from three sources: face-to-face interviews; 3 focus group sessions; and quantitative survey	Yes
<b>External validity</b>	Rationale for the case study selection	Selection of pharmaceutical distribution industry in emerging economy in China that experience a transitional environment for strategic management; Selection of Huabo group, a typical private enterprise grown from the industry.	Yes
	Details on the case study context	Detailed industry and company profiles were provided in Chapter 3, illustrating the study context for the research subject.	Yes
<b>Reliability</b>	Organization's actual name given	Actual name of the case study company was given for transparency; Official statistics from government and industry were also provided.	Yes
	Interviewees actual name given	Actual names of interviewees were given	Yes

## 4.5 Summary

This study used a case study mainly with both qualitative method (interview and focus group) and quantitative method (questionnaire) to examine the business strategy and human resources management alignment in pharmaceutical distribution enterprises in China. The interviews mainly focus on c strategy and human resource management in Huabo Group to investigate how managers and employees understand and perceive the current strategy and operation of human resources management, and to identify the existing problems of strategy and human resources management alignment in the Group. In addition, questionnaires were used to collect data on how employees in the Group perceive the company's strategy and human resource practices.

## **Chapter 5: Strategy and Human Resources Management**

### **Alignment Analysis in Huabo Group**

This chapter analyzes the data from interviews and questionnaires to explore Huabo's strategy, to examine the alignment of human resource management and its chosen strategy, and to understand the gaps and issues in the alignment.

#### **5.1 Analysis of interviews information**

Through processing the data from one-on-one in-depth interviews and focus groups, this study finds out the existing problems in alignment of Huabo Group's strategy and human resources management, after identifying its strategy typology.

##### **5.1.1 Strategy of Huabo Group**

Huabo Group is designed to be a military-civilian integration development enterprise which provides integrated distribution services on medical equipment and medical war material for logistics organizations of the Chinese People's Liberation forces, the Chinese People's Armed Police Force and some local Armed Forces. Meanwhile, it is also engaged in the research, development and production of medical equipment when it is gradually transforming from a traditional pharmaceutical distribution company to a company undertaking integrated operation of science, industry, and trade. Among our interviewees, all six senior executives, commercial distribution manager, head of procurement section and two ordinary employees believe that Huabo Group adopts prospector strategy. However, only five among the six senior executives are familiar with strategic orientation and strategic objectives of Huabo Group. These five senior executives believe that the Group adopts the prospector strategy and in their opinion the Group is also changing from a traditional medical distribution enterprise to an enterprise focusing on pharmaceutical research, development and sales. In order to improve its competitive advantages in the industry and achieve its brand effect, the Group also starts to enhance its core competitive advantages of its primary operations, promote business integration and business model innovation. It is worth noting that the ordinary employees as well as the commercial distribution managers are still unclear about the Group's current strategic

orientation and strategic goals. In particular, the financial manager and five staff representatives believe that Huabo currently adopts defender strategy, while the head of Direct Sales and Purchasing of Hospital and three staff representatives believe that the strategy is analyzer. Overall, the majority of interviewees agree that Huabo is pursuing prospector strategy, particularly the senior executives.

### **5.1.2 Alignment status of strategy and human resource management of Huabo Group**

Through focus group, this study asked the opinion of those senior executives interviewed on the alignment of Huabo's human resource management and strategy. From their words, this study finds out several problems in the alignment of strategy and human resources management of Huabo Group.

First of all, the human resources infrastructure is not yet able to meet the needs of its business development and the Group is also short of professional technician to support its future development. The sustainable development of its pharmaceutical business needs support of talents from fields of pharmaceutical, logistics, and business management. However, the Group still lacks talents with these professional backgrounds currently. As the Group increases its cooperation with medical institutions and tries to improve the quality of its retail pharmacy services, the Group's demand on pharmacy talents has been increased; especially demand on those experienced pharmacists. In addition, after establishing warehouse and logistics base, Huabo Pharmaceutical Group will need talented people who are skilled in logistics management to efficiently distribute its medicines, and the Group also needs modern logistics technicians to be responsible for the strategic drug warehouse management. However, the human resource function is not ready to support all these. Obviously, the lack of these talents will hinder the sustainable development of Huabo Pharmaceutical Group.

Second, in aspect of the human resources utilization situation of Huabo Group, the Group is not able to make use of the existing human resources. Although the employees' quality of Huabo Group is high and the Group has abundant human capital and resources generally, currently, its strategy does not integrate with its employees' personal development planning very well. And mismatches between human resources and enterprise strategy have affected the Group's operating efficiency. Therefore, Huabo Group needs to integrate its strategic vision, corporate culture and values into its career development planning as well as develop its employees' various skills trainings.

Third, the newly employed talents do not adapt into Huabo Group very well. This is also

a problem worthy of attention. General Manager, Executive 1, said that,

*"Although Huabo has adopted the talent introduction system, the recruited talents cannot get accustomed to their work in Huabo."*

*"On one hand, this reduces work efficiency of the management team after the introduction of talents from outside, and the overall efficiency level of current management team becomes lower than before. On the other hand, the psychological characteristics and personal networks of the introduced talents do not match with Huabo."*

#### **5.1.2.1 Human resources planning**

Through interviews with senior executives of Huabo Group, this study concludes that in terms of job responsibilities, most positions in Huabo Group have clear job descriptions. According to the head of the Purchasing Department, this study finds out that the human resources department in Huabo Group interacts with other departments mainly on the formulation and implementation of staff recruitment and performance appraisal. And the human resources department does not participate in the formulation of enterprise strategies and nor does it get involved in other department decision-making process. Through interview with human resource and administrative director, this study finds out that currently there is not enough professional staff in the human resources department. Although employees have at least associate degree, very few staff graduated from the human resources major. In addition, the daily work of human resource department focuses only routine tasks such as payroll computation and data statistics. These tasks occupy most of the time making and the human resources department lack time to focus on more value-added and strategic activities.

Executive 2, the HR and administration director, said,

*"Huabo Group is aware of the importance of human resources, but it has not yet begun a comprehensive reform of its human resources management system."*

Through one-on-one interview with Manager 1, vice manager of sales department for hospital, this study finds out that currently Huabo Group mainly implements employee recruitment based on the personnel plan formulated by the Group leader while taking employees turnover in previous years into consideration. However, the demand for employees is reported only by the business departments, and human resources demand is not able to predict. Moreover, the Group does not identify human resources supply conditions through market research; therefore, the human resources supply condition in external markets has not been taken into consideration when the Group introduces talents from the industry.

### 5.1.2.2 Staff recruitment and selection

Admission interview is one assessment method widely used by enterprises in employee recruitment. Both one-on-one interviews and focus group sessions reveal that Huabo Group has clear job descriptions in its staff recruitment, and employment interview is widely used. However, the current interview process is not professionally organized and conducted.

Staff 5, a staff from procurement department, said,

“When I was interviewed, the questions asked by interviewers were not structured and the interviewers’ attitudes were not so serious. Besides, candidates experienced very different length of interview time.”

In addition, Manager 8, member of Board of Supervisors, said that in order to reduce the recruitment cost, the recruitment preparation was relatively simple and interviewers did not receive systematic training. She believed that the lack of investment in recruitment has led to insufficient recruitment and promotion preparation, thus large-scale recruitment and promotion were hardly to be realized.

### 5.1.2.3 Staff training and development

Middle level managers and seven frontline employees (55% of the total interviewees) generally believe that there are two problems in current employee training system of Huabo Group. First, the average training time for staff is insufficient. Second, there is insufficient training on developing employees’ competency and potentiality.

Human resources specialist, Staff 1, said,

*“Most of the staff training programs conducted by Huabo Group are universally applicable programs. The Group currently does not have specialized training for employees for each specific position and task”.*

Manager 2, head of the procurement department, pointed out that the lack of tailored-made training programs for core talents led to brain drain. Especially for superior leaders, the Group currently does not have training program on leadership development.

Executive 4, deputy general manager, believed that the current training programs of Huabo Group are diversified and extensive such as employee training for new employees, new business training and so forth. In addition, Huabo Group signed the “College-enterprise Cooperation Agreement” with Chongqing Pharmaceutical College on September 29, 2016, and jointly established “Huabo College”. This college will help to systematically train Huabo Group’s



procurement and sales team to improve their professional strengths and marketing ability.

#### **5.1.2.4 Performance appraisal**

Executive 6, secretary of the board, pointed out that Huabo Group had some problems in its current performance appraisal system, and the application of performance appraisal results need to be enhanced.

According to Manager 3, a financial manager, performance appraisal results are mainly referenced when the company pays its employees. However, when it comes to employee promotion and staff training, the performance evaluation results are not considered in most cases.

The frontline staff representatives identify a problem that employees cannot get performance appraisal results through various ways. They did not know how exactly their performances were evaluated (the process). They could only know the results of the performance evaluation through a system or speculate the results by their salary. Therefore, Huabo Group needs to strengthen the communication on performance assessment results between employees and help them to be familiar with the evaluation methods as well as standards.

Some mid-level managers (including Directors of Purchasing Department and Distribution Department) pointed out that the performance appraisal needs to be improved. In the current performance appraisal adopted by Huabo Group, salary is related to performance tightly, but it is not closely linked with post responsibility which results in measuring some managers' work results become difficult. If such performance appraisal results cannot fully represent their work achievements, their work enthusiasm is reduced. Moreover, short-term performance assessment is the main work in current performance appraisal program. Long-term career planning for employees was not included in it.

#### **5.1.2.5 Remuneration**

The total salary of a Huabo employee is mainly constructed by four parts: basic salary, performance, bonuses and benefits. In recent years, the salary of Huabo employees has steadily increased, but the salary offered by Huabo Group is not competitive enough to attract talents compared with salary offered by its competitors.

Executive 2, the HR and administration director pointed out:

*"The current salary distribution has failed to match with the strategy goals in the transformation period of Huabo Group"*

She also said that:

*“Advanced talents are the key factor contributing to the company's development, but the company currently does not have the agreed compensation for high-quality talent. The lack of market-based salary makes it difficult to attract outstanding talents in the industry”.*

In terms of corporate welfare, 85% of the interviewees believe that Huabo Group's current welfare system uses material rewards to motivate employees to work effectively. And the Group has no spiritual motivation, which is not helpful for the company and employees to maintain long-term cooperative relationship.

#### **5.1.2.6 Staff promotion**

On promotion, 70% of respondents believe that although the results of performance appraisal to a certain extent can affect employees' promotion, generally speaking, leader's personal opinion is the most important factor determining employees' promotion in Huabo Group.

Staff 9, the invoice clerk, said that Huabo Group did not provide training and guidance for employees' career planning. According to her words, since she entered the company, she rarely got advice on career planning. On one hand, career planning can provide guidance for employees' development in the company. On the other hand, it promotes the employees' contribution to the future development of the company. Well-designed career planning can be helpful to help the Group achieve the alignment between employee behavior and the enterprise development strategy. It also plays an important role in human resource management. Currently, lack of career planning is detrimental to the long-term development of Huabo Group's employees. Summary of interview results is shown in Table 5-1:

Table 5-1 Summary of Interview Results

Human Resource Management	Interview Results
Human Resources Planning	Talents are introduced without standardized interview; the HR department does not make prediction on labor demand from the perspective of enterprise strategy.
Recruitment, Selection and Placement	The investment in recruitment is not enough resulting in insufficient recruitment advising; The Group has a clear description of the job and it also interviews the employee in recruitment, but the interview is not professional.
Training and Development	The staff training programs in the Group is universally applicable programs and the Group lacks tailored training programs for its key talents
Performance Appraising	Performance appraisal is kind of short-term assessment; there is no long-term career planning for employees. Performance appraisal results are mainly used to determinate employees' salary and they are seldom used in employee promotion and training. Employees are not informed with performance appraisal processes. The evaluation results cannot reflect employees' whole work achievements.
Compensation	Limited to traditional material incentives and spiritual motivations are in need; compensation distribution fails to reflect the strategic goals and objectives of Huabo Group in its transition period; the compensation system is difficult to attract talents in the industry.
Staff Promotion	Promotion of employees is mainly based on the personal opinion of the leaders; the training and guidance on employees' career planning is inadequate
Others	(1) Huabo Group is short of professional technicians (2) Huabo Group is unable to realize full utilization of existing human resources. (3) How to make the new employed talents immerse into Huabo Group well is also an urgent problem

## **5.2 Survey results**

The structured interviews and focus group sessions reveal a general understanding of the alignment status of Huabo Group's strategy and human resource management. In order to fully analyze the gap between human resources management and enterprise strategy of Huabo Group, the following part presents the results from questionnaires.

### **5.2.1 Strategy type of pharmaceutical business in Huabo Group**

Questions 6-8 ask employees to tell the general information of the strategy adopted Huabo Group. Question 6 measures the employees' views on which stages the company is in. Question 7 measures the employees' feelings on the company's strategy changes. Question 8 measures the employees' knowledge on the company's strategic characteristics.

For question 6 on which stages Huabo Group is in, 58.8% of employees said that the Group was in its development stage while 24.5% of them thought the Group's development was in maturity period. Only 6.9% of employees stated that the Group was in the entrepreneurial stage while 9.8% of them thought that the Group's development was currently in declining period. When it comes to the changes of enterprise strategy of Huabo Group, more than 50% (the mean is bigger than 4 in 1-7 Likert scale) of employees believed that its strategy and operations have changed during the past two years and the strategy as well as its operation will also be improved significantly in the next two years.

In terms of its strategy type, 50.9% of its employees believed that the Group is an enterprise of category C, which means Huabo Group has changed a lot in its products and market share, suggesting prospector strategy. Besides, it is able to identify the demand in the market timely, and the Group keeps trying to be the prospector in the market. Only 32.4% of employees believed that Huabo Group was an enterprise of category B, the analyzer strategy; another 16.7% of employees believed that the Group is an A-type enterprise with defender strategy. Overall, the majority of survey respondents believe that Huabo Group is currently in the development stage and the group is pursuing prospector strategy which is the same as the interviews and focus group sessions reveal.

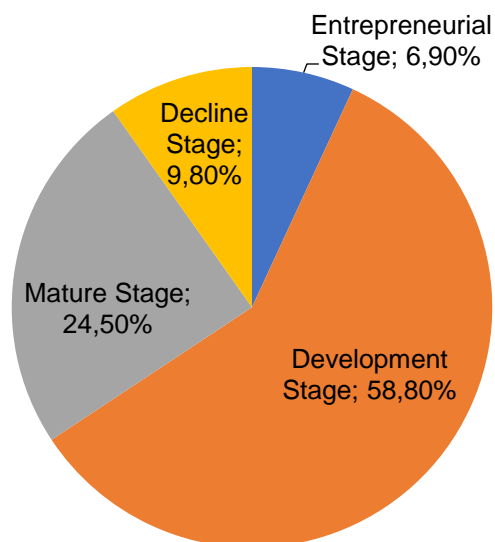


Figure 5-1 Stages of the Group

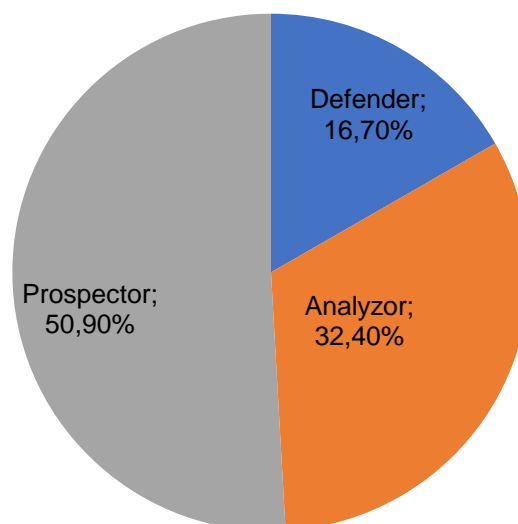


Figure 5-2 Proportion of Employee-Reported Strategy of Huabo Group

## 5.2.2 Practices of human resource management

### 5.2.2.1 Recruitment

This study investigates Huabo Group's recruitment of human resources by asking its employees to answer some questions regarding written assessment, interviews, internal recruitment channels as well as its job descriptions. On a 1-7 Likert scale, the mean of question

on written examination/assessment is 3.41 and the mean of question the job interview is 6.32. This shows that Huabo Group use both interview and written examination in recruitment and selection process, but the written examination is not a standardized process. The mean of question on internal recruitment channel is 5.24 while the mean of question job description is 5.41. This indicates that the Group has an internal recruitment policy and most job opening have job descriptions.

#### **5.2.2.2 Training and development**

According to the results of the survey, the mean of questions related to staff training and development is at least 4. In particular, the mean of the question “The Company provides capable employees with promotion prospectus” is 5.72. However, the mean of the question “The Company provides rich abundant training activities for employees” is 3.96. This low score indicates that Huabo Group need to do more in provision of training activities for its employees, a similar result of the interviews.

#### **5.2.2.3 Performance appraisal**

The mean of question on having formal performance assessment in Huabo Group is 5.67. And the mean of question “The Company uses objective data for appraisal” is 5.68 while the mean of question “The Company gives rewards and punishments to employees according to their performance appraisal results” is 5.43. These results shows that the Huabo Group has performance appraisal system in place and it is also able to uses objective data for performance assessment, but the Group still need to enhance the use of assessment results for rewards and punishments which align with the result from interviews.

#### **5.2.2.4 Compensation and incentives**

The mean of question “The Company implements an incentive system to encourage employees to achieve company goals” is 4.80. And the mean of question “The Company reasonable rewards persons contributing to the company” is 4.63. Regarding the question on competitiveness of the compensation and welfare offered by compared with other companies in the industry, the mean is 3.71. This shows that Huabo Group has reward mechanism for its employees, but compared with other companies in the industry, Huabo Group’s compensation and benefit is not attractive. A similar result was found in the interviews.

#### **5.2.2.5 Relationship of Huabo Group and its employees**

The questionnaire investigates the relationship of Huabo Group and its employees. In

general, the relationship is positive and it benefits both parties. The mean of question “The Company takes advices from management team members before making a decision when it settles a matter” is 4.88. And the mean of the question “The Company encourages employee teams to try to solve problems on their own as much as possible” is 5.52. The mean of the question “Over the past six months, the Company has adjusted some of its practices according to employee opinions” is 4.71. Lastly the mean of the question “the Group regularly releases its target or plan to its employees” is 5.94. These results indicate that Huabo Group has taken its employees' opinions into consideration when solving problems and has regular communication with employees regarding its target or plan. Another evidence of the positive relationship between the Group and its employees is it encourages employees to develop their independent abilities to solve the problems.

#### **5.2.2.6 Satisfaction, organizational commitment and intention to stay in Huabo Group**

The last part of questionnaire investigates the work attitude of Huabo Group's employees in aspects of staff satisfaction, organizational commitment and intention to stay with the company.

The mean of the question on general satisfaction of working in Huabo group is 5.16. However on other questions, the mean is very low, suggesting that the employees in Huabo Group are not so satisfied. For example, the mean of question “I would like to recommend a friend to work for Huabo” is only 4.32, and the mean of question “I prefer to stay in Huabo Group instead of accepting a job with higher salary outside” is only 4.28. These two low means indicate that its employees are pragmatic and only stay for money. On the one hand, the incentive policy of Huabo Group needs to be improved, as the salary provided by Huabo Group is not so attractive compared with employees' payment in other companies in the industry; and on the other hand, Huabo needs to strengthen non-monetary incentives such as corporate culture and values in order to give its employees a sense of identity and belonging.

In terms of employee's organizational commitment, the mean values are generally higher than that of work satisfaction. In particular, the mean of question “I would like to work harder to help the company succeed” is 6.72. Besides, the mean values of questions “I'm proud to work for Huabo” and “I have a strong sense of belonging at Huabo” are 5.87 and 5.21 respectively. These results are quite positive, but the question is it is difficult to know how serious they are.

The last three questions investigate employees' willingness to stay in Huabo in the future

and the result reflects they are all willing to continue their work in Huabo Group. For instance, the mean of question “I plan to continue my work at Huabo” is 5.56 while the mean of question “I will not leave Huabo Group for at least the next 12 months” is 6.06, and 6.17 is the mean of question “I will not consider looking for a job outside within half a year”.

Different from the questions on HR practices which can be validated with the results of interviews and focus group sessions, the respondents’ answers for questions on their satisfaction, organizational commitments and intention to stay, they have a lot of concerns which prevent them from giving their true feelings. As a result, the results of above parts present quite a conflicting picture. For example, on the one hand, they are satisfied, committed to the organization and would like to stay. However, when asked whether they want to introduce the Group to their friends or to reject jobs with higher salary, they are more negative. Therefore, the data need to be interpreted with caution and holistic approach.

### **5.3 Factors hinder the alignment of enterprise strategy and human resources management of Huabo Group**

Huabo Group is determined to be a military-civilian integration development enterprise which provides integrated distribution services on medical equipment and medical war material for logistics organizations of the Chinese People's Liberation c, the Chinese People's Armed Police Force and some local Armed Forces. The strategic goal of the Group is to enhance its core competitive advantages of its primary operations as well as to promote its business integration and business model innovation, so as to improve its competitive advantages in the industry and achieve its brand effect. Through interview, focus group sessions and questionnaire, this study explores and examine its strategic transformation, its current strategy type and its human resource management and the alignment of its HRM and strategy.

#### **5.3.1 Strategic orientation of Huabo Group**

Faced with the dynamic, complex and hostile environment driven by medical and health system reform, technology (e.g., pharmaceutical e-commerce) and intense competition, Huabo Group begins to transform itself to be a military-civilian integrated modern pharmaceutical enterprise, and it will also gradually develop into an integrated supplier of pharmaceutical products. Survey result reveals that 50% of its employees believe that the Group adopts prospector strategy, and 50.9% of its employees believe Huabo Group has changed a lot in its



products and market share. And according these employees' opinion, the Group is able to identify the demand in the market timely, and it keeps trying to be the prospector in the market. In addition, in its daily operations, Huabo Group also makes effort to increase its market share through product development and market expansion. While it focuses on developing a large number of new products, market-oriented products design is also emphasized. And the Group also vigorously expanded the market of hospital drug supply. For example, it cooperates with more than 20 hospitals in Chongqing in drug supply while actively integrates its retail pharmacy resources to make the company bigger and stronger. Therefore, Huabo Group adopts prospector strategy. This empirical result is consistent with the conclusion of Tan (2002) who argues that prospector strategy is more suitable for Chinese private enterprises. Using the strategy category proposed by Miles and Snow (1978), Tan (2002) examines the corporate strategies of China's state-owned enterprises, private enterprises, enterprise of collective ownership and Sino-foreign joint-venture. He finds that Chinese private companies tend to adopt prospector strategy and this strategy can help Chinese private companies deal with the uncertainty of external environment and main their competitive advantage.

### **5.3.2 Role of human resources in Huabo Group**

This study indicates that Huabo Group's human resources are rarely involved in the formulation of its strategy. Through investigating the relationship between employees and the Group, this study also finds out some managers' suggestions and advice cannot be heard by the Group when it deals with its problems. And some of employees' opinions are ignored when some enterprise's policies are adjusted. Through interview, this study points out that although the Group has noticed the importance of human resources, it does not start to reform and invest in its human resources management system. This is not helpful to its development, because when faced with the reform of pharmaceutical industry system as well as fierce market competition, Huabo Group's human resources should help it to complete its transformation and make it adapt to the new competitive environment. Therefore, this study concludes that Huabo Group should be strengthen the roles of strategic partners and change agents in its human resource department David (Ulrich, 1998).

### **5.3.3 The alignment of strategy and human resources management of Huabo Group**

Following the discussion of the current strategic orientation of Huabo Group, this section discusses how its human resources management aligns with its strategy typology as a prospector.

Based on the alignment framework of strategy and human resource management put forward by Miles and Snow, when the company adopts prospector strategy, it needs to continuously develop new products and expand the market. Meanwhile, it also adopts decentralized management within the organization. Through the analysis on results of interviews and questionnaire surveys, this study found that although Huabo Group is aware of the importance of human resources, its human resources management has not been reformed, therefore, human resources management has not risen to a strategic position. To some extent, service quality determines the survival and development of pharmaceutical logistics companies, and the human resources as well as human resources management skill determines enterprises' service quality directly. From the perspective of the overall development trend of the pharmaceutical logistics industry, industry concentration is inevitable and the demand on pharmaceutical logistics companies has also increased. Faced with the ever-changing external environment and fierce market competition, Huabo Group should realize the importance of human resources in practice and give new roles, strategic partners, to human resources, and it should also align human resources management with prospector strategy to ensure the implementation of the strategy.

In terms of human resources planning, Miles and Snow (1984) suggest that under the prospector strategy, the human resource planning is "limited" and "informal", which is understandable given the continuous need to develop new market and new products and constant changes in the external environment. And when human resources department allocates talents, it should take enterprise strategy into consideration. However, in Huabo Group, the current situation is the human resources department interacts with other departments mainly on the formulation and implementation of staff recruitment and performance appraisal. And the human resources department does not participate in the formulation of enterprise strategies and nor does it get involved in other department decision-making process. Moreover, the Group does not identify human resources supply conditions through market research, therefore, when it introduces talents, the human resources supply condition in external markets is not referred. To some extent, Huabo human resource planning is limited and it is partly because the human resource department does not play the strategic role as a strategic partner and change agent, and partly because the department does not have the infrastructure and capability to do strategic staff planning.

In terms of human resources recruitment & selection, acquiring human resources is the basic strategy for organization pursuing prospector strategy with emphasis "buying" talents

outside the organization (Miles and Snow, 1984). The interviews and survey suggest that Huabo Group did endeavor to attract and introduce talents from outside despite the company has an internal recruitment policy. However, the talents recruited from outside have difficulty in adapting to the working environment in Huabo and in fact hinder the efficiency of the management team, becoming a liability rather than an asset. The interviews reveal evidence that human resources department might not have the professional capability and expertise to identify and recruit the right talents for the company. For example, an interviewee said that the interviewers were not professional in terms of interview questions and interview approach.

The implementation of prospector strategy in Huabo needs effort of a large number of professionals with diverse disciplines. The current employees in Huabo Group has undergone market competition and more than 80% of them have at least college degrees. Therefore, in general the Group has the basic human resources needed for implementing prospector strategy. Academic backgrounds of current employees of Huabo Group cover not only pharmacy, logistics management and information management which are required for business development but also business administration, trade economy, finance & accounting, and marketing which are related to enterprise operation. However, with the restructuring and optimizing of Pharmaceutical business of Huabo Group, its current human resources structure is unable to serve its future business development very well.

For example, the Group still need more technical talented person to promote its future development in Pharmaceutical business. Second, it needs to improve its skill in employ recruitment and selection. The sustainable development of its pharmaceutical business needs support of talents from fields of pharmaceutical, logistics, and business management. However, the Group still lacks talents with these professional backgrounds currently. As the Group increases its cooperation with medical institutions and tries to improve the quality of its retail pharmacy services, the Group's demand on pharmacy talents has been increased; especially demand on those experienced pharmacists. In addition, after establishing warehouse and logistics base, Huabo Pharmaceutical Group will need talented people who are skilled in logistics management to efficiently distribute its medicines, and the Group also needs modern logistics technicians to be responsible for the strategic drug warehouse management. Obviously, the lack of these talents will hinder the sustainable development of Huabo Pharmaceutical Group.

Thus, acquiring human resource from the market will be an important and long-term strategy for Huabo's success as a prospector.

At present, the Group focuses more on internal recruitment; however, external recruitment is the key method of introducing talents. Therefore, the Group should pay attention to emphasize on external recruiting. Therefore, getting the recruitment, selection and replacement right are fundamental in human resource management of Huabo Group. But Huabo invest limited resources in recruitment advising and employee compensation and benefits. Besides, most of the interviewees pointed out that although Huabo Group have interview for employees but the interview was not professional. And the questions asked by interviewers are random questions because they do not receive systematic training. Sometimes there is no written examination, and sometimes there is a lack of standardized instruction in written examinations. These circumstances are not helpful for Huabo Group to introduce high-quality talents and create a talent team with competitive advantages. In view of the above problems existed in recruitment process, Huabo Group need to improve its employee attraction, recruitment and selection by increasing investment to attract talents and strengthen its human resource professionals to improve recruitment effectiveness.

In terms of training and development, Schuler (1989) contend that companies adopting innovation strategy (similar to prospector strategy) should increase employee promotion ladders and provide them with promotion opportunities as many as possible. Huabo Group needs to increase investment to improve its staff training system. At the same time, the Group should focus on internal talent development and strengthen team building of its employees.

The study finds out that Huabo employees are very much in favor of the group's training and development. In order to enrich the employees' knowledge and improve their professional skills, Huabo Group has developed orientation training program and dispatched employees to the university regularly to attend MBA courses. It also sent employees to some other companies for exchange learning. In addition, the Group often holds skills competitions to motivate employees to increase their work enthusiasm and knowledge. These practices lay a good foundation for the long-term development of the Group.

The prospector strategy requires employees to constantly upgrade their technology and possess specialty. Therefore, this corporate strategy needs to be aligned with advanced staff training system. From the results of the questionnaire survey, this study gets that Huabo Group provides employees with training channels and promotion space. However, the Group has not yet tailored training programs for core talents. This shows that the development and training of staff skills needs to be strengthened, and the Group should increase its human resources investment in the future development.

In addition, from the results of interviews and questionnaires, this study points out that Huabo Group has single promotion ladder, and the promotion depends mainly on leadership personal opinion and judgement. Schuler (1989) believes that the diversifying promotion ladders is a kind of human resource management practice that help Huabo Group's human resource management fit in its corporate strategy. Therefore, Huabo Group needs to increase its employees' promotion ladders, give employees more development opportunities, and change the employee promotion methods from based on leadership preferences to be based on their merits and performances.

Lastly, Huabo Group need to integrate with its employees' career development planning with its development. Therefore, the human resource department needs to provide career development services and advices for its employees and make career development part of the performance management and training programs to better align employee's personal development with organizational development.

In terms of performance appraisal, scholars believe that companies adopting prospector and innovation strategies focus on long-term goals as well as group-based performance appraisal results (Miles and Snow, 1984; Schuler, 1989).

Performance appraisal methods in Huabo Group do not fit in requirements of its enterprise strategy. In particular, Huabo Group pays more attention to short-term assessment and lacks long-term career planning. In human resources management, Huabo Group has a clear job description which is not necessarily required by prospector strategy. In term of performance management, Huabo Group currently does not provide employees with timely communication and feedback opportunities. This resulted in a lack of effective communication between the Group and its employees. At the same time, the performance evaluation results could not help the managers to make decisions in the first place. Therefore, managers cannot find loopholes in management through feedback from employees. Performance management systems do not realize its function in the company's human resources system. In addition, human resources management practices such as compensation, training, rewards, punishments, and promotions are not based on the results of performance evaluation.

Table 5-2 The Alignment Situation of Enterprise Strategy and Human Resources Management of Huabo Group

Strategy	Prospector Strategy (Miles&Snow, 1984)	Innovation Strategy (Schuler, 1989)	Huabo Group's Strategy & Human Resources	Alignme nt or not
Human Resources Planning	informal, limited and ambiguous job descriptions;; acquiring human resources	employees being given high flexibility; intensive employee involvement in human resources planning	Limited; Acquire/Introduce talents from outside	align to some extent
Recruitment, Selection and Placement	Emphasis: "buy" Sophisticated recruiting at all levels Selection may involve pre-employment psychological testing	focus on external recruitment; select high-skilled employees and require close interaction and coordination among groups of individuals	Unprofessional interview and simple selection method. Insufficient investment to "buy"	Not
Training and Development	Skill identification and acquisition Limited training programs	Focus on human capital investment; broad promotion ladders to promote technical development	Universally applicable staff training programs; lacks tailored training programs for key talents; single promotion ladder; promotion based mainly on leadership preference.	Not
Performance Appraisal	Results-oriented procedure(for example, management by objectives or profit targets); Identification of staff needs; Division/corporate performance evaluations; Cross- sectional comparison (for example, other companies during same period) Oriented toward performance	Performance appraisals that are more likely to reflect longer-term and group-based achievements	Focus on short-term performance appraisal; short of Long-term career planning for employees.	Not
Compensation	External competitiveness Total compensation heavily oriented toward incentives and driven by recruitment needs	Allow employees to be stockholders and have more freedom to choose the mix of components (salary, bonus, and stock options) that make up their pay package	Compensation not competitive externally	Not

In terms of compensation incentives, Miles and Snow (1984) emphasizes that prospector needs to increase variable pay instead of basic salary. This is because there are no clear job descriptions and the employees' work is difficult to measure by the human resources department of the company adopted prospector strategy. Miles and Snow (1984) argue that companies adopting prospector strategy should emphasize external competitiveness over internal fairness or equality. In other words, Huabo Group need to offer competitive compensation in the industry which is not the case. Through interviews and surveys, this study finds out that employees are not satisfied with the company's current salary levels and incentives. Compared with companies in the same industry, HuaBo's salary has no advantage and its salary is not helpful to attract talents.

## **5.4 Causes for alignment issues of strategy and human resources management in Huabo Group**

### **5.4.1 Human resources planning**

To make a reasonable human resources planning, the enterprise needs to consider its strategic objectives. That is, when conduct human resources planning; the enterprise should first analyze the current situation of its current human resource management. Then according to external environment changes, it predicts the supply and demand situation of employees, in the next step, it formulates human resources policies to implement employee recruitment, staff training, promotion and so forth. Ultimately, it will realize talents selection and replacement and achieve its strategic goals. Although Huabo Group has built its human resource practices in key function from recruitment to training/development and performance appraisal, there is limited human resource planning, which seems to align with the prospector strategy. Limited human resource planning may be reason for a prospector as the company faces constant change environment and focuses on new market and new product which make planning difficult. However, for Huabo Group, the limited human resources planning is more because of lack of strategic role of its human resource department as strategic partner and change agent. More importantly, the human resource department is not sufficiently developed in terms of resources and capability to play the strategic role.

### **5.4.2 Recruitment and selection**

As mentioned above, the main responsibility of Huabo Group's human resources

department is daily human resources management, and the human resources department has not participated in the formulation of its strategy. As for Huabo Group's current recruitment system, there was no official documents describing the recruitment requirements, and the recruitment process was not formal and professional neither. Such informal and unprofessional recruitment and selection are not able to attract and select the right talent that the company really needs. At present, Huabo Group does not establish a scientific and reasonable talent training mechanism and it cannot select and replace its talents according to its own needs. The employees can hardly achieve their long-term development in such conditions and the Group's long-term strategic goals are also difficult to realize. At present, during the transition period, the problem in Huabo Group's human resources management is the shortage of talents. Therefore, in recent years, Huabo Group has paid more attention to attracting talents such as introduce retired employees from excellent companies and attract more high-quality employees through improving salary and benefits. However, the Group has not started to train its employees to accept its corporate culture and to integrate employees' development with the company's development. Due to the current imperfect human resources management system, the Group's investment is wasted to some extent; besides, the creativeness and enthusiasm of the introduced talents are also damaged resulting in serious brain drain.

#### **5.4.3 Training and development**

Through training, employees can be more familiar with corporate culture and position responsibilities. At the same time, the training will be helpful for them to understand the company's development goals. At present, the staff training program of Huabo Group is simple and extensive. There are no tailored training programs for its key talents, and the training does not take the employees' needs into consideration which makes it unhelpful to employees' professional development. The employee promotion mechanism refers to the process how employees move from lower-level positions to higher-level positions. A reasonable employee promotion mechanism can allocate resources effectively and provide good opportunity for employees to realize career development. Through interviews and surveys, this study finds out that the current promotion of employees in Huabo Group depends mainly on managers' preference. And the promotion ladders are not diversified while the promotion standards are unclear. These promotion problems will reduce employees' working enthusiasm. If these problems continue exist, some employees will leave the company. Therefore, only by diversifying employee promotion ladders and clarifying that the promotion standards,



employees' working enthusiasm can be motivated and the Group's human capital can contribute to its development.

#### **5.4.4 Performance appraisal**

Huabo Group's performance appraisal process is too short to truly reflect the relationship between employee behavior and corporate strategy. In addition, some performance evaluation indicators are too extensive; therefore, the implementation of performance appraisal system has been affected. And unclear performance evaluation standards also reduce employees' working enthusiasm. Besides, the performance appraisal system in Huabo Group focuses more on the evaluation process rather than the application of the appraisal results. Such performance appraisal system cannot be referred in employees' promotion. So the fundamental purpose of performance appraisal does not achieved.

#### **5.4.5 The unattractive salary**

First, only by offering high-level physical incentives can the Group continue to increase its employees' working enthusiasm. Compared with other companies in the industry, the current salary provided by Huabo does not have advantages; this salary level is not good for the Group to introduce outstanding talents. Second, with economic and society development, most employees in enterprises are no longer satisfied with low-level needs (physiological and security needs). However, the Group's physical incentives can only meet the basic needs of its employees. Therefore, in addition physical incentive, spiritual incentive is of particularly importance because many managers move towards to high social status and they also want to realize self-fulfillment. Spiritual incentive is helpful to motivate employees to work harder by increasing their working enthusiasm and self-esteem. Third, Schuler (1994) believes that the compensation system with internal fair fit in prospector strategy very well. Compared with other companies in the industry, the fair performance appraisal system is the source of employees' sense of fairness in Huabo Group. Therefore, Huabo Group needs to establish a standard incentive mechanism and focuses on flexible compensation.

### **5.5 Summary**

Through interviews and questionnaires, this chapter analyzed alignment of enterprise strategy and human resources management in Huabo Group by depicting current alignment

situation, identifying existing problems as well as causes. Through analyzing the data collected by questioning Huabo Group's employees on aspects of recruitment, training, remuneration, performance appraisal, relationship between cooperate and employees and so forth, this chapter draw a conclusion that Huabo Group adopted prospector strategy in its pharmaceutical business, and the nonalignment of its human resources management and its strategy is shown in the following aspects: (1) limited human resources planning due to absence of strategic roles of HR department. (2) In aspect of recruitment and selection, there is insufficient resources and professional skills to get the right talents on board. (3) In terms of staff training and developing, tailored training programs for core talents and career planning of employees do not exist. Employees' needs are ignored which is not helpful to their long-term development in the Group; (4) when it comes to performance appraisal, the assessment is simple and its period is short. And the evaluation focuses more on its process rather than the application of assessment results as well as the corresponding opinions of employees on performance assessment. (5) In terms of remuneration, Huabo emphasizes only on physical incentives and the compensation is not attractive.





## Chapter 6: Discussion

External environment of the medical distribution industry has three characters: dynamism, complexity, and hostility. This makes the external industry environment full of uncertainty. In 2016, the China State Council issued the *2016 List of major tasks in furtherance of the healthcare and pharmaceutical reforms*, requiring pilot provinces for comprehensive health care reforms to promote the “Two-Invoice System” provincially and actively encouraging pilot cities for comprehensive public hospital reforms to promote the system, so as to optimize drug purchasing and selling orders, reduce distribution channels and support medical service price reforms. Thus, business concentration will be further improved. With the industry policies of narrowing down the payment coverage of Medicare Fund as well as reducing the budget of Medicare Fund, the growth of the pharmaceutical industry has slowed down, and the pharmaceutical industry has also gradually shifted its development mode from quantitative growth to qualitative growth. In such external environment, Huabo has chosen prospector strategy. This chapter will first discuss the rationales for a prospector strategy and then the alignment of human resources management and prospector strategy in Huabo Group. Some suggestions of improving such alignment are also put forward according to the research results of this study.

### 6.1 Industry environment and strategic orientation

*Good supply practice* (GSP) has put forward a series of requirements which improve the entry standard of pharmaceutical distribution industry. These requirements ask the medical distribution corporations to establish computer-based information management systems, set required temperature and humidity in their pharmaceutical warehouse as well as strengthen invoices management. Besides, GSP also points out that related institutions should strictly control and supervise drug sales and transportation. The health care reform and its supporting measures have intensified the market competition, and the profit space of the pharmaceutical industry will be further reduced. On the other hand, the operational cost of retail companies in the pharmaceutical industry has increased. The policies such as narrowing down the payment coverage of Medicare Fund and requires hospitals to sell drugs at purchasing price (the price that hospitals get the drugs) have reduced the retail pharmacy market space and profit space.

This finally reduces the growth of total pharmaceutical retail sales. Thus it can be seen that the external environment of the medical distribution industry faced by Huabo Group has three characters: dynamism, complexity, and hostility. Under such dynamic and changeable external environment, Huabo Group adopts prospector strategy.

Huabo Group is designed to be a military-civilian integration development enterprise which provides integrated distribution services on medical equipment and medical war material for logistics organizations of the Chinese People's Liberation Army, the Chinese People's Armed Police Force and some local Armed Forces. Meanwhile, Huabo Group is changing from a traditional medical distribution corporation to a corporation focusing on pharmaceutical research, development and sales. In order to improve its competitive advantages in the industry and achieve its brand effect, the Group also starts to enhance its core competitive advantages of its primary operations, promote business integration and business structure innovation. Under a background that China is currently deepening the reform of medical and health system meanwhile the central government encourages merger and acquisition of pharmaceutical distribution companies to accelerate the internal integration within pharmaceutical industry, Huabao decides to adopt prospector strategy. This strategic orientation is in line with the strategy category proposed by Miles and Snow (1978). Beside, Tan (2002) has conducted an empirical study on Chinese private enterprises in which he concludes that the prospector strategy is a strategy suitable for Chinese private enterprises. Therefore, strategic orientation of Huabo Group is right.

However, this study finds out that employees in Huabo Group, especially those basic employees, are not familiar with its strategic orientation. This is a problem faced by many Chinese companies. To solve this problem, Huabo Group will make effort to communicate its strategy to all its employees so that they can understand Huabo Group's strategic goals as well as the action plans to realize these goals. After they know the Group's strategy very well and accept it in their deep heart, they will unconsciously help the Group to realize strategic goals with their efforts. In addition, the senior management team of Huabo Group should identity the implementation goals and plans of its prospector strategy, and supervises all departments to implement its strategy together. In particular, the senior management team of the Group must make sure that the Group's human resources management is aligned with its prospector strategy. This will be helpful to transfer its human resources to be the Group's core competitiveness.

Therefore, Huabo Group needs to treat the human resources department as strategic partner and have this department participate in the formulating and implementing of the strategy. The

Group should also have independent human resources department offering specialized and professional services for the company and the employees. However, human resources management of the human resources department in Huabo Group falls behind its business development. Huabo senior management team should be knowledgeable and capable to manage its human resources to support its strategy and business development. Currently, most senior executives in Huabo Group are competent in managing its human resource and are supportive of increasing investment in human resources management. However, a few members in charge of logistics and finance lack professional knowledge on human resources management. They do not understand well the importance of human resources management and they seldom participate in human resources management. Therefore, the Group needs to enhance effective communication among senior executives to help leaders in logistics department and finance department understand the relationship between human resources and corporate strategy. Besides, such communication will also help senior executives in other departments understand the operation situation of Huabo Group's logistics and financial department.

## **6.2 Alignment of strategy and human resources management in Huabo Group**

### **6.2.1 Human resources planning: analysis of the supply and demand of human resources to attract right talents**

Human resources planning is an important part of a company's development strategy, and it is also the basis of human resources management practices. In terms of human resources planning, based on corporate strategy and development goals, Huabo Group should correctly predict and analyze the supply & demand of human resources to support its market development and product development, guided by the prospector strategy. Such prediction and analysis must be also tailored to meet requirements of its corporate strategy. And it enables Huabo Group formulate its best human resources management system in an ever-changing market environment.

For Huabo Group, the first step of human resources planning is information collection and analysis. The information collected of Huabo Group should mainly include: (1) Company information such as information of the Group's business strategy, strategic goals, organization structure, development status, as well as the information of its equipped facilities. (2) Human resources management information such as overall human resources, staffing and placement in

each department, and staff competencies. (3) Information of external environment such as labor market, national policies, and local economic development. After collecting all the above information, Huabo Group should analyze the supply and demand of human resources, and conduct demand forecasting on human resources. In particular, the Group needs to forecast the number of human resources needed by the Group as well as to forecast the human resources turnover in its future development. In addition, the Group also needs to conduct supply forecasting on human resources. In particular, this means the Group needs to forecast the number and the quality of employees that are available to Huabo Group in a certain period. This kind of forecast considers the supply of human resources both within and outside the company. According to the results of demand and supply forecasting of human resources, combined with its current human resources, Huabo Group finds out the total number of needed employees and in the next step it decides whether it should implement human resources management such as recruitment and staff training or not.

### **6.2.2 Recruitment and selection: strengthening talent introduction mechanism and improving core competitiveness in the Group**

According to Miles and Snow (1984), acquiring human resource outside the organization is the fundamental of prospector strategy. Recruitment and selection are important ways for prospector firm like Huabo to attract and introduce talents. Therefore, Huabo Group should attach great importance to its employee recruitment, carefully analyze the recruitment process, be responsible for the whole recruitment process, and make sure that the recruited employees meet the need of business development in Huabo Group. At present, in terms of recruitment and selection in Huabo Group, the investment on recruitment and advising should be increased while the problem of unprofessional interviewers needs to be solved. Reasonably increasing human resources management investment in corporations can promote the alignment of strategy and recruitment and selection of human resources management. The long-term corporate strategy needs to be matched with a long-term human resources selection strategy. And the long-term strategic designation needs to be supported by a long-term investment. Therefore, Huabo Group needs to constantly adjust its investment on human resources according to its competitive strategy, so that human resources can contribute to the realization of its corporate strategy. The increased investment in recruitment includes capital investment and human capital investment. Cost resulting from recruitment mainly includes recruitment-related cost and labor cost. The recruitment-related cost mainly includes cost of recruitment websites maintenance, job opening



advising and fees of holding job interviews. The labor cost refers to the salary and benefits paid to the recruiter. Huabo Group should increase investment and recruit talents by multiple channels. Only in this way can companies have more choices when recruiting talents. Besides, it will be also more easily for corporations to recruit suitable employees.

For human capital investment, the corporation needs to take the comprehensive ability of interviewee into consideration; generally speaking, there are usually two recruitment forms: written examination and interview. The Group should develop different assessment criteria for recruitment forms. At present, Huabo Group has no standardized written examination in staff recruiting; therefore, the written examination can be included in its recruitment process to help the Group understand the professional qualities and personality characteristics of the candidates. In terms of interview that examines the comprehensive capabilities of the candidates, Huabo Group needs to give its interviewers special training to increase their ability of identifying excellent candidates.

In addition to increase human capital investment inside the organization, Huabo Group should also reasonably utilize social capital and external human capital through various ways to leverage human resources outside the organization. With the development of “Internet+”, social capital has played an increasingly important role in enhancing corporations’ competitiveness. Huabo Group currently is able to seize the opportunity of joining the New OTC (Over the Counter) Market to obtain assistance from the capital market and seek development in the following areas:

- 1) through cooperation with large-scale Central Enterprises, Huabo Group actively participates in reform, expansion and investment of transforming Secondary hospitals of Grade A to Tertiary hospitals of Grade A;
- 2) participate in the mixed ownership reform of transferring the military hospital to local hospital;
- 3) participate in the mixed ownership reform of affiliated hospitals of state-owned enterprises and government institutions;
- 4) extend business domains in local market; through negotiating with local governments and adopting an investment-for-market-share strategy, Huabo Group obtains large procurement share in supplying local public health institutions with drugs, consumables, and medical equipment through introducing investment for local government;

- 5) establish a pharmaceutical logistics center; the military medical institution has successfully got land to build a comprehensive modern pharmaceutical logistics center at the Chongqing Highway Logistics Base in Banan District of Chongqing City. The medical logistics center covers an area of 50 acres and the warehouse area is approximately 40,000 square meters. When it is completed, it will directly become the strategic reserve center for the People's Liberation Army and the Armed Police Force with annual volume of trade amounting to 200 million yuan. Therefore, Huabo Group needs to increase its social capital investment and adopts Partners Program to innovate the talent introduction mechanism.

The other strategy is the Partnership Program. A partner is a natural person, legal person or other organization that meet the requirements of being a partner. The requirements are: 1) Pharmaceutical natural persons, teams, or pharmaceutical commercial corporations that independently control at least one resource factor; 2) Willing to integrate their products, sales network, and management teams into Huabo Group; 3) Voluntarily use its own social resources to assist Huabo Group to achieve greater development and ultimately achieve mutual win; 4) Willing to accept asset and market assessments by a third-party auditing agencies; 5) meet the standards of being qualified investors and voluntarily invest in Huabo Group.

The Partnership Program means that a limited liability company or a limited partnership is jointly funded by the actual controllers of Huabo Group and its partners. These two parts will invest in the shareholding platform according to their subscription proportions. After each partner agreed the agreement of consortium offer signed by the shareholding platform and Huabao Group, these partners and Huabo Group become Consortium Offer. After the shareholding platform has subscribed shares of Huambo Group, the partners join Huabo Group and bring their current business operations into Huabo Group. After the business integration, the two parties adopt different operation methods and income distribution methods according to their business types (there are two business types after integration, the original business refers to the business of the partners before they are incorporated into Huambo Group; the additional business refers to the new expanded business after the partners joins in Huabo Group). After the business integration, the original business and the customer maintenance are still the responsibility of the partner. The additional business can be developed, expanded, and managed by establishing new management team in Huabo Group. Sometimes, this kind of business can also be operated by the suitable partner selected by the Group. Partners can obtain fixed returns from Huabo Group every year, and they also have great chances to become senior executives

of the Group.

Different from the traditional way of introducing talents with high salary, Partners Program assign company operations to its partners, increase talents commitment to a large extent and broadening channels to attract talents. With this program, the core enterprise competitiveness will be enhanced. In conclusion, by implementing the Partners Program, Huabo Group can promote the management of its human capital, maximize the value of human resources, and achieve alignment of corporate strategy and human resources management in recruitment regard.

### **6.2.3 Employee training and development: conducting specialized trainings and broadening promotion ladders**

Through various learning and training programs, the Group enhances management capabilities of managers in human resource department; this will be helpful to facilitate the role transformation of the human resources managers and promote a better alignment of corporate strategy and human resources management. Therefore, establishing and perfecting the Group's training mechanism, systematically training employees in human resource department, as well as strengthening their knowledge of business operations are the primary tasks in the role transformation of human resources management. And these are also necessary conditions for human resource management to be the Group's competitive advantage.

Human resources management is closely related to corporate strategic management, and they are mutually reinforcing. For employees, they not only need professional knowledge to enhance their capabilities but also should possess a broad range of knowledge as well as strategic thinking. Employees can meet these requirements by taking effort from the following aspects.

(1) Participate in internal training within the company; in addition to participating in learning and training programs organized by the human resource department, employees also need to attend the professional training program in sales department and other departments. This will help employees understand the Group's business strategy as well as its strategic objectives and business development prospects and more importantly the business activities of other departments. Through attending these programs, employees are also able to constantly enrich their knowledge, and eventually become a high-quality talent. Apart from learning and training programs, Huabo also holds the experience exchange meetings. The advanced employees pass on their work experience to new employees through these meetings. This is

helpful to improve the internal cohesion of the Group while improving work efficiency.

(2) Attend professional training outside the Group. On September 29, 2016, Huabo signed a "College-Enterprise Cooperation Agreement" with Chongqing Pharmaceutical College and "Huabo College" was created. In addition to participating in the training program organized by the Group, employees also broaden their horizons and improve their capabilities through external training program.

(3) Enhance the ability of independent learning; Employees' independent learning includes but not limited to these aspects: actively understand the product of the company through product manuals; voluntarily focus on national and industry policies to make themselves be familiar with external industry environment changes; learn to analyze current industrial market and forecast future market prospect. In conclusion, it is necessary for the Group to emphasize the professional development of its employees. Huabo Pharmaceutical Headquarters and its subordinate subsidiaries as well as its retail pharmacies need to set up special positions and responsible persons to take charge of employee training and development. The Group still needs to increase its training programs for its employees and encourage them to continue their education and self-development learning. At the same time, it should also provide assistance for employees to achieve personal development by challenging tasks and promotion opportunities.

Regarding promotions, first of all, the promotion decision should be changed from basing on leaders' personal opinion on particular employee to employees' performance and ability. Second, in order to creating more promotion ladders for employees in Huabo Group, the company should encourage rotations and increase the interdepartmental promotion opportunities by establishing policy and practices to encourage and promote job rotation in different positions, departments and subsidiaries. These efforts help the Group facilitates interdepartmental job rotation of employees. In this way, talents can get promotion easily in another department when they have no chance of promotion in their own department. This mechanism also encourages employees' enthusiasm and promotes the systematic integration of enterprise's talents. Furthermore, it also helps to solve the problem of imbalanced talent distribution, optimize human resources allocation and promote the long-term development of the Group.

#### **6.2.4 Performance appraisal: establishment of comprehensive performance appraisal system**

First of all, the role of the performance appraisal system established by Huabo Group should be brought into full play. And it should be strategic-oriented as well as result-oriented with specific indicators like per capita profits, and economy value added. And it should also adapt to the business objectives of Huabo Group. In addition, the Group also needs to improve performance appraisal methods. And the assessment process should be standardized. The comprehensive performance appraisal system constructed by Huabo Group should include goal design, process guidance and result feedback.

In the process of performance appraisal, the human resources department and line managers must enhance the communication on performance appraisal; executive departments need to strengthen exchanges on assessment results to ensure that the assessment method is reasonable, the assessment process is transparent, and the assessment results are fair. After performance appraisal, department heads need to discuss the evaluation results with employees face to face. Assessing employees is not the purpose of performance appraisal. Only when employees and enterprises fully understand the results of performance appraisal through frequent communication, will they agree on the direction of future improvement and the employees will then work toward company's goal. The assessment results resulted from such performance appraisal process will be effective to improve employees' future performance. Finally, strengthen the application of assessment results. Apart from being linked with compensation and benefit, employee performance appraisal results are also combined with employee promotion, training and career development, so the Group can realize performance enhancement and improve employees' enthusiasm.

#### **6.2.5 Compensation and incentives: perfecting compensation and motivation system and cultivating talents**

Most companies believe that talent is the source of competitiveness and talents in a company make the company play a leading role in future market competition. However, during interviews and investigations, this study finds out that employees of Huabo Group are not satisfied with its current salary level as well as the current compensation and motivation system. At present, Huabo Group needs to improve its compensation and motivation system.

First, The Group needs to treat talent as capital owners who enjoy equal status with company's owner in order to achieve interest balancing. The company must adopt a scientific

incentive mechanism to make Huabo Group more attractive in market competition and its talents can be materially satisfied. In addition, suitable career development plan is conducive to attract and retain talents. The achievement of enterprise interest together with employee interest not only helps company to achieve its business objective, but also enables its talents to play a better role, thus, achieve a win-win situation. In addition, enterprise manager should know their employees' need, and they need to make effort to conduct employee assessment and increase incentive efficiently. Furthermore, compensation should be based on employees' assessment results to make the compensation system transparent and fair.

Material incentive is an effective way for enterprises to attract talents while corporate culture is the soft power to retain talents. A good corporate culture is beneficial to enhancing the enterprise cohesion. Sometimes, corporate culture is even more effective than material incentives. And a system's survival in a company needs it to be integrated with enterprise values and cultural preferences. A fair cultural atmosphere can promote the establishment of internal promotion mechanisms. It can be said that corporate culture is the soul of an enterprise. When the external market changes drastically, excellent corporate culture can inspire and unify employees. By associating employees' career development plan with enterprise development, company can attract outside talents while retain the internal talents. Therefore, apart from material motivation, the Group should also cultivate corporate culture which is beneficial to the mutual development of the company and its employees.

### **6.3 Summary**

Human resources are the most proactive, innovative, and creative resources among the disposable resources possessed by a company. In order to achieve companies' strategic goals, managers need to manage and utilize human resources effectively. In conclusion, efforts must be made in the following five aspects:

First, pay special attention to human resources planning; analyze human resources supply and demand of the company to make sure that it can get high-quality talents; establish a standard human resources management policy and supervise its implementation; based on human resources management planning, try to achieve strategic human resources management in terms of talent selection, cultivation, utilization, and retention; Hire senior executives by internal selection, promotion and external recruitment; encourage the human resources management innovation. As for the human resources recruitment and management in subsidiaries, the Group

should formulate guiding policies instead of simply intervening in the formulation of human resources policies in its subsidiaries. Huabo Group can provide funds and technical support for its subsidiaries or pharmacies in terms of employee recruitment, training and management. After helping the subsidiary companies to recruit, develop and replace their human resources, the Group collaborated with other relevant departments conducts reasonable evaluations on remuneration and performance appraisal system of its subsidiaries.

Second, implement the talent introduction mechanism to improve the company's core competitiveness. Talents do not play a role well when they are misplaced. Only by putting talents to suitable positions based on their specialties, can they become the company's most important assets. Huabo Group is in a rapid growth period and it urgently needs advanced, professional talents. Besides, the Group also needs to increase capital input on recruitment. The interview process should be standardized and the professionalism of the interviewer should be improved. The Group should also focus on introducing talents who have abundant market experience and familiar with market operations as well as local market environment. This talent introduction strategy is usually adopted in the development stage of company.

Third, conduct specialized training and broaden promotion ladders; through various learning and training programs, the Group enhances strategic management capabilities of managers in human resource department; this will be helpful to facilitate the role transformation of the human resources managers and promote a better alignment of corporate strategy and human resources management. Correspondingly, the Group should emphasize the professional development and growth of its current employees. In particular, Huabo Headquarters and its subordinate subsidiaries as well as its retail pharmacies need to set up special positions and responsible persons to take charge of employee training and development. The Group still needs to increase its training programs for its employees and encourages them to continue their education and self-development learning. At the same time, it should also provide assistance for employees to achieve development by setting positions, providing funds and creating opportunities. The promotion of employees should change from based on leaders' appreciation to that based on employees' performance and ability. In addition, increasing the interdepartmental development ladders will help the Group optimize its human resources allocation and thus promote its development.

The fourth is to establish a comprehensive performance appraisal system. This requires the Group to establish a position management system, identify position management standards and give out operation guidelines based on the dynamic environment in which it is located.

First, according to the principle of setting jobs by duties, optimize job settings, standardize job titles, and clearly define job standards and requirements. Secondly, under the premise of a clear division of responsibilities, the Group provides detailed descriptions on job duties and capability requirements, and promulgates job descriptions that effectively reflect job duties. Ultimately, the Group strives to form a common understanding among employees at all levels regarding jobs duties and facilitates the communication on jobs duties among employees. Establish a position management system that reflects the contributions of employees; this system not only enables the Group to measure the employees' contribution, but also provide basis for its employees' compensation and payment. Finally, establish a clear and standard organizational structure so that employees can quickly understand how the organization works as well as what kind of employees are employed and remunerated. Through establishment of scientific position management system and reasonable performance appraisal system, the Group will achieve its strategic goals easily. At the same time, establishing such systems will also help to improve the Group's management skills and core capabilities.

Finally, Huabo Group needs to perfect its compensation and motivation system as well as cultivate its talents. On one hand, the Group should increase capital input in human resources management, conduct employee assessment efficiently and increase motivation. Furthermore, compensation and employee assessment should be combined in order to make the compensation system transparent and fair. On the other hand, the Group should also emphasize spiritual incentives and cultivate cooperate culture which is in favor of the company development as well as its employee development.



## **Chapter 7: Conclusion**

### **7.1 Conclusion**

This study employ both qualitative (interview) and quantitative (questionnaire) to examine the strategy orientation and the alignment of human resources management with its strategy typology in Huabo Group, a growing pharmaceutical distribution firm in China. Guided by the framework proposed by Miles and Snow (1984), the study identify the strategy typology in a dynamic, complex and hostile environment and examine the alignment issues of the company's human resources management with the strategy type. This chapter discusses theoretical significance and practical implication of doing research on Huabo Group's strategy and human resources management alignment.

Through literature analysis, this study finds that the existing research mainly focuses on human resources or corporate strategy separately. Tan (1996) found that regulatory hostility, dynamism and complexity led to strategies characterized by innovativeness, proactiveness, and risk-taking. Therefore, research on alignment of human resource and corporate strategy is still rare. Furthermore, studies on alignment of human resources and corporate strategy in pharmaceutical distribution industry are in urgent want. This situation entitled this research of how human resources fit in corporate strategy in the context of pharmaceutical reform in China. Moreover, China is currently adjusting its economic structure. Chinese firms are facing rapidly changing external environment. Chinese pharmaceutical corporations are also faced with competitive pressures during such economic transition period. Their survival and development need to deal with many difficulties and challenges. These conditions put forward higher requirements on their strategic management. Therefore, for these Chinese pharmaceutical corporations, proactive and instructive strategic management is of particular importance. These corporations must be good at seizing external environment opportunities and deal with external threats effectively. On the other hand, they also need to increase core competency and improve competitive advantage through the effective integration of internal resources.

Research on alignment of corporate strategy and human resources management has also practical significance. The perfect alignment of corporate strategy and human resources strategy is the most important factor contributing to corporation's sustained competitiveness. Therefore,

corporation leaders and managers should be able to design an appropriate corporate strategy which matches well with its human resources management. And they also need to choose the best human resources management method based on the overall development strategy of the corporate. For pharmaceutical distribution corporations, possessing a large quantity of talents is necessary for their development. And introducing high-quality talents and realizing the reasonable flow of these talents is of particular importance. Besides, in their strategy planning and operation management, pharmaceutical distribution firms need to identify their human resources management goals, select appropriate management method and chose proper implementation plans. With these actions, they can create and maintain their competitive advantages to achieve success in a crowded market. Therefore, research on alignment of human resources management and corporate strategy will not only promote the development of Huabo Group but also provide valuable reference for other enterprises.

After investigating the status quo of Huabo Group's strategy and human resources management as well as identifying the gap between Huabo Group's existing human resources management and its strategic development requirements, this study uses interviews and questionnaires to conduct a comprehensive research on alignment of Huabo Group's corporate strategy and human resources management. The following conclusions were drawn:

(1) In a highly dynamic, complex and hostile industry environment like the pharmaceutical distribution industry in this study, a logical and rational strategic optional is to pursue a strategy with innovativeness, proactiveness and expansion. In the pharmaceutical distribution industry that is highly regulated and rapidly changing, Huabo Group has established expansion strategy to develop new market and new product through M & A and strategic alliance for sustainable development. This strategy is also made to enhance the Group's core competence and to maintain its competitive advantages. Huabo Group explores markets for drug supply in hospitals vigorously in recent years and has obtained certain achievements. It establishes cooperative relationship for drug supply with more than 20 hospitals in Chongqing and actively integrates resources from its retail pharmacies to make the company bigger and stronger. The successful development of Huabo Group in recent years shows that the Group has correct strategic orientation; besides, the Group has objectively understand its characteristics, development goals as well as its external environment. Through data and information analysis of interviews and questionnaires, this study concludes that under the current external industry environment, the business strategy of Huabo Group is prospector type.

(2) The study reveals and discusses several issues in the alignment of human resource

management with strategy, which provide insights on the challenges of growing private enterprises in emerging market like China. First of all, these firms face “duel pressures” to survive and grow in the rapidly changing market as on the one hand, they need to adjust organization strategy to adapt to the environment, and on the other hand they need to align the internal human resource management to align and support the organization strategy. Moreover, constrained by resources, they may have difficulty to align human resource management to the pursuing strategy. For example, in the case of Huabo, acquiring or “buying” human resource in the labor market is a basic strategy to align and support the prospector strategy for market and product development. But Huabo at least currently does not have the professional HR specialist to identify, assess and recruit the right candidate, not mention the financial resources that constrain its investment in recruitment campaign and its level of compensation and benefits. However, the results of this study do provide guideline for similar enterprises to better manage their limited resources.

(3) This study presents the changing roles of human resource management department in small and medium sized company and the challenges of managing human resources in private enterprise in China. From the establishment of the corporation in 2002 to 2017 when this study was conducted, Huabo Group experience the three development stages of its human resources department, that is non-existence of human resource concept, personnel and administration, and specialized HR function . Apparently this is a natural result of the company’s development. This study suggest despite the fact that the company has established wide range of human resources management practices including recruitment, training programs, performance appraisal, and compensation incentive systems, the human resource management department of Huabo did not play the roles of “strategic partner” and “change agent”. However, following this study, now the Group has a profound understanding of the importance of human resource management and its human resource management may be further improved, as the human resource management department need to play the role of strategic partners and change agents to facilitate the implementation of the prospector strategy.

(4) This study proposes improvements in five aspects to promote the alignment of Huabo Group's human resources management and its strategy. First, Huabo Group must pay special attention to the design of a suitable human resources management system and its leadership’s awareness on alignment of corporate strategy and human resources management should be raised. Establish a standard human resources management policy and supervise its implementation; based on human resources management planning, try to achieve strategic

human resources management in terms of talent selection, cultivation, utilization, and retention. Second, continuously implement the talent introduction mechanism to improve the Group's core competitiveness. In particular, the Group needs to focus on introducing talents who have abundant experience and familiar with business as well as local market environment. This talent introduction strategy plays an important role in the development of the Group. Third, conduct specialized training and create more promotion ladders; enhance the strategic management capabilities of managers in human resource department with various learning and training programs; establish a comprehensive performance appraisal system; establish standard enterprise position management system in Huabo Group under dynamic industry environment. Finally, perfect its compensation incentive system and cultivate its talents; the Group should cultivate its corporate culture that is beneficial to the mutual development of the company and its employees. The Group should also emphasize cultural incentives as well as human resources capital investment.

## **7.2 Contribution and implication**

There have been limited studies on the relationship between organization strategy and its human resources management.

Moreover, most existing researches on strategy and human resources management alignment are sampled in developed countries while the study in emerging economy is under researched. This study employs both qualitative and quantitative method to investigate the alignment of human resource management with organization strategy with a focus on a single case. The study enriches literature in the ways. First of all, the target of a pharmaceutical distribution firm in emerging economy from China adds to the literature with evidence from a less developed economy. Second, despite some scholars (e.g. Tan, 1994, 1996, 2002) have examined the alignment topic in China with quantitative methods, this study's focus on a single company provides much in-depth and rich understanding of alignment between strategy and human resources, thus complementing and further explaining the earlier research findings (eg.. Tan, 2002).

Practically, through the analysis of Huabo Group's current corporate strategy and human resources management, this study first examine, identify and rationalize the organization strategy of Huabo Group in current industry environment; explore and discuss the gap between its current human resource management and its current strategic orientation. With that,

some suggestions have been put forward. In this study, through interviews and questionnaires, many employees of Huabo begin to understand its strategic business management. This is, on one hand, helpful to improve their work enthusiasm and ability. On the other hand, this also contributes to deepening employees' understanding on corporate strategy of Huabo Group. In addition, there is little research on alignment of human resources management and organization strategy in the pharmaceutical industry. Therefore, both the framework and methodology this study employ as well as the practical suggestions it proposes may provide valuable reference and implication for similar companies to cope with the challenges of strategy alignment with human resource management.

### **7.3 Research limitation and prospect**

This research has the following limitations: First of all, it focuses on one single case which helps to understand the subject more in-depth, but the result should be interpreted with caution due to limited generalizability. In addition, employees' may have bias in expressing their opinion in the data collection process. This study collected data by interviewing internal employees of Huabo Group or by letting staff fill in questionnaire, therefore, when employees gave their answers to some questions, they cannot be absolutely objective due to consideration on departmental interests or personal bias. So the data is not absolute objective. Second, due to the complexity of measuring the industry environment, this study did not have quantitative data to measure the environment which is a key factor influencing organization strategy. The future study may collect data from regulator, suppliers, customers and other sources to examine the environment dimensions. Finally, the theoretical framework adopted in this study originates from the 1980s. It does not include intangible variables such as corporate culture into human resources management, nor does it consider the actual situation of China and Chongqing. This framework cannot completely solve the problem of Chinese corporations. For example, in terms of recruitment and incentives, in this case, it is necessary to emphasize the alignment of employees' individual values with corporate culture and corporate strategy. However, Miles and Snow's theoretical framework does not take this into consideration, and improvements can be made in these aspects in future researches.



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## **Appendix 1 Interview Outline of HR Management**

### **1. Senior managers (refer to the Group Manager, Deputy Manager, and Financial Manager)**

#### ***1. Overall condition***

1) What are the strategic goal and strategic orientation of Huabo Group now?

What strategic revolutions have Huabo Group gone through since its establishment?

What kind of strategy is adopted by Huabo Group now?

Do you think what kind of strategy is adopted by Huabo Group, defenders, prospectors or analyzers?

Interpretations on these three strategic types:

Defender sets competitive price and provides high-quality products as well as good services to maintain its competitiveness. Instead of being influenced by the trend out of its market segments, it achieves development through market penetration and limited product development.

Prospector focuses on expanding the market demand from the company, maintaining and further expanding its market share.

Analyzer aims to minimize the risk and maximize the enterprise profits. It mainly seeks for survival through copying Prospector's success.

2) What are the primary businesses in Huabo Group now?

3) What revolution has Huabo Group experienced on Human Resource Management?

#### ***2. Human resources planning***

4) In view of Huabo Group's strategy, what measures do you think the HR Department should take to improve the Group's development?

5) Do you think the current HR Management matches with the Group's business strategy? If

not, what are the main problems?

6) What adjustments should be made next step for HR Department to fit in the development strategy of pharmaceutical industry?

### ***3. Organization structure***

7) Do you think the function of the current HR Department meets the requirement of the pharmaceutical industry?

8) Is it necessary to do some adjustments on Huabo Group's organizational structure to make it fit in its pharmaceutical business development strategy?

### ***4. Staff recruitment***

9) With current development strategy of pharmaceutical business, which aspect should be focused on by Huabo Group next step in its recruitment?

10) What kind of core talents do you think are needed in Huabo Group's current and future development? And what should be done to attract, motivate and retain these talents?

### ***5. Staff training***

11) What do you think of Huabo Group's current training mechanism, such as the training investment, the training results and so forth?

12) In view of the pharmaceutical business development strategy of Huabo Group, which aspects do you think should be further improved on staff training?

### ***6. Performance appraisal***

13) What works should be done for Huabo Group to improve its performance appraisal system so as to fit in its pharmaceutical business development?

### ***7. Compensation and benefits***

14) What parts are included in Huabo Group's current compensation and benefits mechanism?

15) What is the proportion of the fixed salary and variable compensation in Huabo Group's

management board and business managers?

Does the salary incentive mechanism work well?

### ***8. Staff promotion***

16) Is it necessary to improve the staff promotion of Huabo Group?

### ***9. Organization culture***

17) What are your proposals on cultivating the corporate culture?

## **2. Interview outline of the HR and administration director**

### ***1. Overall condition***

1) What are the current strategies of Huabo Group? (Including its overall strategy, business strategy and strategic goal)

Which strategy do you think is adopted by the Group, defenders, prospectors or analyzers?

Defender sets competitive price and provides high-quality products as well as services to maintain its competitiveness. Instead of being influenced by the trend out of its market segments, it achieves development through market penetration and limited product development.

Prospector focuses on expanding the market demand from a company, maintaining and further expanding its market shares.

Analyzer aims to minimize the risk and maximize the enterprise profits. Its survival mainly depends on copying Prospector's success.

### ***2. Human resource designing***

2) What works should be done by HR Department to fit in Huabo Group's strategic goal?

3) Do you think the current HR management fits in Huabo Group's pharmaceutical business development strategy? If not, which aspects do you think can be improved?

4) What adjustments should be made next step on HR designing to fit in Huabo Group's pharmaceutical business development strategy?

### ***3. Organization structure***

5) Do you think the function of HR department fits in Huabo Group's pharmaceutical industry development? Is there any place left to be improved?

6) Has Huabo Group's HR Department participated in the draft of the group's strategy?

7) Has Huabo Group's HR Department been communicated with other departments regularly? How is the communication work carried out?

8) Is it necessary to do some adjustments on Huabo Group's organizational structure to match with its pharmaceutical business development strategy?

### ***4. Staff recruitment***

9) Has Huabo Group's staff turnover rate been high in the past two years?

10) Does Huabo Group's recruitment work well? Is there a clear job description and work responsibility?

11) Based on the current pharmaceutical business development strategy, what aspects should be focused on in Huabo Group's further recruitment work next step?

12) What kind of core talents do you think are needed in Huabo Group's current and future development? And what should be done to attract, motivate and retain these talents?

13) At present, what categories are the talents withdrawal mechanisms divided into? Is there a place for improvement?

### ***5. Staff training***

14) Is there a high investment going into the staff training program? And how much is it now?

15) What are the staff training programs adopted by Huabo Group now?

16) In view of the current pharmaceutical business development strategy, which aspects do you

think can be improved on the staff training system?

#### ***6. Performance appraisal***

17) How does Huabo Group carry out its current performance management?

18) Which aspects can be improved on Huabo Group's performance appraisal system to make it match with its pharmaceutical business development?

#### ***7. Compensation and benefits***

19) How do you appraise of Huabo Group's compensation system?

20) Compared with its peer companies or other companies in the market, is Huabo Group's compensation standard a competitive one?

What is the proportion of the fixed salary and variable compensation in Huabo Group's management board and business managers? Does the salary incentive mechanism work?

22) How to increase the leverage effect of salary on business? (Annotation: Salary leverage refers to a measure which is taken by the company to regulate and control the remuneration of workers when following the principle of distribution according to work.)

#### ***8. Staff promotion***

23) Is the staff promotion based on the result of performance appraisal system? From which aspect can performance appraisal system be improved?

24) Does the Huabo Group provide guidance for the staff's career planning?

25) What are Huabo Group's staff promotion channels?

#### ***9. Other interview content***

26) Please introduce the history of Huabo Group's human resources management.

### **3. Interview outline of managers in business department: including the purchasing**

**manager, logistics manager, marketing manager and financial manager.**

### ***1. Overall condition***

1) Do you know the current strategies of Huabo Group? (Including the overall strategy, business strategy and strategic goal)

What kind of strategy does Huabo Group adopt, defenders, prospectors or analyzers?

Interpretations on these three strategies:

Defender sets competitive price and provides high-quality products as well as services to maintain its competitiveness. Instead of being influenced by the trend out of its market segments, it achieves development through market penetration and limited product development.

Prospector focuses on expand the market demand in the company, maintaining and further expanding its market shares.

Analyzer aims to minimize the risk and maximize the enterprise profits. Its survival mainly depends on copying Prospector's success.

2) Are you familiar with Huabo Group's main business development?

### ***2. Human resources planning***

3) Do you think the current staff condition in HR Department meets the requirement of Huabo Group's strategic development?

### ***3. Organizational structure***

4) Do you think Huabo Group's current organizational structure is reasonable?

5) How do you think of the work efficiency of your department? Is there any place needed to be improved?

6) Has your department communicated with HR department regularly?

Will the HR department make reasonable recommendations to your department on business optimization and work efficiency improvement?



#### ***4. Recruitment***

7) How does the Huabo Group's recruitment plan work? Does the HR department have a timely response to the talent demand in other departments?

8) Do you think Huabo Group's talent withdrawal mechanism is reasonable?

#### ***5. Staff training***

9) How does your department develop staff training programs?

10) What deficiencies do you think the current staff training system has and which places can be improved?

#### ***6. Performance appraisal***

11) Do you think the current performance appraisal system is closely related to staff performance, and what is the role of the performance appraisal result?

13) Will a sufficient communication be carried out with the staff about the result of your department's performance assessment?

14) In terms of promoting business development, do you think what modules of the current performance assessment system should be improved?

#### ***7. Compensation and benefits***

15) What do you think of Huabo Group's compensation system?

16) What is the proportion of the basic salary and flexible compensation about Huabo Group's basic level workers?

Does the salary incentive mechanism work?

17) Do you think what should be done to increase the leverage effect of salary on business? (Annotation: Salary leverage refers to a measure which is taken by the company to regulate and control the remuneration of workers when following the principle of distribution according to work.)

## **8. Promotion**

18) Is the staff promotion based on the result of performance appraisal system now? What are the requirements for promotion for the staff?

19) Is there a high possibility for staff to transfer between different departments and positions within Huabo Group? Is there a channel for horizontal exchange and vertical promotion?

20) Does Huabo Group offer guidance for the staff's career planning now?

21) What is the condition of staff promotion in Huabo Group?

## **4. Managers of basic level/employee representatives**

### **1. Overall condition**

1) Do you have knowledge of Huabo Group's current strategic goal and strategic orientation? If you do, through what channels do you understand these?

2) Do you know Huabo Group's current major business?

### **2. Human resources planning**

3) Do you think the current employees of Huabo Group are able to meet its development requirements?

### **3. Organization structure**

4) What do you think of the efficiency of Group's various departments? Is the business process a simple or complex one?

5) Do you understand the responsibilities of your job and is there a clear job description?

### **4. Recruitment**

6) At present, how does the talents withdrawal mechanism work in Huabo Group? Is there any difference in the elimination mechanism between regular employees and temporary employees

who are in their internship?

### ***5. Staff training***

7) Do you think which aspects can be improved on current staff training system?

8) Does Huabo Group currently set any incentives for CFA, CPA and other certification exams? Does it support academic education? If it has, are you willing to participate in these exams or study?

### ***6. Performance appraisal***

9) Do you think that the current performance appraisal system truly reflects personal ability and workload?

10) In your opinion, is there any improvement needed to be done in the current performance appraisal system and how can it be improved?

11) Do you know the performance appraisal process and how do you know the results?

### ***7. Compensation and benefits***

12) How do you appraise of the compensation system in Huabo Group?

13) Do you think your income has advantages over employees in the same industry?

### ***8. Promotion***

14) Do you think staff promotion is determined by the result of performance appraisal? And what do you think are the requirements for staff to get promoted?

15) What's the possibility for employees to transfer between different departments and positions within Huabo Group?

16) Has Huabo Group made suggestions on staff's career planning currently?

17) Has Huabo Group offered you advice on your personal career planning?

18) Based on your working experience in Huabo, is there any place for improvement on the

promotion ladders of Huabo Group?

## Appendix 2 Statistics on Questionnaire Survey of HR Managers

**Table 1 Descriptive Statistics on Staff Recruitment**

	Obs	Min	Max	Mean	SD
Staff Recruitment 1	102	1	5	3.41	989
Staff Recruitment 2	102	5	7	6.32	760
Staff Recruitment 3	102	3	7	5.24	1,153
Staff Recruitment 4	102	3	7	5.41	927

**Staff Recruitment 1:** Huabo Group will arrange written examinations when it recruits new employees.

**Staff Recruitment 2:** Huabo Group will have interviews in its recruitment.

**Staff Recruitment 3:** Huabo Group will give priority to the recruitment of internal employees when it has job vacancies.

**Staff Recruitment 4:** Clear descriptions of jobs will be made in Huabo Group's recruitment.

**Table 2 Descriptive Statistics on Staff Training**

	Obs	Min	Max	Mean	SD
Staff Training 1	102	1	5	3.96	.994
Staff Training 2	102	1	6	4.45	1.340
Staff Training 3	102	3	7	5.39	1.401
Staff Training 4	102	3	7	5.72	1.057
Staff Training 5	102	4	7	5.51	.805

**Staff Training 1:** Huabo Group provides its staff with abundant training programs.

**Staff Training 2:** The employees of Huabo Group usually need to participate in training programs in every 1 to 2 years.

**Staff Training 3:** Huabo Group provides formal training for newly recruited staff and teaches them working skills

**Staff Training 4:** Huabo Group offers promotion opportunities for those competent staff.

**Staff Training 5:** Huabo Group provides formal training for its staff to increase their chances

of promotion in the company.

**Table 3 Descriptive Statistics on Staff Assessment**

	Obs	Min	Max	Mean	SD
Staff Assessment 1	102	3	7	5.67	.947
Staff Assessment 2	102	3	7	5.68	.846
Staff Assessment 3	102	3	7	5.43	1.104

**Staff Assessment 1:** Huabo Group has a formal performance appraisal system.

**Staff Assessment 2:** Huabo Group's performance appraisal is based on objective data.

**Staff Assessment 3:** Huabo Group will carry out rewards and penalties according to the result of the performance appraisal.

**Table 4 Descriptive Statistics on Staff Remuneration**

	Obs	Min	Max	Mean	SD
Staff Remuneration 1	102	3	6	4.80	.975
Staff Remuneration 2	102	3	6	4.63	1.062
Staff Remuneration 3	102	2	5	3.71	.726

**Staff Remuneration 1:** Huabo Group's incentive system encourages its staff to achieve corporate goals.

**Staff Remuneration 2:** Huabo Group always gives appropriate rewards to those who made contributions to its development.

**Staff Remuneration 3:** Huabo Group has higher remuneration and benefits than other companies in the same industry.

**Table 5 Descriptive Statistics on Staff Relationship**

	Obs	Min	Max	Mean	SD
Staff Relationship 1	102	2	7	4.88	1.205
Staff Relationship 2	102	4	7	5.52	.972
Staff Relationship 3	102	3	6	4.71	1.001
Staff Relationship 4	102	4	7	5.94	.865

**Staff Relationship 1:** When dealing with problems, Huabo Group will listen to the opinions of

the management team members before making decisions.

**Staff Relationship 2:** Huabo Group encourages its staff team to solve their problems by themselves as much as possible.

**Staff Relationship 3:** In the past six months, Huabo Group had made some adjustments on practices based on the opinions of its staff.

**Staff Relationship 4:** Huabo Group regularly releases its corporate plan and reports it to its staff.

**Table 6 Descriptive Statistics on Staff Satisfaction**

	Obs	Min	Max	Mean	SD
Staff Satisfaction 1	102	3	5	4.32	.720
Staff Satisfaction 2	102	3	7	5.16	.982
Staff Satisfaction 3	102	2	6	4.28	1.057

**Staff Satisfaction 1:** I would like to recommend my friends to work at Huabo.

**Staff Satisfaction 2:** On the whole, I am very satisfied with my work at Huabo.

**Staff Satisfaction 3:** I'm willing to stay in Huabo instead of getting another job outside Huabo with higher salary.

**Table 7 Descriptive Statistics on Staff Belongings**

	Obs	Min	Max	Mean	SD
Staff Belongings 1	102	5	7	6.72	.569
Staff Belongings 2	102	4	7	5.87	.992
Staff Belongings 3	102	3	7	5.21	.905

**Staff Belongings 1:** I'm willing to work harder to help Huabo Group succeed.

**Staff Belongings 2:** I'm proud of working for Huabo.

**Staff Belongings 3:** I have a strong sense of belongings in Huabo.

**Table 8 Descriptive Statistics on Staff Loyalty**

	Obs	Min	Max	Mean	SD
Staff Loyalty 1	102	4	7	5.56	1.049
Staff Loyalty 2	102	5	7	6.06	.701
Staff Loyalty 3	102	3	7	6.17	.598

**Staff Loyalty 1:** I plan to continue my career in Huabo.

**Staff Loyalty 2:** I will not leave Huabo at least in the next 12 months.

**Staff Loyalty 3:** I will not consider looking for another job in the next six months.