

Human Resource Management in Successful Entrepreneurship - A Review

*Dr. Susan Abraham

*Associate Professor, SCMS School of Technology and Management, SCMS Campus, Muttom, Aluva – 683106 Kerala.

Abstract

Entrepreneurship has been playing a major role in the economic development of our nation. The government has been making policies to encourage entrepreneurs through financial measures, technological assistance and managerial advice. With these measures, an entrepreneur has to manage all resources efficiently and coordinate the efforts of all concerned to get the desired result. Various researchers have studied the impact of functions such as finance and marketing on the success of entrepreneurial firms. There has been limited research done on the impact of human resource management on business success. Human resource management (HRM) is important for all types of organizations, but it is crucial for the success of a start-up. An entrepreneur has to frame policies and procedures for employees so that their collective effort leads to better business performance. This paper reviews the findings of a few research works done on the role of human resource management in the success of entrepreneurship.

Key words: Family business, Human resource management, Recruitment, Successful entrepreneurship, Training and development.

Introduction

Entrepreneurship plays a major role in economic development. As entrepreneurship is closely related to small businesses (Bandenhorst et al., 1998) and technological change, the impact of small businesses on economy has been widely accepted in terms of employment growth (Drucker, 1985). The growth and development of these firms depends on the employee and an optimal utilization of their knowledge, capacities and motivation. Human Resource Management (HRM) involves practices that ensure that employees' collective knowledge, skills, and abilities contribute to business outcomes (Huselid, Jackson, & Schuler, 1997).

Entrepreneurship

Entrepreneurship has been defined by various authors. Notable among these are given by A. H. Cole who states that “the purposeful activity of an individual or group of associated individuals, undertaken to initiate, maintain or earn profit by production and distribution of economic goods and services”. According to Higgins, “Entrepreneurship is meant the function of seeking investment and production opportunity, organizing an enterprise to undertake a new production process, raising capital, hiring labour, arranging the supply of raw materials and selecting top managers of day-to-day operation. According to Joseph A Schumpeter

entrepreneurship is essentially a creative activity. It consists of doing such things as are not generally done in ordinary course of business. The above definitions identifies two basic elements of entrepreneurship namely innovation and risk bearing.

Determinants of Successful Entrepreneurship

Successful entrepreneurship has not been defined in research literature so far. But there are a few articles mentioning the factors and / or determinants for successful entrepreneurship. Bosma, Praag and Wit (2000) in their research report have stated that environment plays an important role in determining the structure of the firm. Certain variables in the environment influence entrepreneurial success. First, profit making is an indicator of success for the entrepreneur. Second, generated employment by the entrepreneurial venture and thirdly, survival time the duration in which the venture remains profitable. A close study of the three variables suggests that for successful entrepreneurship, individual success through profit making is to be supported by 'success for society'.

Carter, Gartner, and Reynolds (1996) described successful entrepreneurs as aggressive in starting their businesses, making their business tangible to others, finding the most suitable facilities and equipment, getting financial support, forming a legal entity, managing their resources, and devoting full time to the business Lussier (1995) found that successful firms had good resources in terms of managerial advice and financial support as well as having a detailed and developed business plan.

Human Resource Management

Human Resources Management (HRM) involves practices that ensure that employers' collective knowledge, skills, and abilities contribute to business outcomes (Huselid, Jackson, and Schuler, 1997). Various literatures suggest that HRM practices increase productivity by increasing employees' skills and motivation. HRM practices also contribute to business objectives through strategic innovation or technical competence. HRM is an investment, and thus, it costs time and / or money. HRM can only have effects when employees stay in the company for a certain period of time. Otherwise the company suffers a loss because of the investments in HRM. Thus, the benefits of HRM must exceed costs invested in HRM. Since entrepreneurial ventures in the start-up stage or later may face limited financial resources, there is a possibility that large investments in HRM do not pay off.

Role of Human Resource Management in Successful Entrepreneurship:

Managing Human Resources (HR) effectively is critical to the success of both large and small organization. Werner, Schuler and Jackson (2012) reported that the more effectively a firm manages its human resources, the more successful the firm is likely to be. HRM ensures that human talents are used effectively and efficiently to accomplish organizational goals (Mathis and Jackson, 2008). Arthur (1994); Huselid (1995); Way (2002) and Hayton (2005) have established direct association between proper HR management and positive firm level outcomes in firms of all sizes, including new ventures. Gringore (2008) has stated that HRM contributes to the basic determinants of the success of an organization which are quality, profit and client satisfaction. Brand and Bax (2002) has noted that human resources take a crucial

part in raising and sustaining the competitive advantage of small firms. Dessler (2011) has added that policies on training and performance management activities is also an important condition for getting and keeping big customers by small firms.

Review of Studies on HRM in Entrepreneurship:

A number of studies have recorded the importance of human resource activities in the success of a firm (Itami and Roehl, 1987; Castanias and Helfat, 1991; Spender, 1993; Lei and Hitt, 1995; Conner and Prahalad, 1996). Cooper, Gimeno – Gascon, and Woo (1994), Carter, et al (1994), and Nucci (1999) reported that business survival and success is related to human resources is related to human resources and financial factors at the initial start-up stage. The influence of HR practices in developing product / service offer of a new business have been reported by Bamford, Dean, and McDougall (1996). According to Messersmith and Rutherford (2010), each individual within the smaller firm contributes to the firm’s bottom line in more direct ways, than in larger organizations. In further highlighting the importance of HRM, Bau and Dowling (2007) stated that HRM is an important activity for entrepreneurial firms because firms often start their businesses based on the competitive advantage of the intellectual capital of their employees. Similarly, according to Williamson, Cable and Howard (2002), building up the right management team and hiring the first employees for such companies, is often a difficult but very crucial task.

Golhar and Deshpande (1997) found that many HRM practices of small and large manufacturing firms were similar. However, bigger firms used external sources of recruitment, written tests, and panel interviews more frequently. In small firms, employee’s ability to inspect their own work was more important than in large firms.

In a study done by Rauch and Frese (2000) highlighted the importance of HRM strategies for small scale businesses. HRM strategy has positive effects on increases in business success. Thus, the factors that make larger companies successful (Arthur, 1994; Huselid, et al., 1997) is also important for small companies. Moreover, the effects of HRM strategies were dependent on human capital of business founders and on human capital of employees. HRM strategy was particularly efficient when there was high human capital of both, business owners and employees. HRM strategy consisted of training / development of employees, decision-making involvement, goal communication, and supporting personal initiative. It was found that these HRM strategies had effects on increases in business success five years later. Thus, HRM strategies do not pay off immediately (Welbourne and Andrews, 1996).

In a study reported by Young (2009) had an objective to determine the relationship between HRM practices with SME success in Hong Kong. The result concluded that HRM practices related significantly to business success in SMEs in Hong Kong. Among the successful practices, performance appraisal was more highly correlated with business success.

Human resource management plays a vital role in today’s organizations. Emphasising this Bashir, Jibrán and Afzal, Sara (2008) reported that HRM practices are likely to be significant for the survival and growth of small enterprises in Pakistan.

A study done by Abdullah, Ahsan and Alam (2009) on the effect of HRM practices on business performance among private companies in Malaysia revealed that training and development, team work, HR planning, performance appraisal have positive and significant influence on business performance.

In a study of 168 fast-growing families owned SMEs, it was found that these SMEs made greater use of several HRM practices such as training and development, recruitment tactics, attempts to improve employee morale, performance appraisal packages, and competitive pay and incentive systems (Carlson, Upton and Seaman, 2006).

Cakar and Erturk (2010) studied 743 employees from 93 SMEs on the relationship of cultural values, employee empowerment and firm innovation. It was found that employee empowerment was positively related to innovation capability. Managers using participative management practices (associated with employee empowerment) fostered innovation capabilities of their SMEs.

An exploratory study done by Koyuncu et al., provided some evidence for a relationship between use of professional HRM practices such as recruitment, selection, compensation, training and development and appraisal and perceptions of SME performance gains.

Results from a study on 338 Chinese entrepreneurs suggested that human capital in terms of human resource management competency was the most important predictor for business success. Education was the most significant personal predictor, while firm size was the most important predictor for human resource management competency (Tangkittipaporn).

A study by Barringer, Jones, Neubaum (2005) reported the growth-related attributes that are associated with rapid-growth firms. With regard to HRM practices, the rapid-growth firms emphasize training, employee development, financial incentives, and stock options to a greater extent than slow-growth firms.

Conclusion:

Human resource management plays a crucial role in the growth and development of both large and small firms. In case of start-ups, success is defined by the competitive advantage of its employees. So it becomes even more important to have a right mixture of HRM functions. This paper aimed at reviewing the few research findings on HRM in successful entrepreneurship. The review reveals that organizations which gave more importance to functions such as recruitment, training and development and appraisal of employees experienced a direct and positive influence on business performance. Along with the basic HRM functions, it was also found that the ability of the managers in developing and maintaining a participative environment wherein employees had opportunities to take decisions and suggest innovative ideas played an important role in the success of entrepreneurship. Future research can focus on the intermediate effects of organisational culture and management leadership styles in the relationship between HRM and business performance.

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