HUMAN RESOURCE MANAGEMENT IN SUCCESSFUL ENTREPRENEURIAL ENTERPRISES: CHALLENGES AND LESSONS

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"You win with people!"

Woody Hayes

Legendary Ohio State Football Coach

"Without all of my people doing their jobs with skill, passion and commitment this dream could never have become a reality."

Tim Stansfield

Founder and President, IET Inc.

Human resource management is frequently viewed as the "Achilles heel" of many entrepreneurial enterprises due to its devastating effect on organizations, if not properly managed.[1] Human resource management is traditionally described as "*the systematic process of acquiring, developing, rewarding and maintaining an organization's people resources so as to maximize performance*."[2] As newly founded organizations grow and mature, their human resource requirements and needs change rapidly, creating a host of challenges for entrepreneurs and organizational leaders on all levels. Entrepreneurs are visionaries, risk-takers, gamblers who often "think outside of the box"—all traits critical to their success. Most successful entrepreneurs realize that people are a key component to the success of their organizations and yet, struggle to develop an effective human resource function in their entrepreneurial organizations of all shapes and sizes.[3]

Entrepreneurial organizations live and die on their ability to create new and better products and services and on their capacity to move quickly as market opportunities present themselves. Both of these potential competitive advantages are difficult to achieve and maintain without the right people. This view is strongly supported by the opening quotes as well as empirical research within entrepreneurial organizations.[4]

Previous research makes it clear that many entrepreneurial organizations struggle with the process of human resource management because traditional approaches to HRM do not take into account the unique needs of entrepreneurial enterprises.[5] A review of the literature on how to start your own business or how to be a suc-

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cessful entrepreneur leads one to conclude that the information on human resource management in entrepreneurial firms is very limited or absent all together .[6] There is agreement in the entrepreneurial community on two key issues as they pertain to HR management: 1) the HR needs of entrepreneurial organizations are viewed as being unique when compared to more traditional business enterprises and 2) there is only limited research regarding the human resource management challenges facing entrepreneurial organizations.[7]

The purpose of this article is to describe the human resource management challenges facing entrepreneurial organizations and to identify lessons that can be learned from successful entrepreneurial organizations in their approach to creating competitive advantage with people. These lessons carry weight, not only for those working in entrepreneurial environments but also for HR specialists in more traditional organizations who sometimes lose sight of some of these important HR issues. This paper reports the findings of an exploratory qualitative research study that was conducted with leaders of successful entrepreneurial organizations to identify the specific HR management challenges they face in helping their organizations achieve high performance while maintaining the entrepreneurial culture that bred their success.

A QUALITATIVE STUDY

In order to assess the various human resource management issues facing entrepreneurial enterprises, in-depth interviews were conducted with the founders and/or presidents of over 50 high-performance U.S. manufacturing and service entrepreneurial organizations. These organizations were selected for this study based on their track records of strong growth, financial performance and ongoing success. Entrepreneurial participants in this study were asked the following open-ended question: ***"As an entrepreneur, what are the greatest challenges you face in the human resource management arena?"*** Their answers to this question covered a wide range of human resource issues that their organizations had and were facing in taking their enterprises to the next level of growth and performance. These interviews revealed a pattern of dynamic challenges that confront growing firms that wish to maintain their entrepreneurial spirit while at the same time providing us with lessons and reminders for all HR practitioners. Interview results were content analyzed by a panel of independent judges that lead to the findings that we will review and discuss.

THE FINDINGS: REAL HUMAN RESOURCE CHALLENGES

> "Most entrepreneurial organizations are successful because of the efforts and sacrifices of the people working there. It is critical to get the right people on board and to successfully embed them in the culture of the organization, which is no easy task and requires time, effort, and energy."
>
> Greg Papp
>
> Principal, Cube Culture Corp.

Before discussing our findings in detail, it is important to make several observations about the entrepreneurs and interviews that we conducted. First, entrepreneurs have great passion when discussing their enterprises and this passion frequently carries over into their views on the importance of people to their own success. Overall, successful entrepreneurs are quick to point out that they could not be successful without the efforts of the people around them. Secondly, while recognizing the importance of their employees, they possess a natural and active aversion towards bureaucracy, paperwork, restrictions, standard operating policies and procedures and summarily any activity that does not add perceived value to their undertakings. This aversion can work against entrepreneurs in their quest to create effective HR processes. Thirdly, they have come to the realization that discipline and organization are critical to attracting, retaining, motivating and training the people necessary to advance their businesses. Thus, entrepreneurs have to work hard to balance their natural inclination to avoid bureaucracy and the rigorous, sometimes slow, activity frequently associated with the HR discipline, while at the same time balancing the HR discipline with their desire to hire and retain quality people. Business leaders with an entrepreneurial bent know that their future success must take into account the tendencies described below, each of which has an upside as well as a downside which we will now explore.

Entrepreneurs in this study identified four overarching *demands* that their HR functions must meet for them to create and maintain success: 1) Hiring Quality People, 2) Generating Immediate Performance and Productivity, 3) Maintaining Flexibility and 4)

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Overall HR Cost Containment. The findings are discussed under each of the following four headings and carry valuable lessons for all HR practitioners and those supporting entrepreneurial organizations.

Overarching Entrepreneurial Demand: Hiring Quality People

HR Challenge # 1: *Attracting a Large Pool of High-Quality Job Candidates*

One of the biggest challenges entrepreneurial firms face is attracting high-quality candidates when positions need to be filled. This challenge occurs for a number of reasons that include the fact that these firms are frequently off the radar screen, do not have long track records in a given community, and whose youth and size can raise questions in the minds of potential candidates regarding the organization's long-term viability. In addition, entrepreneurial firms are frequently unwilling to spend significant dollars on full-blown recruiting efforts because of the costs associated with these endeavors. If you couple these issues with the fact that their wage and salary packages might not be as attractive as those of larger, more established enterprises, entrepreneurial organizations that are seeking high-potential candidates can find themselves with a restricted recruitment pool. This limits their ability to select "the best" people they can afford and can cause them to settle on less than optimal hires.

However, the sample of high performing entrepreneurial companies studied was able to overcome this challenge by emphasizing the non-monetary benefits of working at the organization and employing non-traditional recruiting channels. These potential non-monetary benefits can include the entrepreneurial culture, the team environment, the open door policies, and the potential of growth and promotion and other non-tangible benefits. In addition, these organizations use strong personal and professional networks, trade associations, universities and employee-based "word of mouth" practices to build acceptable candidate pools.

HR Lesson #1: *Firms need to develop more formalized, non-traditional channels for recruiting and offer enticements to candidates that go well beyond simply wages and benefits.*

HR Challenge #2: *Speed in the Hiring Process*

The ability of entrepreneurial firms to out-perform their rivals can be threatened when they experience a sudden loss of talent or when new opportunities suddenly arise for which they are understaffed. In these situations, there is a temptation to move swiftly to fill these staffing needs and this desire for speed can create a myriad of difficulties for an organization when it is not counterbalanced by discipline and rigor in both the recruiting and selection processes. This urgency in the hiring process can cause firms to hire personnel that might only be minimally qualified or not have the appropriate personality for the position which can create a host of long-term organizational problems. While achieving the short-term benefit of filling the position, the risk of making a poor selection is greatly increased according to the entrepreneurs in this study.

The desire for speed in the hiring process can cause firms to limit their searches and can also increase the likelihood of bad selection decisions. In addition, speed in the hiring process can lower the acceptable candidate qualifications and can also increase the risk that those who stay may be less capable of growing with the demands of the business. It is important to have an effective process in your selection procedures designed with speed to hire the best people while reducing the risk of making "bad hires." This balancing act is not easily achieved but the entrepreneurs interviewed in this research made it clear that this challenge can and must be dealt with.

HR Lesson #2: *Entrepreneurial organizations must have the discipline to develop recruiting and selection systems capable of moving quickly while still selecting high quality personnel.*

Overarching Entrepreneurial Demand: Generating Immediate Performance and Productivity

HR Challenge #3: *Taking Time to Properly Orient and Train Personnel*

In entrepreneurial organizations, expanded training and orientation of new employees is often considered to be too time consuming to undertake. Entrepreneurial organizations tend to go through a high rate of growth which usually leads to chaos, confusion and various pressures on the employees of the organization. In these scenarios, employees are frequently thrown into a situation/position where they must either "sink or swim" as they are expected to perform at a high level immediately. And they are frequently asked to generate the same level of productivity and work with the same intensity and drive as their incumbent co-

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workers and superiors. These demands are simply part of the organization's culture according to the entrepreneurs in this study. Unfortunately, new hires often come to organizations with very different motivations, expectations and experiences, therefore can be ineffective without adequate orientation and training.

The organizations studied were able to address this temptation and the challenges of growth by proactively institutionalizing an adequate orientation and training program for all the new hires to ensure their success in their new positions and to enhance their understanding of the organization's culture and operating fabric. These leaders have recognized that it could be a lengthy period of time before a new employee fully understands the actual expectations and demands being placed on him or her without formal assistance. Lack of proper training not only delays the length of time it takes to reach an optimal level of performance, but can also mask conflicts that exist between the employee and the organization's mission, eventually resulting in dissatisfaction and turnover. Entrepreneurs made two additional important observations. First, time spent training and orienting new hires generally made them more productive more quickly. Secondly, they made a strong case for the importance of a new hire's immediate supervisor being actively engaged in and responsible for employee orientation and training.

HR Lesson #3: *Proper training and orientation of employees helps them to become more productive in a shorter period of time than employees that are simply thrown into the heat of battle.*

HR Challenge #4: *Properly Coaching and Providing Feedback for New Hires*

Once an employee has been fully trained and is performing optimally, it is far too common for organizations to save time and money by limiting performance feedback and coaching to occasions of underperformance. Even when new employees are able to satisfy the requirements of their job, without proper training and assessment, new employees can easily fall into bad habits and taking shortcuts when achieving these results that may be difficult to correct. While ongoing coaching and feedback may be seen as time-consuming and costly, the additional care and attention that is given to new employees effectively lowers performance anxiety, raises overall job satisfaction and provides a higher level of motivation and commitment that would be costly to create simply through higher wages. Because an entrepreneur/founder's influence on individual employees is significantly diminished as the number of employees increases, the necessity for coaching and feedback for new hires increases so as to help these individuals improve their performance while becoming part of the team. According to the entrepreneurs interviewed in this study, coaching and ongoing performance feedback can greatly accelerate employee learning and ultimately performance, while at the same time imbuing them with the organization's entrepreneurial spirit.

HR Lesson #4: *Productivity and performance is increased by providing employees with ongoing coaching and performance feedback.*

HR Challenge #5: *Developing Workforce/Management Talent*

When an entrepreneurial firm becomes too large, the overall talent and drive of the founder that launched the venture to success is unable to meet the demands of the growing business. In these cases, it is important for the founder to have employees to which decision-making responsibilities can be delegated so as to maintain the standards of quality, speed, and service that make high-growth entrepreneurial firms successful. The leaders of the companies interviewed resolved this issue by developing their employees and delegating more responsibilities to them over time Leaders agreed that this activity is one of the most difficult and demanding as these leaders tend to like control and making decisions themselves.

At the same time these leaders realize that organizations that fail to invest in the ongoing development of their employees and do not take the responsible risk of delegating are often left with employees who are under-skilled or inadequately trained. This necessitates a time-consuming search to replace employees or supplement them with more qualified and talented people which can in turn decrease employee morale, increase turnover and cost a substantial amount due to hiring and recruiting expenses. Instead, successful organizations take the time to develop workforce and managerial acumen to have a deeper pool of talent at their disposal. This can help create personnel who can think and act independently and can therefore be drawn

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upon to take action without delay which is necessary in these types of organizations. By implementing a formal system of ongoing workforce training and skill enhancement, entrepreneurships provide their employees with opportunities for personal growth and career advancement that enhance loyalty, commitment and performance. Entrepreneurs in this study provided numerous examples where real problems had been caused in their organization in the past due to a lack of attention to detail regarding this important HR challenge.

HR Lesson #5: *Time and energy needs to be devoted to workforce and management development because an entrepreneurial enterprise cannot afford to outgrow its talent resources.*

Overarching Entrepreneurial Demand: Maintaining Flexibility

HR Challenge #6: Clearly Defining Job Responsibilities

Leaders of entrepreneurial organizations are often attracted to the opportunity to escape the rigidity and constraints that can be present in large bureaucratic organizations. They are also drawn to entrepreneurship because of their enthusiasm, determination to succeed, their desire to make things happen and ability to create new opportunities.[5] Early in the lifecycle of an entrepreneurial organization, flexibility may be highly desirable. However as these firms grow and expand the advantages of flexibility are often offset by inefficiencies generated by a lack of structure.

Overlapping responsibilities and lack of job clarity can lead to confusion and frustration, decreased accountability and inconsistent outcomes. The business leaders interviewed in this study made it a priority to ensure that every employee had a clearly defined set of duties and job responsibilities. Doing this makes it possible for their employees were to assume their roles and focus their energies toward pursuing the company's goals and take responsibility for organizational outcomes. These job responsibilities still need to be flexible and adaptive to adjust to the constant fluctuations of a high-velocity business environment. While many entrepreneurial organizations take the view that job descriptions can create inflexibility and limit an employee's responsibility these business leaders made it clear that "flexibly framing" each employee's responsibilities were paramount in helping them achieve acceptable levels of focus and efficiency.

HR Lesson #6: *Organizations need to continuously review employee job descriptions/responsibilities and make periodic adjustments to maintain optimal focus and efficiency while instilling a corporate culture of entrepreneurial adaptability.*

HR Challenge #7: Demonstrating Commitment to Your Workforce

Entrepreneurial firms, due to their newness, tend to face more uncertainty in their business environment than their more established competitors. This uncertainty can create doubt among their employees as to whether their jobs will be secure in the long run and if the organization is committed to them. The retention of dedicated and high-performing personnel is most critical for these types of organizations, especially when facing times of difficulty or retrenchment. Thus, it is imperative that these organizations demonstrate commitment to their workforce on an ongoing basis in good and bad times to prevent the loss of good employees. The entrepreneurial firms in this study made it a high priority to reduce concerns over job security among their employees. These leaders make it a serious objective to increase employee morale, trust and goodwill by clearly demonstrating their commitment to their workforces. According to our sample it is imperative to think about members of the workforce as business partners rather than simply employees. This can be fostered by effective HR planning to stabilize employment levels, maintaining employee compensation and benefits even when times are difficult, constantly communicating with the workforce on the status of the business, and looking for ways to engage the workforce to help create ownership of the organization's activity. When business leaders demonstrate commitment to their workforce the benefits can include a number of tangibles, including a stronger productivity, and reduction in turnover and absenteeism. In addition, a number of intangibles surface which include the employee's commitment to the organization, innovation, going the extra mile, and a willingness to take ownership over the organization's activity. According to the business leaders in this study, it is imperative for entrepreneurial organizations to demonstrate ongoing commitment to their workforces in a variety of forms mentioned above and that this commitment is driven from the top down.

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HR Lesson #7: *Demonstrating commitment to the workforce can be maximized by taking a partnership view of employees, effective HR planning, and engaging the workforce.*

HR Challenge #8: *Fairness in Salary and Rewards*

Compensation and benefits tend to play a very important role in high-growth entrepreneurial ventures due to the risk involved in starting and growing the enterprise. Entrepreneurs frequently reward employees with incentives on a case-by-case basis for their willingness to take the appropriate risks and perform their duties at a high level. Yet without a well established and clearly communicated structure in place, large variances in wages and rewards can infuse feelings of inequity or unfairness among employees. In entrepreneurial firms this is especially difficult because salary structures need to reward different levels of responsibility and performance and be adaptive to rapid changes occurring in a high-paced and dynamic environment. The sample of entrepreneurs interviewed have invested time into developing policies that allow employees to anticipate that their rewards may be adjusted with the growth of the company, and the need for different skills or tasks to meet changing market demands and to capitalize on opportunities. Although business leaders may crave flexibility in their wage structures, without an acute awareness and systematic process, equity and fairness in compensation can be lost and difficult to regain. Entrepreneurs made it clear that this is indeed a serious challenge as they like flexibility in their compensation system and yet they do realize the need for fairness and equity in compensation that can easily be lost without appropriate structure and attention.

HR Lesson #8: *Wage and reward structures need to be established to provide fairness and equity while at the same time give the flexibility to adapt to unique circumstances or market opportunities.*

Overarching Entrepreneurial Demand: Overall Cost Containment

HR Challenge #9: *Attractive Wages and Benefits*

Entrepreneurs know that the continued success of their business is largely based on their ability to build an effective team by surrounding themselves with highly capable and hardworking individuals. Unfortunately, all too often these organizations do not have the level of financial means to recruit top talent who are usually attracted to high wages and benefits. Rather than resort to making "second-tier" hires, entrepreneurial firms need use alternative means for hiring and retaining excellent workers by developing different forms of compensation and benefits Compensation strategies such as using lower base salaries coupled with profit-sharing, hearty performance bonuses, and ownership opportunities can allow employees to share in the future success of the company. In addition, entrepreneurs can place a heavy emphasis on the benefits and non-monetary rewards associated with working in a high quality work environment. Investing time and care in developing a pleasant corporate culture, employee development and training, opportunities for advancement or job rotation, commitment to job security and flexibility in the time, place or manner work is performed are all powerful mechanisms for attracting and retaining key employees. And while the organization must be competitive in terms of wages and other benefits, the positives associated with working in tightly knit, innovative and engaged work environments can be a deciding factor in the career decisions of many high quality employees.

HR Lesson #9: *Without a competitive wage and benefit package, it is difficult to attract and retain top talent, thus entrepreneurial firms must offer other inducements.*

HR Challenge #10: *Appropriate/ Effective HR Administrative Structure*

Effective entrepreneurial human resource policies are those that aid in achieving the mission of the venture while not being overwhelmed with substandard performance, rigidity or high costs. The goal is not to imitate the practices of older and larger establishments that are frequently less flexible with top-down management and costly bureaucracies, but rather it is to leverage the advantages inherent in high-growth, high-performance enterprises to create win-win situations for both employer and employee.

These HR policies are achieved by minimizing the need for more elaborate structures and by obtaining the cooperation and active participation of all employees in important human resource functions. The entrepreneurs we interviewed had developed a positive entrepreneurial corporate culture that is supported by leadership which demonstrates concern and a commitment to their employees. This has increased

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EXHIBIT 1

An Assessment of Key HR Lessons from Entrepreneurial Organizations

When managing our human resources, how often does our organization…

		Never	Rarely	Sometimes	Usually	Always
1.	Develop non-traditional channels and offer enticements that go beyond simply wages and benefits?	☐	☐	☐	☐	☐
2.	Develop and use an effective process in our employee selection procedures?	☐	☐	☐	☐	☐
3.	Properly orient and train employees to become more productive more quickly than employees that are thrown into the heat of battle?	☐	☐	☐	☐	☐
4.	Accelerate performance by providing employees with ongoing coaching and performance feedback?	☐	☐	☐	☐	☐
5.	Devote time and energy to workforce and management development?	☐	☐	☐	☐	☐
6.	Align job responsibilities and goals on an ongoing basis to focus employees while simultaneously meeting the changing needs of the enterprise?	☐	☐	☐	☐	☐
7.	Demonstrate workforce commitment by planning so as to minimize unexpected workforce fluctuations and create employee engagement and ownership?	☐	☐	☐	☐	☐
8.	Establish wage and reward structures so as to provide fairness and equity while at the same time give the flexibility to adapt to unique circumstances or market opportunities	☐	☐	☐	☐	☐
9.	Establish alternatives to competitive wage and benefit package to attract and retain top talent?	☐	☐	☐	☐	☐
10.	Create an appropriate HR structure to serve the organization's overall strategy/ needs while at the same time minimizing overhead and the creation of a bloated HR bureaucracy?	☐	☐	☐	☐	☐

employee trust, loyalty and performance while, at the same time reducing the need for more narrowly defined and rigid human resource policies. Carefully selected employees who are properly oriented to the mission of the venture, receive ongoing training and feedback and have reason to be hopeful about their own development and advancement are therefore more likely to "buy-in" to high-performance entrepreneurial human resource practices desired by management. Indeed, in such an environment, employees themselves are likely to be key drivers in instituting, adapting, communicating and enforcing entrepreneurial human resource practices. While entrepreneurial organizations need to have structure in their HR policies and practices they need to always keep an eye on the need for flexibility, speed, engagement, and cost containment.

HR Recommendation #10: *An appropriate HR structure must serve the organization's overall strategy/ needs while at the same time minimizing overhead and the creation of a bloated HR bureaucracy.*

A CALL FOR ACTION

The creation and growth of entrepreneurial businesses is a paradox in that smaller enterprises with less experience and fewer resources are often able to "out

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compete" their larger, older and richer rivals. Despite being at an initial disadvantage, entrepreneurs manage to grow their firms powered by better ideas, impassioned people and hard work. Rather than submit to the idiom "Good, fast, cheap: pick two," pitting one against the other, organizations that select and develop skilled and empowered employees can create an entrepreneurial culture that intrinsically motivates workers to be adaptive and high-performing. In this exploratory study, entrepreneurs discussed the importance of hiring quality people, generating high levels of performance sooner rather than later, retaining workforce and operating flexibility, and containing the cost of the workforce and the HR function. While these challenges are by no means limited to entrepreneurial organizations, the participants in this study made a very strong case for taking proactive steps to ensure that the HR function in their organizations supported their mission and added value at every turn. From this perspective HR professionals in every type of organization can learn from these entrepreneurs and their "no nonsense" view of HR.

With this backdrop, savvy HR leaders and entrepreneurs would be well served to complete the self-assessment contained in Exhibit 1 to determine the extent to which your organization addresses these compelling and critical HR issues in an effective fashion. To do so could help inject some entrepreneurial spirit into your enterprise. To not do so might be allowing the HR function in your organization to hurt your ability to hire quality people, generate strong performance quickly, maintain organizational flexibility, and controlling the overall cost of your HR function.

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