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## Recruitment Practices in Malaysian Knowledge Intensive Start-Ups

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### Abstract

This paper investigates Strategic Human Resource Management (SHRM) practices adopted by knowledge intensive start-up companies in Malaysia. SHRM is considered a key to the success of these firms in line with the Resource-Based-View (RBV) of the firm. Particular focus was given to recruitment practices as recruitment is viewed as having the most significant short term impact for start-ups. This paper is based on the case study of three Malaysian knowledge intensive start-ups. The study finds that Malaysian start-ups do not perceive SHRM as critical for their success. Owner-managers of Malaysian start-ups prefer an informal & unstructured SHRM process. Key SHRM areas of recruitment and compensation are ad hoc. These findings are in line with other studies carried out globally. This paper discussed the pros and cons of the SHRM practices at Malaysian Knowledge intensive start-ups and recommends a framework for recruitment in small knowledge intensive start-ups is proposed.

**Key words:** Strategic human resource management; Recruitment; Start-ups; Compensation; Framework

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### INTRODUCTION

The role of Strategic Human Resource Management (SHRM) in developing firm competitive advantage is

explained with reference to the resource-based-view (RBV) of the firm (Barney & Wright, 1998, 2001; Barret & Khan, 2004; Ferris et al., 2004) According to Barney and Wright (Barney & Wright, 2001), “RBV postulates that the physical, organizational and human resources of a firm may be a source of sustainable competitive advantage if they add value to the organization; are unique to the firm or rare among competitors; difficult to imitate and non-substitutable”. Even though there is mainstream consensus that SHRM has a positive impact on firm performance, SHRM is frequently critiqued due to the difficulty to prove causality (Wright et al., 2005). Delery (1998) argues that the direct mechanism by which SHRM influences a firm’s effectiveness is not clearly understood. McEvoy and Buller (2012) presents a model that attempts to link firm strategy, SHRM and firm performance. Chowdhury (Milner et al., 2014) showed that core-employee based human capital is a significant predictor of small company outcome. For the purpose of this paper we assume that SHRM is especially critical to firm performance of knowledge based companies.

HR Management models, including recruitment practices, are largely developed based on large organisations with limited understanding of its application to small knowledge intensive start-up organisations (Heneman et al., 2000). This is in spite of the criticality of human resources to small knowledge intensive start-ups. Studies suggest that the existence of formal HRM practices is related to firm growth (Cardon & Stevens, 2004; Kotey & Slade, 2005; Ngueyen & Bryant, 2004). Many start-ups also fail due to their inability to recruit and retain key staff (Sarah et al., 2006).

Section two provides a quick overview of current literature on SHRM and more specifically recruitment processes at knowledge intensive start-ups. Section three highlights key findings from the three case studies. The case studies were conducted via interviews

with the three owner-managers of the knowledge intensive start-ups in Malaysia. Finally a framework for recruitment in the knowledge intensive start-ups is proposed.

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## 1. LITERATURE REVIEW

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### 1.1 Informal Style

Mainstream literature on SHRM practices in small firms is consistent in their findings that small firms tend to lack formal HR policies. Small firms including knowledge intensive start-ups tend to have informal HR practices directly managed by the owner-managers. Mayson and Barret (2006) found that HR practices in small firms are informal and ad hoc. Owner-managers typically favour informality and oppose external regulation (Mayson & Barret, 2006). This results in owner-managers rarely formalising HR policies or hiring specialized HR staff (Carroll et al., 1999).

### 1.2 Recruitment Process

Researchers have focused their efforts on recruitment due to the fact that issues regarding staffing are one of the most frequent complaints highlighted by small firm owner-managers (Carroll et al., 1999). Barrett and Mayson (2004) found that 69.4% of 1753 small firms in Victoria Australia were “very concerned” about staff recruitment. Small firms prefer convenient and inexpensive recruitment approaches such as newspaper ads, face to face interviews, word of mouth and reference checks (Delery, 1998).

Recruitment processes within start-ups are typically informal with no standardised process. Such informal means of recruitment are seen as facilitating the recruitment of individuals who are of good fit into the culture of the start-up organization and who are able to develop and grow with the organization (Heneman et al., 2000). Informal recruitment has its limitations as individuals with the key skill may not always be available from the informal sources (Kotey & Slade, 2005).

### 1.3 Compensation

Research has linked a firm’s performance and growth to its ability to attract, motivate and retain employees by offering competitive salaries and appropriate rewards. The survey conducted by McEvoy (1984) found that only 29% of the surveyed firms used salary surveys to set compensation levels and only 33% used job evaluation as a basis of determining compensation. Barrett and Khan (2005) found that small firms focus on intrinsic rewards due to their inability to compete with large firms in pay. Hornsby and Kuratko (1990, 2003) highlighted that small firm employs an informal approach towards compensation.

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## 2. INTERVIEW FINDINGS

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### 2.1 Lack of Appreciation for SHRM

Most apparent, among the three owner managers, is their lack of appreciation and in depth knowledge of SHRM. None of the owner managers gave particular importance to SHRM or possessed deep understanding of SHRM. The owner managers view of HR is primarily dominated by transactional processes such as payroll, benefits tracking, leave processing, etc..

This is not surprising for technology start-up managed by young technopreneurs. Although technopreneurs are experts at their respective technical fields they usually lack the experience and knowledge related to SHRM. Young technopreneurs also usually lack the managerial experience in large multinational companies to be exposed to SHRM.

Owner managers do not see SHRM as critical for the success of their start-up. This is in spite of consistent recruitment problem expressed by the owner managers. The owner managers seem to take a short term view when it comes to filling vacancies. They see candidates as just resources to fill their short term resourcing needs. They assume these candidates will leave in time and will need to be replaced. Two of the owner managers indicated that the average duration of employment in their companies is only one to two years. Due to the lack of trust in these candidates, owner managers believe it necessary to micro manage their resources. This again is a direct result of the vicious cycle due to lack of SHRM. As a start-up fails to attract, recruit and retain the right talent, owner managers require to spend excessive amounts of their time to micro manage simple tasks. This in turn, prevents the owner managers from focusing on more strategic initiatives for the start-up. This results in slow growth, less profits and further difficulty to attract talent.

### 2.2 Informal Style

The three case study findings concur with literature on the informal nature of HR practices in general and more specifically recruitment process in small start-up companies. This is driven by the belief of all three owner-managers that the small size of the company doesn’t mandate the setting up of formal HR processes. As discussed earlier, owner managers also do not think SHRM is critical for the success of their start-up firms. The cost associated with maintaining a dedicated HR person / team is deemed unjustifiable. Owner-managers believe they will be able to carry out the HR tasks themselves.

The owner-managers view his/her direct involvement in the informal HR processes as strength of the firm. This informal process is seen as giving the flexibility needed to attract key resources to the firm. One owner manager gave the example of when they attempted to recruit a senior manager who would directly report to the owner-

managers. The process involved a casual dinner with the candidate, during which the owners brought up the opportunity at their company. Such recruitment session is more of the start-up company selling their company to the candidate as opposed to the more traditional scenario where candidates convincing companies of their capabilities. Start-up companies lack the brand name and market position to attract high calibre candidates. The owner managers have to literally convince the candidates of the companies' viability and long term growth prospective. Candidates would only join the start-up companies if they believe in the business model and the leadership of the owner managers. This is where the owner managers play a key role in recruiting key staff.

There is acknowledgement among the three owner-managers that such unstructured approach may lead to inconsistent treatment of staff. This may lead to a perception of favouritism among the staff. But the three owner-managers do not view this as a major issue as they believe their personal credibility and relationship with their staff will avert such feeling of favouritism.

### 2.3 Recruitment Process

The interviews identified that the most common recruitment steps among the three start-ups where:

- a) Referral from current staff,
- b) Face-to-face Interview,
- c) Online recruitment portals (e.g. JobStreet.com).

These steps are not consistently applied to every candidate. The owner-managers utilises one or a combination of the steps for each particular candidate. Factors such as available time, familiarity with the candidate and job level impact the decision on the recruitment steps. For example all companies preferred referrals from current staff to senior positions such as managers. For entry level positions, all owner managers choose online recruitment portals.

Even when implemented, steps such as face-to-face interviews are not structured and standardised. The actual questions asked and criteria examined may differ from candidate to candidate. This variation is potentially even more significant between different interviewers.

The final hiring decision is based on the owner-manager's "feel" of the individual's fit in the organisation. This is done on a "gut feel" basis without much structured approach. There seems to be no structured approach for the interviews conducted even though this is the main evaluation for the individual's "fit".

Surprisingly owner-managers believe that their unstructured recruitment approach is successful even when two of them indicated that the average duration of employment is one to two years. This could be due to the fact that owner-managers don't see retention period as a measure of successful recruitment process. Potentially owner-managers take a short term view and are more concern with just filling the immediate vacancy. The

fastest and cheapest recruitment process is preferred by owner-managers. This short term recruitment view may have negative long term impacts on the firm performance.

Owner-managers also acknowledge their difficulty in identifying key resources with particular skills within their own circle of business acquaintances and friends. There is a perception that head-hunters and professional recruitment services are expensive among all three owner-managers. Due to this perception, owner-managers seem to restrict themselves to online recruitment portals, such as JobStreet.com, which are much cheaper. The quality and accuracy of the individual CVs on the site are a major area of dissatisfaction for owner-managers. Time consuming interview sessions are required to validate the experiences and skills claimed by the individuals on their respective CVs.

### 2.4 Compensation

The interview revealed that all three owner-managers interviewed actually pay above market rates to attract and retain their key staff. However, small firms are not able to offer extensive benefits to staff. According to the owner-managers, they will not be able to attract their key staff without offering above market compensation.

On top of the pay, owner-managers also believe other benefits they can offer such as flexible working hours, close knit "family" culture, lack of office politics, flat reporting structure help attract and retain key staff. This could be a key attraction for experienced hire who is disillusioned by work at large multinational corporations.

### 2.5 Staff Attrition

Two of the companies studied have an average duration of staff employment of only one to two years. Surprisingly owner-managers do not attribute this high attrition rate to their lack of SHRM practices. Instead of the high attrition rate is attributed to the work culture of the Gen-Y workforce. Gen-Y staff is seen as having unreasonable expectations at work and tend to move jobs very often. As such the owner-manager make limited effort to retain their staff. Anantha (2013) found that causes for staff attrition in Malaysia were job satisfaction, job fit, pay, career promotion, fringe benefits, relationship with management and staff personality.

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## 3. DISCUSSION

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The lack of appreciation for SHRM among owner managers of knowledge intensive start-ups is surprising. Appreciation and implementation of SHRM in start-ups will be able to improve the success rate of start-ups. There is a great opportunity to improve the success rate of start-ups in Malaysia by promoting SHRM to owner managers. Government agencies such as Multimedia Development Corporation (MDeC), who are entrusted to promote technology start-up in Malaysia, must promote SHRM

among owner managers. This can be done in terms of short training courses and also free consulting services to assist start-ups setup appropriate SHRM practices.

Small owner-managed firm consistently has an informal and ad-hoc approach to managing HR practices including recruitment. The owner-managers believe that their informal approach delivers the best possible results. In our opinion owner-managers are confusing between informal and unstructured. The general belief that informal practices must be unstructured is not true. Steps can be structured to ensure consistency and still be presented in a way as to be seen as informal by the target audience.

It is this failure to structure HR practices especially recruitment that poses the biggest threat and also opportunity for start-ups. Due to an unstructured recruitment, unsuitable candidates may be routinely hired by small firms. This directly impacts the performance of the firm, especially for knowledge intensive firms where the contribution of each individual is large.

All three owner-managers interviewed believe that their unstructured recruitment approach is successful. This is in spite of two owner-managers indicated that the average duration of employment is one to two years. The third owner-manager indicated an average of three to four years. Average employment duration of one to two years is very low. There is insufficient timeframe for talent development. The organisation as a whole would not be able to develop its competency. This could be a major limiting factor for the growth of the start-up. Owner-managers need to relook at how they evaluate the effectiveness of their recruitment process. A long term

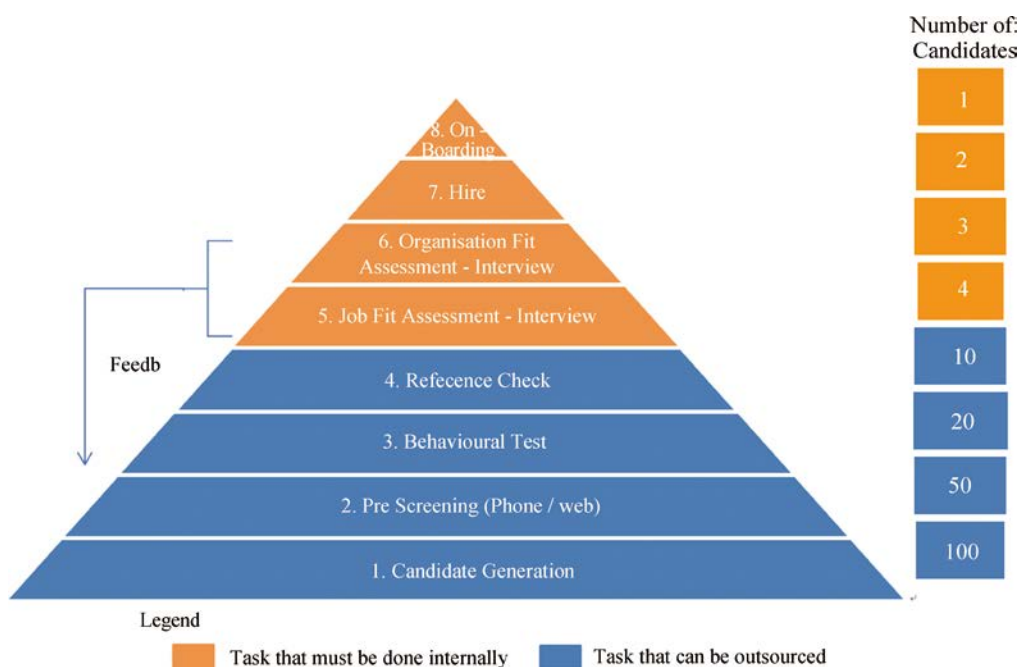
view of selecting and retaining the best talent will be strategic in making the start-up successful.

A formal recruitment strategy will enable start-ups to attract quality candidates. Potential candidates should be segregated into logical groupings such as fresh graduates and experience hire with family. Specific strategies must be developed to attract each segment. For instance, experienced hires with the family may be more attracted by non-cash benefits such as flexible work hours and medical benefits for the family. Fresh graduates may be attracted by a clearly defined and quick career progression plan within the company. The firm will need to meet the needs of the segment of candidates targeted for hire.

#### 4. PROPOSED RECRUITMENT FRAMEWORK

As highlighted in the previous section, our key findings highlights clear weakness in the understanding and implementation of SHRM among owner-managers of knowledge intensive start-ups in Malaysia. Particularly critical for the success of knowledge intensive companies is the recruitment process. Many start-ups also fail due to their inability to recruit and retain key staff (Sarah et al., 2006). Implementation of an effective recruitment process early on, would be able to improve the success rate of knowledge intensive start-ups.

Figure 1 is a proposed structured framework for recruitment to maximise the recruitment “hit” rate. The framework intends to preserve the “informal” nature of recruitment and its benefits while standardising the implementation. Adopting a behavioural approach to the



**Figure 1**  
**Proposed Recruitment Process for Small Start-Ups**

assessment of “fit” within the organisation will help to standardise the process. Behavioural assessment is based on the DISC (Dominance, Influence, Steadiness and Conscientiousness) framework can be utilised.

This strategy intends to maximise the internal “hit” rate for the start-up. From stage five which involves the start-up staff, the “hit” rate is projected at 25%. This saves the start-up valuable time and resources. The HR outsourcing company is able to effectively filter through a large list of

candidates and only provide the start-up with the candidates most likely to succeed. Maatman et al. (2010) showed the value is created by HRM shared services.

There must also be a feedback mechanism from stage five and six to stage two (pre-screening). The pre-screening process should be regularly updated with feedback from stages five and six regarding characteristics of successful and unsuccessful candidates. This will ensure a progressively better “hit” rate for the entire process.

**Table 1**  
**Description of Proposed Recruitment Framework Steps**

No	Recruitment steps	Descriptions	Strategy
1	Candidate generation	Generating applicants for a particular position via advertising or existing database of CVs.	Outsource
2	Pre screening (phone / web )	Initial phone/web interview to assess accuracy of information provided in the CV.	Outsource
3	Behavioural test	Conduct online behavioural test such as DISC (dominance, influence, steadiness and conscientiousness) model. To filter only candidates matching the required DISC profile.	Outsource
4	Reference Check	Confirmation of previous experiences based on CV.	Outsource
5	Job fit assessment - interview	Interview by the immediate supervisor to confirm candidates competency and skills based on the positions Job Description (JD). Ensures person-job fit. Structured interview with a standard set of questions and an established set of answers must be used for assessment.	Internal – conducted by immediate supervisor
6	Organisation fit assessment - interview	Final interview by the owner-manager to confirm “fit” within organisation and culture and salary negotiation. Ensures person-organisation fit. Structured interview with a standard set of questions and an established set of answers must be used for assessment.	Internal – conducted by owner –managers
7	Hire	Provide candidate with the offer letter.	Internal – HR manager /owner-manager
8	On-boarding	On-boarding session to ensure that the new staff will fit in well into the organisation. This will also improve retention rates.	Internal - HR manager /owner-manager

## CONCLUSION

The three case studies reveal that Strategic Human Resource Management (SHRM) practices are not prevalent among knowledge intensive start-up companies in Malaysia. Owner-managers do not believe that SHRM is critical for the success of their firms. The informal HR practices at Malaysian knowledge intensive start-ups are in line with global trends. The unstructured recruitment processes leave in doubt the effectiveness of the entire recruitment process. There is a high potential to improve the overall success of knowledge intensive start-ups by adopting a structured recruitment process and also other SHRM practices early on. Further research should be undertaken to verify the effectiveness of the proposed framework via a pilot project at a knowledge intensive start-up.

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