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HUMAN RESOURCE CHALLENGES FOR GROWING SMES.

**HOW FLEMISH ENTREPRENEURS ATTRACT, DEVELOP AND RETAIN
EMPLOYEES.**

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ABSTRACT

For Flemish entrepreneurs human resource management is one of the biggest challenges for further development and growth (Forum on Entrepreneurship, October 2006). Hence, this paper aims to shed light on how successful entrepreneurs in Flanders manage their human resources. Building on Greiner's (1998) growth model and the model of Ulrich (1997), we conducted a qualitative study of various human resource practices within Flemish entrepreneurial firms in different sectors and stages of growth. We investigated the interplay between the focus of HRM and the growth phase of an SME. The main objective is to better understand the major challenges entrepreneurs experience when managing people during the first stages of company growth. Our findings suggest that HRM within growing SMEs shifts from an operational focus on people to a more strategic focus on procedures. Throughout the process of evolution entrepreneurs need to find the right balance of HR practices, paying attention to formalisation, delegation and coaching.

Keywords: SME; HRM; small firms; growth phase

INTRODUCTION

Numerous studies within the entrepreneurship domain emphasize the importance of the human resource policy of an organisation for effective organisational performance (*e.g.*, Shipton et al., 2006; Smilor & Sexton, 1996). Motivating competent employees is an important condition in order to stay competitive (Bhattacharyya, 2006). Recent evidence indicates that SMEs that have adopted more sophisticated HRM practices report superior performance (Hayton, 2003). Attracting and retaining valuable employees is especially important for entrepreneurial firms, since (1) the impact of one employee on firm performance is larger in a small firm compared to the impact in a large firm, (2) small firms have less tolerance for inefficiency, and (3) the evaluation of intangible assets (such as the value of human capital and knowledge) are becoming increasingly important in assessing the viability of firms and investment decisions (De Winne, 2006).

Research findings suggest that HR practices that are appropriate for larger organisations are not always applicable in small or start-up organisations (Carsrud, Gaglio, & Olm, 1987, Hill & Stewart, 2000). Delmotte and colleagues (2001) also refer to the fact that an SME is not the same as a large organisation in miniature. Given the importance and complexity of human capital within SMEs, several scholars (*e.g.*, Heneman, Tansky, and Camp, 2000; Hornsby & Kurato, 2003) advocate for more knowledge on the interaction between firm size and HRM. More specifically, there seems to be a strong interest in qualitative research on HRM in SMEs (Hill & Stewart, 2000; Vickerstaff & Parker, 1995; Kotey & Slade, 2005). Until now, most research has compared formal and informal HRM practices between different SMEs without explaining ‘how’ entrepreneurs implement HRM practices. Qualitative studies can help in gaining more insights into how entrepreneurs within their specific context (size, growth stage,...) use HR tools to develop and stimulate growth.

Taking these calls for research into consideration, this paper draws on case study research into human resource management within SMEs based in Flanders. The main objective is to identify the major challenges entrepreneurs experience in managing their human resources during the first stages of company growth. Furthermore, we aim to gain insights into how entrepreneurial firms adopt human resource practices to stimulate further growth.

To provide some answers to these questions, different types of entrepreneurial firms in terms of sector and growth stage (*e.g.*, the difference between a start-up and a fast growing or a mature company) were studied.

The remainder of this paper is organized as follows. Section 2 and 3 concentrate on previous research on HRM in SMEs and our conceptual framework. Section 4 describes the research design used. In section 5 we elaborate on our main findings. We end with a discussion and some suggestions for future research.

PREVIOUS RESEARCH ON HRM IN SMES

Most research on human resource practices in small firms has compared formal and informal HRM practices between organisations in different size categories. Hornsby and Kuratko (1990) examined HRM practices of small U.S. firms and reported increased sophistication in practices with firm growth. Company size did significantly affect the use of formalised HRM practices, especially for job analysis, recruitment, compensation, benefits and incentive plans. A replicated study of these authors (2003), however, suggested little advancement in the human resource practices of smaller firms over the last ten years.

Using data from small organisations in Australia, Kotey & Slade (2005) investigated the adoption of formal human resource management practices with increasing firm size. The results of their study demonstrate a move towards division of labour, hierarchical structures, increased documentation, and more administrative processes as organisations grow. The authors found that when the number of employees increases recruitment processes become more formalised, different methods of selection and training are used and more emphasis is put on performance appraisal of management staff.

A study of Heneman, Tansky and Camp (2000) found that the growth oriented entrepreneur does not seem to be concerned with traditional human resource management practices such as interviewing methods in staffing or job evaluation procedures in compensation. Traditional human resource topics focus on matching the knowledge, skills, and ability of the person to the job requirements. In SMEs, however, attention is given to matching characteristics of the person to the values and culture of the organisation. For leaders of small companies this entrepreneurial culture is an important asset to attract employees. According to McGrath and MacMillan (2000), the task of the entrepreneur is to build organisations with an entrepreneurial climate, where employees are stimulated and motivated to identify opportunities and competitive ideas.

McMahon & Murphy (1999) find support for the link between management style and implications for the HRM focus. In a similar vein, Andersen (2003) concludes by emphasizing the link exists between the status of HR practices and the person in charge of HRM in an SME. Therefore, to stimulate change and growth, an entrepreneur must be a successful leader and coach, who is able to motivate and empower his employees (Cools et al., 2007:74). However, developing an appropriate HR policy in this regard is not an easy job, as entrepreneurs need to find the right balance of HR practices as the organisation evolves (Kotey & Slade, 2005).

CONCEPTUAL FRAMEWORK

We will frame our research in two models, namely the growth phase model of Greiner (1998) and the well-known model of Ulrich (1997) concerning the four roles of HR.

The growth phase model of Greiner (1998)

Greiner's (1998) growth phase model analyzes the evolution of an organisation (see Figure 2). According to this model an organisation experiences six different subsequent stages defined by size, with each time a transitional period in between. The ability to react successfully to each of these crisis moments is pivotal for the further growth of the organisation. Greiner describes six phases of growth namely creativity, direction, delegation, coordination, collaboration and alliance. Hence a company's problems and solutions tend to change markedly as the number of its employees and its sales volume increase. An organisation steadily evolves from a one man's business to a professional firm in which formalisation, delegation and decentralisation rule (Greiner, 1998). As the unit of analysis in our research is the small organisation, we will focus on the first three stages of growth (*i.e.*, creativity, direction and delegation). To our knowledge these have not been touched upon deeply in existing literature. Greiner (1998) looks at five dimensions when observing an organisation namely age, size, evolution, revolution and growth of the industry. We will elaborate on the first three phases, as the unit of analysis is the small organisation.

Creativity. In the birth stage of an organisation, the emphasis is on creating both a product and a market. The founders are usually technically or entrepreneurially oriented and they generally disdain management activities. Besides this, communication is done in an informal way and long hours are compensated by the promise of ownership benefits. All

individualistic and creative activities are essential for a company to get off the ground. But as the company grows, those activities become an obstacle. Larger production runs require knowledge about the efficiencies of manufacturing. Increased numbers of employees cannot be managed exclusively through informal communication and new employees are not motivated by an intense dedication to the product or organisation. Managers try to act as they did in the past. At this point a crisis of leadership occurs which is the onset of first revolution. To overcome this crisis, a strong manager is needed to lead the company out of confusion and bring structure into the organisation.

Direction. The companies that survive the first phase by installing a good manager find themselves in a new period of evolution. They are characterised by the introduction of an organisational structure, accounting systems, incentives, budgets and working standards. Besides this a more formalised communication takes place. Finally, the new manager and his or her key supervisors assume most of the responsibility for instituting direction. Although the new directive techniques channel employees' energy more efficiently into growth, they eventually become inappropriate for controlling a more diverse and complex organisation. Lower-level employees find themselves restricted by a cumbersome and centralised hierarchy. They have come to possess more direct knowledge about markets and machinery than do their leaders at the top; consequently, they feel torn between following procedures and taking initiative on their own. Thus, the second revolution emerges from a crisis of autonomy. To deal with these difficulties managers start to delegate. Yet it is difficult for top-level managers who previously were successful at being directive to give up responsibility to lower-level managers. Moreover, the lower-level managers are not accustomed to making decisions.

Delegation. The next era of growth evolves from the successful application of a decentralised organisational structure. It entails more responsibilities towards plant managers. Profit centres and bonuses are used to motivate the employees. Top-level managers manage by exception and focus on the takeovers of other companies. These characteristics can create a sense of losing control. Soon, the organisation falls into a crisis of control. This revolutionary phase is under way when top management seeks to regain control over the company as a whole. Those companies that move ahead find a new solution in the use of special coordination techniques.

The model of Ulrich (1997)

To map the orientation of HRM within our organisations, we will use the model of Ulrich (1997). He distinguishes four roles of HR (see Figure 2). These are determined by two axes. The first dimension focuses on the time horizon of HR interventions (short-term versus long-term) and the second dimension entails the focus of the activities (people versus processes). Figure 2 gives a visual image of the four roles based on these two axes. We can differentiate between the role of strategic partner, change agent, administrative expert and employee champion. In view of this model, we discuss the cases as we go into different HR domains. Following previous studies examining human resource management practices (Shipton et al., 2006), we confined ourselves to three primary sets of HRM activities or practices: hiring and recruiting, development (including training, employee involvement, and performance appraisal), and retention (including compensation and a stimulating work environment). This analysis helps us to determine the focus of HR in each growth phase and helps us to track the evolution of this focus as the organisation evolves.

Insert Figure 1 About Here

METHOD

Research design

The research design is case study research, as our aim was to get a thorough insight into how HR practices are managed within entrepreneurial firms. Case studies permit to fully comprehend a phenomenon within its real-life context (Yin, 1994). They are most appropriate for ‘how’ questions because they deal with operational links, rather than mere frequencies or incidence (Yin, 1994). The case study is a detailed investigation, with a view to providing an analysis of the context and processes involved in the phenomenon under study (Stake, 1995). The phenomenon is not isolated from its context but is of interest precisely because it is in relation to its context (Eisenhardt, 1989). Multiple-case designs allow cross-case analysis and comparison, and the investigation of a particular phenomenon in diverse settings (Yin, 1994).

Case description

As SMEs encompass firms of various sizes with varying degrees of complexity in management practices (Kotey & Slade, 2005), we tried to achieve variance in the selection of our cases. Organisational size was measured by counting the number of full-time equivalent employees in each organisation. We adopted EU size categories to select our organisations: 2 micro enterprises (0-9 employees), 2 small enterprises (10-49 employees) and 2 medium-sized enterprises (50-249 employees) (Curran & Blackburn, 2001). Hence, the cases discussed in this paper all fall within the size limits of small to medium-sized companies contained in the EC definition (i.e., those employing between 0 and 249 people).

We included organisations that were fast growing firms within their respective sector. For the case selection, experts in entrepreneurship and SMEs from a prominent business school in Flanders and experts of small business oriented organisations (*e.g.*, Flemish Chambers of Commerce and Industry) were consulted. The six cases had the advantage of providing a contrasting and complementary mix of industry types.

Furthermore, we searched specifically for companies that demonstrate best practices concerning their HR policies, with a special focus on the key areas of the research issues: recruitment and selection of new employees, training and development, and retention of employees in small growing firms.

Data collection

We followed a multiple-source approach. Besides interviews with the entrepreneur and, if applicable, the HR responsible or other people involved within the company policy on HRM, we organized focus panels with a sample of employees working in the companies under study (Krueger & Casey, 2000). Through interviews and focus panels, researchers can access case participants' views and interpretations of actions and events (Yin, 1994). Furthermore, this allowed us to test the policies as explained by the company responsables for compatibility with the perception of the target group. As all interviews and focus panels took place on site, they coincided in all cases with a tour of the work area. In a third step, we presented these best practices to a broader group of entrepreneurs that currently are not having an explicit focus on managing human resources. Doing so, we test the feasibility, generalizability and barriers of the best practices sketched out in the case studies and we also make a first step in creating awareness among the broader population of Flemish entrepreneurs. All interviews and focus panels were taped and transcribed. Interviews typically lasted 90 minutes; focus panels 120 minutes. Table 1 presents an overview of the six cases.

Insert Table 1 About Here

Data analysis

We coded all interviews along the different dimensions of our conceptual framework. The coding scheme enclosed a set of five categories for analysis: the context of the organisation, entrepreneurship and growth, the organisational culture, the HR policy, and the HR practices used within the organisation. We incorporated 16 sub-categories, for instance recruitment and selection for HR practices. We used a qualitative data analysis computer program (AtlasTi) to facilitate the data analysis process. As such, meaningful data chunks could be identified, isolated, grouped, and regrouped for analysis (Creswell, 2003). To enhance the reliability and validity of our analyses, a second coder recoded approximately 10% of the interview transcripts. By coding the same interview twice, we were able to check the stability (Krippendorff, 1980; Weber, 1990). Ambiguities and disagreements in codings were resolved by discussing key terms and jointly reviewing the interview transcripts until consensus was reached.

We first analyzed the data by building individual case studies for each organisation, regarded as ‘families’ in AtlasTi. The creation of families is a way to form clusters for easier handling of groups of codes (Muhr & Friese, 2004). Relying on methods suggested by Eisenhardt (1989), we looked for within-group similarities coupled with intergroup differences. Furthermore, we selected pairs of cases and then listed the similarities and differences within each pair to identify the HR policy of our cases (Eisenhardt, 1989). Comparing and contrasting several cases enabled us to reveal common patterns and differences between our cases.

FINDINGS

Our analyses indicated considerable differences between the six cases. On the basis of our cross-case comparison, we could set out the main characteristics of each stage of growth: creativity (micro firms), direction (small firms) and delegation (medium-sized companies). Table 2 summarizes our findings within each phase. To illustrate these findings, we describe the three growth stages in more detail with representative excerpts of our interviews. Figure 2 gives a visual image of the growth stage of each of the six cases.

Case 1 and 2: HRM in micro firms (0-9 employees)

Context of growth and entrepreneurship. Both case 1 and 2 are situated in the phase of creativity. In these micro firms entrepreneurs are characterized by their creative, intuitive personality, with a clear focus on creating and selling both a product and a market (Greiner, 1998). Schravendijk (2004) refers to the entrepreneur as a pioneer. The enterprise is closely related to the management style of the leader, who is founder, owner and general manager of the company. Within micro firms, with a small group of employees working closely together, informality is key. Entrepreneurs of micro firms are usually technically or entrepreneurially oriented, disdaining long term management activities. The entrepreneur of case 1 clarifies: *“Actually, professionalization was never my objective. I never walked around with the idea ‘I want to make this my job’. I was just involved in it, I liked it and I thought it was worthwhile. I am a short term thinker. Tomorrow is another day.”*

Recruitment and selection of new employees. In micro firms it is the entrepreneur that makes up the personnel planning and does the selection interviews, sometimes in collaboration with a senior employee. In view of the small scale of a micro firm, the hiring of new personnel is not that frequent. In micro firms job descriptions are fluid and flexible. Mainly people with little experience are recruited. Recruitment in micro organisations happens mostly through their informal network. Before a job opening is published, other options are explored such as the availability of interns, volunteers or acquaintances of current employees. This is not only cheaper; there is also more certainty about the fit of the new employee in the organisational culture.

Training and development. Regarding training and development, our study confirms that micro enterprises mostly fall back on on-the-job learning and self-study. The moments of learning are mainly implicit and informal. Having lunch together for instance can be an appropriate way of knowledge sharing. Micro firms often rely on external trainings too, not only for the employees but for the entrepreneur as well. There is no development procedure and trainings are often on demand.

In micro firms the entrepreneur is responsible for people performance. The evaluations are mostly done informally, without clear objectives or a link between results and

compensation. In case study 2, for instance, the client is used as a referral. On the other hand, in our interviews the employees indicated that they receive ample support and guidance. The contact moments with the employer, who has a coaching role, are frequent and informal by nature, as cited by the entrepreneur of case 2: *“We are working in an informal way. I mean, people are having lunch together. Those are HR moments, when things are shared. In the evening, we sometimes go out for a drink. What I do as well, is take an employee with me when I have to drive up somewhere. Those are often moments that things come up. That is how I keep being tuned in.”*

Retention of employees.

Considering rewards we found little hierarchy between the wages. The compensation policy, however, is little transparent. A number of extra benefits are offered, such as a car, a group insurance and an end-of-year bonus. Employees are offered much flexibility, partly due to the good rapport with the entrepreneur. Moreover they are motivated by the possible involvement and participation in important decisions on organisational level. Employees of micro firms indicate they can grow with their organisation; they evolve horizontally by taking up more responsibility. Job rotation is a frequently used way to offer a new challenge to the employee. In spite of the limited vertical career path job content seems to be a motivating factor. An employee of case 1 describes: *“As this is a young organisation, you can personally contribute to its further growth. In a way you can even determine your own job content. I think that’s a big advantage when you work for a start-up.”*

Focus of HRM. We found that the owner of a very small enterprise handles the personnel function since the firm employs only a few people. When mapping micro firms on Ulrich’s (1997) model, the two quadrants with a people focus are overrepresented. The employee champion (short term) and change agent (long term) prevail. Micro firms are characterised by employee participation and support for (creative) initiatives. Overall, the emphasis is more on operational HRM than on strategic issues. Our results suggest that employees miss the lack of formalisation, operational human resource processes and a clear HR strategy. An employee of case 1 puts it this way: *“We spend a lot of time together in an informal way. The challenge now lies in introducing formal communication moments and a formalised HR approach.”* In spite of this focus, we see a growing attention for the long term and the strategic aspect of HRM. In both cases, the entrepreneur is elaborating on a business plan with an HR component.

Major challenges for HRM. Typical about micro firms is the predominantly horizontal structure that one wants to preserve. The employees that surround the entrepreneur

are mostly a tight group that communicate informally. That is why the challenge an entrepreneur is faced with in this phase is directly linked to maintaining the climate of participation unique in a micro firm. When the organisation grows, it becomes more difficult to involve all employees equally in operational decisions. Moreover, with an ever growing team it becomes extremely difficult for the entrepreneur to keep the close partnership with every employee.

The creative, intuitive approach that was fruitful in the start-up phase appears to become an obstacle for a number of employees. There is a lack of formalisation, structure and clarity when thinking of performance, training or reward management. More specifically, employees report a need for a transparent training and compensation policy and a standardised introduction procedure for new employees. Employees miss a uniform strategy and functional organisational structure. An employee of case study organisation 2 clarifies: *“For me it would be better to focus on one business. Doing so, you would have clear job content, archiving the past and mapping the future. Currently new projects are introduced but old ones have to keep running too, which makes the workload too high at times.”*

Case 3 and 4: HRM in small firms (10-49 employees)

Context of growth and entrepreneurship. To ensure the transition to a following phase of growth, entrepreneurs have made a number of strategic choices. Small firms (case 3 and 4) are characterised by direction. The creative approach that worked in the first phase of growth has conceded for internal efficiency. In these companies an organisational structure is introduced to separate different functions and activities. In many small firms a general manager is appointed who leads the company through a sustainable evolutionary phase. Job assignments become more specialised and the entrepreneur has determined a key role within the company. Some feel at best when they can be actively involved in the core activity of the organisation, others become managers of their company. The founder-entrepreneur of organisation 3, for instance, calls herself the ‘shadow-CEO’: in order to focus more on the expansion of the organisation, she has transferred the responsibility of the daily operational tasks to a general manager.

Successful entrepreneurs of small companies feel the need for self management and delegate a couple of core tasks to their employees. Doing so, entrepreneurs of micro firms try to involve their employees. In organisation 4, for instance, the possibility exists to become partner of the organisation.

Recruitment and selection of new employees. The employees are responsible for workforce planning, in collaboration with senior management. The way in which this planning is done depends on the structure of the organisation. At organisation 3 the planning is made in the beginning of the year. A prediction is made of how many newcomers will be needed. At organisation 4 the personnel planning is more ad hoc. Like in micro firms mostly junior profiles are recruited that are often found in the informal network of the current employees. Especially at organisation 4 they appeal on interns, temporary workers or freelancers to fill in an open position. Organisation 3, operating in the recruitment sector, makes more use of formal recruitment channels. Applicants for a job opening have several interviews before joining the company, mostly with the entrepreneur or general manager. In organisation 3 junior employees are also involved in the recruitment of newcomers by taking up selection responsibilities. The selection criteria in small firms are based on job descriptions or functional cards with competences, linked with the most important company values. As in micro firms the fit with the organisational culture is primal.

Training and development. Similar as in micro firms, on-the-job training and self-study is more important than formal training. Knowledge is shared informally through intranet, during lunch, but also during weekly meetings. In small companies external trainings are attended in team. For example at organisation 4 an external consultant is invited to train the entire team. Employees are stimulated to indicate their training needs mostly ad hoc but also during yearly performance interviews.

At organisation 4 the entrepreneurs are responsible for people performance; at organisation 3 this HR practice is partly delegated to seniors. Small companies appeal more to formal assessments than micro firms. These evaluation moments take place regularly on the basis of the job description (short term) and strategy (long term). Besides this, the weekly project evaluations are used as an evaluation tool. In small companies the attention for coaching seems to have diminished although some senior employees take up the role of coach.

Retention of employees. The motivation to work in a small enterprise seems to be intrinsic and extrinsic. Like in micro companies the wage policy is not transparent. Entrepreneurs of small firms mention the importance of extra benefits and flexibility. Not only job content and the possibility to have a say are mentioned, but also the friendly work environment and the possibility to evolve with the organisation. Employees can promote within the organisation without a job opening. They can create a new job and take up more responsibilities. The entrepreneur of case study organisation 3 indicates: “*Within a change*

process it is very human to want to protect your position, but in a company that doubles every year, all positions are up in the air.” Within this organisation a limited career path is set out. This ensures quick promotions from a junior to a senior level.

Focus of HRM. In small companies the entrepreneur and senior employees are responsible for human resource management. Strategic human resource management is often the responsibility of the general manager, while one of the employees takes care of the operational part of HRM. The HRM of small firms balances between chaotic and less chaotic, between freedom and discipline. Ulrich’s Model (1997) shows that although operational people management (employee champion) remains dominant, the focus shifts to long term, strategic HRM (change agent). Organisation 3 emphasizes a short term, operational HRM. At organisation 4 we found a predominantly long term and strategic people focus. Overall, people performance and long term development of employees gain attention. Furthermore, during this phase entrepreneurs give more attention to HR procedures than in the creativity phase. In this growth stage employees look for an elaborated HRM that is not only centred around informal coaching but also based on basic HR procedures. Performance interviews still have a rather informal character. But the entrepreneurs of our small companies have structured other HR practices, like training and rewarding, or the selection procedure for new employees. The entrepreneur of organisation 3 states: *“For 3 people, you don’t need anything. But for 30 employees who work in a SME servicing multinationals, you have to keep up with your policies. This is a major challenge.”*

Major challenges for HRM. Given the fact that the attention for informality diminishes, it becomes more difficult to align all employees. A first step towards delegation was pivotal to get things done. The challenge within this growth phase is to delegate without losing sight of the necessary support for the workforce. Employees advocate a more elaborated training, performance and reward policy with (long term) career perspectives. Hence this stage of growth ends by a crisis of autonomy. First line management often feels torn between following procedures proposed by the organisation and taking initiative on their own. In terms of HR interventions, this can lead to an ad hoc HR approach where employees are unclear about the support they might expect from their supervisor. This is illustrated in organisation 4, where employees lack a cross-departmental HR contact person: *“We are missing a neutral person that is not the boss but can take decisions without having to ask the bosses. Career management, compensation and benefits, appraisal... it’s all linked. And that is what we miss, someone with whom you could talk about your problems so that you don’t get*

the feeling that you need to get a hold of your boss for everything and then hope he's in a good mood."

Case 5 and 6: HRM in medium-sized firms (50-249 employees)

Context of growth and entrepreneurship. Medium-sized companies (case 5 and 6) are characterized by a decentralised organisational structure. Within this growth stage entrepreneurs focus on a mission, vision and strategy. The elementary strategy and the basic processes that were installed have been developed. Entrepreneurs dealing with the crisis of autonomy gave their employees more responsibilities and made them aware of their impact on the organisation. In medium-sized firms a number of high-potentials within the company were empowered and thus became line managers. The roles of the entrepreneur were split up and divided among different people. Ownership, strategic and operational management are no longer the responsibility of one person. The entrepreneur of organisation 6 for instance has made the choice to remain a shareholder but has transferred all operational tasks to a team of senior managers. As he describes it: *"At a certain moment the issue pops up of who you are as a person, as a manager, as a shareholder and how you split up those different roles. I am actually not good in certain things or I do not like to do some things, but I do have an idea of how things should be as a shareholder. So I came to the conclusion that I should appoint a management team. In the beginning, this was very difficult. The people that you assigned to be in the management team don't involve you in everything anymore. And although you empowered them to be able to do that, you feel left out and think 'Guys, can I join in?'"*

Case 5 is in a crisis of autonomy and is evolving towards the third phase of delegation. Case 6, on the other hand is already situated in the phase of delegation as they are already highly decentralised. They are however faced with a crisis of control.

Recruitment and selection of new employees. In medium-sized firms open occupations are clearly defined. Both the entrepreneurs, the line management and the HR manager are involved in personnel planning. More so than in micro or small firms they look for specific profiles. Where in former phases experience was less of an issue, in medium-sized organisation senior profiles are wanted. The entrepreneur of case study 5 clarifies: *"Until a few years ago we could manage perfectly with three business managers, me and my two partners. Up to about 40 people, this is possible, but it is not the case anymore. A few years ago we introduced a middle management. Now, we are looking more for senior profiles, while in the past we recruited junior profiles that we could train. People with a track record and*

experience now come into the organisation and can take up a part of the management.” The informal network is exhausted and the HR manager has to rely on formal recruitment channels to attract new employees. The selection process is much more formal than it was in former phases. At organisation 6 three interviews are planned, where the necessary competencies are examined; one with the HR manager, one with a line manager and one with an employee. The fit with the organisational culture is not as important as the expertise of the newcomer, as he has less impact on the organisation than when he would enter smaller organisation.

Training and development. Internal training is almost non-existent in micro or small firms but becomes more prevalent in medium-sized organisations. At organisation 6 a pool of experienced consultants train the whole workforce. More and more experienced colleagues are called in to work as a trainer or coach. The attention for on-the-job training and self-study remains along with a new consideration for external education. Thus medium-sized companies have more variety in their training and development policy. The training needs may be indicated by the employees themselves as by the direction.

The responsibility for people performance is split up. Especially line managers are responsible to raise the motivation and performance of employees. Yearly evaluation meetings are proposed and linked with the strategy of the company. However, due to the growth of the organisation those meetings do not always take place. In comparison with smaller companies, the attention for coaching has diminished and more formal procedures are used. When we look at case study 5 we see for instance the use of assessment centres.

Retention of employees. In medium-sized firms entrepreneurs try to make the wage policy more transparent. The difference in experience between the different employees is larger, which results in larger wage discrepancies. Furthermore, the importance of extra benefits drops. The motivation to work for a medium-sized company is comparable with the other two phases. Employees refer to job content, clients and certification (at organisation 6).

In order to engage experienced employees, medium-sized companies put more effort into career management than micro or small companies. Employees are given more possibilities to evolve horizontally and vertically in the organisation. At the moment employees of organisation 6 are given the choice between two career paths: the technical path and the commercial one. Internal job rotations, also between these two paths, are possible.

Focus of HRM. The HRM of medium-sized organisations is decentralised. Most medium-sized companies have installed a human resource manager who introduces and streamlines a series of human resource practices, in collaboration with the entrepreneur. Recruitment and people performance are delegated to the line manager who collaborates with

the employee concerned. We notice a shift from short term/operational HR (case 5) to strategic, procedural HRM (case 6). Compared to the former phases the strategic quadrants become more important while the focus on people decreases. In both cases the strategic partner role grows. Medium-sized companies have a mission and vision with complementary HR procedures. Employees report more long term HR investments such as development and career management. From our analysis we learned that in spite of the growing professionalism and formalisation of medium-sized organisations, the need remains to have attention for the operational, people focused HR policy that is typical for the start-up phase.

Major challenges for HRM. A decentralised structure exists with a lot of responsibilities for the line management. The challenge that appears during this stage of growth is the retention of the early employees. In a continuously changing environment it is difficult to keep them motivated. In this phase entrepreneurs appear to be focused on strategy, when losing operational aspects out of sight. Entrepreneurs typically face a crisis of control, where autonomous line managers each delineate their own policy, at the expense of a uniform one. The general manager of case study 6 describes: *“A big challenge is to keep the connection between different employees. In the beginning you are a group of eight. When you grow, you can grow apart. We wanted to keep that connection by building smaller units. This means you go back to smaller groups of employees that have the flexibility and the sense of belonging together. Some people leave because they think the organisation has become too big. You don’t know everybody anymore.”*

DISCUSSION AND CONCLUSION

The main objective of this study was to better understand the major challenges entrepreneurs experience in managing people during the first stages of company growth and to gain insights into how entrepreneurial firms use their HRM to stimulate growth. By linking Greiner’s (1998) growth phase model to Ulrich’s (1997) HRM role model we got a thorough insight into how the focus of human resource management changes in an SME faced with growth. In what follows, we discuss the most salient findings of our investigation, the strengths and limitations of our research design and our suggestions for future research.

Discussion of findings

We found clear indications that HRM in growing SMEs tends to get more formalised, even in the first stages of growth. This is in line with Kotey and Slade's (2005) findings, suggesting a move from simple structures with centralised and informal systems to functional structures with specialized functions and prescribed practices.

When we contemplate what we have learned following this study we can conclude that the focus of HRM changes when the organisation grows. The challenge of micro firms (0-9 employees) is linked to the climate of participation that is unique for this growth stage. At a certain moment, a growing micro is confronted with a crisis of leadership. As in McMahon and Murphy (1999) and Anderson (2003) we found a clear connection between the HR policy and the management style of the HR responsible. Throughout the process of growth the focus of HRM transforms in line with the orientation of the entrepreneur. To ensure a smooth transition to a following phase of growth the entrepreneur needs to move away from the intuitive management style that worked well before. Successful entrepreneurs of growth will establish an elementary organisational structure to separate different functions and activities. Employees feel the need for a more formalised HR approach in line with the business plan.

Successful entrepreneurs of small companies (10-49 employees) are faced with a new crisis, related to the need for self management. During this so-called crisis of autonomy employees feel torn between following procedures proposed by the organisation and taking initiatives on their own. Hence the challenge within this growth phase is to delegate without losing sight of the necessary people support. Entrepreneurs tackling this crisis establish the first line managers, giving senior profiles more responsibilities and making them aware of their impact on the organisation. We found that when an organisation grows it moves from a short term focus on people to a long term focus on procedures. The larger the organisation, the stronger HR emphasizes strategy and processes. Successful entrepreneurs in this growth stage delegate some HR practices to the line, while elaborating on long term career perspectives for employees.

Medium-sized firms (50-249 employees) have a decentralised structure with a lot of responsibilities for line managers. Entrepreneurs typically face a crisis of control, where autonomous line managers each delineate their own policy, at the expense of a uniform one. Therefore successful entrepreneurs of growth make their strategy and communication sufficiently visible. They examine whether or not the HR initiatives within the organisation are consistent and if the decentralised HR management is not too dependant on the line

management involved. The challenge that appears during this stage of growth is the motivation and retention of the early employees. The HRM needs to be expanded and consolidated with sufficient attention for informality and people. When this crisis of control is handled correctly, the organisation faces a stable period of consolidation. We may conclude that a successful entrepreneur willing to attract, develop and retain his employees during all stages of growth deals with delegation and formalisation, keeping in mind that employees need the necessary support and coaching in order to excel.

We acknowledge that the dynamic and entrepreneurial culture that often characterizes SMEs is an important asset to attract employees, as stated by Heneman and colleagues (2000). However, the investment in maintaining the employability of the employees and in the offering of sufficient career possibilities can not be taken for granted. As organisations grow, employees appear to have a need for clarity regarding their role in the organisation, the support they receive at the (long term) perspective the organisation has to offer. As a result of that need for transparency more formal HR systems are being brought to life. Conversely, that formalisation collides with the small-scaled SME and the informal character that makes it so attractive. This tension is one of the crucial challenges when SMEs construct their HR policy.

Research implications

We believe there are lessons to be learned from ‘best practice’ companies. As Rickards (1996) describes, these lessons require both ‘what’ as ‘how’. In our study, we investigated the ‘how’ question, building on qualitative data. The case study methodology gave us a rich insights into the subtleties of the growth process (Chatman & Flynn, 2005), but also triggers some further questions, indicating possible fruitful avenues for further research. A first question relates to the observation that during initial growth stages, entrepreneurs need to find the right balance between nourishing the entrepreneurial culture in the organisation, while at the same time providing sufficient clarity and consistent support to employees across the organisation. The implications of finding this balance in terms of which HR responsibilities to divide to the line and which ones to keep centralised is still not clear. Also, we need further insights in how to make such a co-makship effective so that both the HR function and business entities collaborate in a concerted way to manage the human resources across the organisation. Finally, we see some important questions of a structural kind. How HR effectiveness relates to the structure of the organisation and, especially relevant in the later growth stages, how HR effectiveness relates to the structure of the HR department itself

is not clear yet. Many larger organisations have recently introduced a three pillar HR structure model including a shared service centre, an expert centre to develop HR policies and processes and an HR business partner department, servicing distinct business entities. Such a model is believed to balance between centralised HR and local business unit needs and to make sure that the different HR roles identified by Ulrich (1997) get fulfilled. An interesting issue is the size an organisation needs to have before it could benefit from such a structure. Another issue concerns possible alternative structure solutions for organisations that believe to be too small to carry such an elaborated structure.

In terms of the methodological choices we have made, we acknowledge that there are also limitations inherent in the kind of research we have conducted. The results and discussion need to be accepted within the limitations of our research design. This study was conducted with a limited number of companies, needing further cross-validation to assess whether the perceptions we found also apply within other research populations. A broader sample selected among the same criteria is needed to confirm our results (Eisenhardt, 1989). Moreover, the data were gathered over a relatively short time period. Longitudinal research should be conducted in order to study these organisational dimensions during different moments in time. We also focused on the three first stages of Greiner's model of firm growth. Future research could pick up where this study left off and research the next phases of coordination, collaboration and alliance, in relationship to the different roles of HR.

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TABLE 1**Overview of the case study organisations**

Organisation	Sector	Size (# employees at the time of selection)	Method (# employees who participated)
Case study 1	Social profit; project work in the voluntary sector; single site	Micro (6)	3 interviews (3)
Case study 2	ICT and internet	Micro (6)	3 interviews (3)
Case study 3	Online recruitment; single site	Small (22)	2 interviews + 1 focus panel (8)
Case study 4	Communication; single site	Small (24)	1 interview + 1 focus panel (7)
Case study 5	Marketing	Medium-sized (60)	1 interview + 1 focus panel (7)
Case study 6	IT Integrator	Medium-sized (200)	2 interviews + 1 focus panel (8)

TABLE 2

Analysis for SMEs

	Micro firms (0-9 employees)	Small firms (10-49 employees)	Medium-sized firms (50-249 employees)
Context of growth and entrepreneurship	<ul style="list-style-type: none"> ▪ Phase of creativity ▪ Entrepreneur as pioneer ▪ Importance of informality, family-feeling ▪ Central leadership ▪ Function as entrepreneur-owner-founder-manager-employee 	<ul style="list-style-type: none"> ▪ Phase of direction ▪ Entrepreneur as builder ▪ Need for more input and self management ▪ More formalisation and structure ▪ Attempt to delegate roles of entrepreneur 	<ul style="list-style-type: none"> ▪ Phase of delegation ▪ Entrepreneur as manager ▪ Decentralised structure ▪ Focus on vision, mission and strategy ▪ Heavily decentralised policy, roles of entrepreneurs are filled in by different people, entrepreneur delegates some of his functions to the line

Recruitment and selection	<ul style="list-style-type: none"> ▪ Entrepreneur determines the personnel planning, sometimes with experienced employees ▪ Ad hoc 	<ul style="list-style-type: none"> ▪ Entrepreneur(s)/managers determine the personnel planning ▪ Balancing between ad hoc (Case 3) and more processed (Case 4) 	<ul style="list-style-type: none"> ▪ Entrepreneur(s)/line managers/HR manager determine the personnel planning ▪ More formalised, determined in advance
	<ul style="list-style-type: none"> ▪ Informal network is most important ▪ Selection interview with entrepreneur, sometimes with experienced employee ▪ Flexible job descriptions ▪ Junior profiles ▪ Fit with organisational culture 	<ul style="list-style-type: none"> ▪ Balance between informal (Case 3) and business network (Case 4) ▪ Selection interview with entrepreneur(s). At Case 3 the first contact is with an employee ▪ On the basis of job description (Case 3) or functional cards with competencies (Case 4) in line with strategy ▪ Junior profiles ▪ Fit with organisational culture 	<ul style="list-style-type: none"> ▪ Business network is the most important ▪ Formal selection procedure linked with training trajectory: interview with HR Manager, coordinator and employee (Case 6) ▪ On the basis of job description ▪ Junior and senior profiles (specific) ▪ Fit with organisational culture is important but not pivotal, focus more on technical skills
Training and development	<ul style="list-style-type: none"> ▪ On-the-job/self-study ▪ Informal knowledge sharing 	<ul style="list-style-type: none"> ▪ On-the-job/self-study ▪ Informal (lunch) and formal (intranet, weakly meetings) knowledge sharing 	<ul style="list-style-type: none"> ▪ On-the-job/self-study ▪ Informal and formal knowledge sharing (intranet, portal, work groups, ...)

	<ul style="list-style-type: none"> ▪ External training (also for entrepreneur) ▪ Indication of training needs by employees 	<ul style="list-style-type: none"> ▪ External training (sometimes invitation to the entire company for the whole team) ▪ Indication of training needs by employees and through job descriptions 	<ul style="list-style-type: none"> ▪ External and internal training: role of colleagues when giving training ▪ Training needs indication through job description and by employees
Retention of employees	<ul style="list-style-type: none"> ▪ Entrepreneur is responsible for people performance ▪ Informal evaluations, without objectives or linked rewards, client as barometer (Case 2) ▪ Direct support and coaching because of small scale ▪ No wage transparency ▪ Little wage hierarchy ▪ Extra benefits ▪ Intrinsic motivation: job content, social engagement, involvement ▪ Limited vertical career path ▪ Internal job rotation and responsibility for own job content 	<ul style="list-style-type: none"> ▪ Entrepreneur/senior profiles are responsible for people performance ▪ More formal, yearly evaluations on the basis of job descriptions and strategy; weekly project evaluation (Case 3) ▪ Attention for coaching diminishes, colleagues with more experience sometimes support the employees ▪ No wage transparency ▪ Little wage hierarchy ▪ Extra benefits ▪ Intrinsic motivation: job content, social engagement, involvement, quick promotion, work atmosphere ▪ Limited vertical career path ▪ Internal job rotation and responsibility for own job content 	<ul style="list-style-type: none"> ▪ Line management is responsible for people performance ▪ Yearly evaluations, linked with strategy (informal presentation) ▪ More formal procedures e.g. assessment centres (Case 5) ▪ Attention for coaching diminishes, colleagues with more experience take up support of employees ▪ Wage transparency and wage hierarchy ▪ Less extra benefits ▪ Intrinsic and extrinsic motivation: job content, clients, certification ▪ Choice between two career paths ▪ Internal job rotation

<p>Focus of HRM</p>	<ul style="list-style-type: none"> ▪ Entrepreneur is responsible for HR ▪ Importance of people mainly short term and operational HR ▪ Need for formalisation, operational process focused HRM and the construction of a clear HR strategy 	<ul style="list-style-type: none"> ▪ Entrepreneur(s) and management are responsible for HR ▪ Importance of people mainly short term/operational ▪ More attention towards strategic and processes in comparison with micro firms, moving away from intuitive approach ▪ Need for formalisation of strategic HRM, not only focus on procedures but also on human dimension 	<ul style="list-style-type: none"> ▪ Decentralised HR policy: entrepreneur, line and HR manager are responsible for HR ▪ Shift from short term operational HR (Case 5) to long term/strategic with more attention for processes (Case 6) ▪ Need for a uniform operational HRM, focused on people
<p>Major challenges</p>	<ul style="list-style-type: none"> ▪ Maintaining of climate of participation, the entrepreneur as coach ▪ Dealing with the crisis of leadership: <ul style="list-style-type: none"> • Choosing the right role for the entrepreneur • Delegation of some core tasks 	<ul style="list-style-type: none"> ▪ Aligning the employees, make a first step towards delegation with sufficient amount of support for employees ▪ Dealing with the crisis of autonomy: <ul style="list-style-type: none"> • Elaborate strategy and processes • Empowering of employees, delegate some 	<ul style="list-style-type: none"> ▪ Retention of first employees, elaboration and consolidation of HRM with sufficient attention for informal, human dimension ▪ Dealing with the crisis of control: <ul style="list-style-type: none"> • Sufficient communication on strategy and direction • Make sure that the line management follows and coaches the employees

	<ul style="list-style-type: none"> • Conquering intuitive management style • Structuring the organisation (structure, strategy) • Formalisation of some HR practices (introduction, training, rewards) 	<p>responsibilities</p> <ul style="list-style-type: none"> • Delegation of some HR practices to the line (recruitment, performance management) 	<ul style="list-style-type: none"> • Uniform HRM • Attention for training and career management • Consolidation of hiring and recruiting, performance management, rewards
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FIGURE 1

The four HR roles (Ulrich, 1997)



FIGURE 2

The Growth phase model (Greiner, 1998) and cases

