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## Valuing Employees: A Success Strategy for Fast Growth Firms and Fast Paced Individuals

Theresa M. Welbourne  
*Cornell University*

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## Valuing Employees: A Success Strategy for Fast Growth Firms and Fast Paced Individuals

### Abstract

This research considers the effect of pace on employee and firm performance. Population ecology and protection motivation theory suggest that to achieve success in a fast paced environment, companies should create an environment where employees feel they are valued. The theories emphasize that both fast pace and value are needed for higher performance. In the first study, I find that firms placing high value on employees and growing at a faster pace achieve higher stock price growth. In the second study, I find that employees working at a faster pace and who feel valued are higher performers.

### Keywords

employee, performance, theory, research, study, firm, population, ecology, protection, motivation, environment

### Comments

#### Suggested Citation

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WORKING PAPER SERIES

# Valuing Employees: A Success Strategy for Fast Growth Firms and Fast Paced Individuals

Theresa M. Welbourne

Working Paper 97-06



## VALUING EMPLOYEES: A SUCCESS STRATEGY FOR FAST GROWTH FIRMS AND FAST PACED INDIVIDUALS

Theresa M. Welbourne  
Cornell University

### ABSTRACT

This research considers the effect of pace on employee and firm performance. Population ecology and protection motivation theory suggest that to achieve success in a fast paced environment, companies should create an environment where employees feel they are valued. The theories emphasize that both fast pace and value are needed for higher performance. In the first study, I find that firms placing high value on employees and growing at a faster pace achieve higher stock price growth. In the second study, I find that employees working at a faster pace and who feel valued are higher performers.

### INTRODUCTION

This paper combines two different studies of performance in order to more fully understand the effect of pace<sup>1</sup> on performance. There have been a number of typologies that cluster firms into categories based on the degree to which they are growing or changing (e.g. Miles & Snow, 1978). However, these types of categorization schemes do not address the effect of rate of change on firm performance. Therefore, in order to more fully understand how rate of change (or pace) affects performance, this research utilizes a dual level research strategy, and in both cases, pace is measured as a continuous variable. The first study investigates how organizational rate of growth affects company stock price, while the second study focuses on the effect of pace on individual employee performance scores. The dual level research strategy is used to demonstrate the generalizability of the moderating effect of valuing employees and pace on performance.

This paper contributes to what we know about fast growth in several ways. First, the research further develops work in population ecology by examining the concept of inertia and its effect on firm performance. Second, this paper applies protection motivation theory in order to understand how individual pace affects employee performance. Although the paper utilizes two different theories in order to develop hypotheses for two different levels of analysis, the resulting hypotheses are similar due to the fact that underlying process at the individual and firm level are similar.

## POPULATION ECOLOGY, INERTIA, AND FIRM PERFORMANCE

In prior research that I conducted with Alice Andrews (Welbourne & Andrews, 1996), we found that initial public offering (IPO) firms that valued their employees were more likely to survive five years after the IPO. The theoretical work behind this study was developed using population ecology. As noted in our earlier paper:

"At the core of population ecology is the concept of inertia (Hannan & Freeman, 1984). Although inertia conjures up images of stale, immobile organizations, the term does not necessarily mean 'standing still.' Newton's first law of physics states that an object at rest tends to stay at rest and an object in motion tends to stay in motion. This overall tendency to stay at rest or in motion is called inertia. Webster's dictionary defines inertia as 'property of matter by which it remains at rest or in uniform motion in that same straight line unless acted upon by some force...' Inertia keeps an organization moving during a change, even though the direction has changed. We know that initial public offering firms are not at rest because they are entering the public market in order to grow; therefore, for IPO firms, inertia is a desirable characteristic because it helps them to continue moving forward." (p. 896).

Population ecology claims that companies exhibiting higher levels of inertia are more likely to survive. Thus, we assumed that the IPO firms in our sample were moving (vs. at rest), and we then utilized population ecology to determine which characteristics of firms that should be associated with increasing inertia and survival. We suggested that inertia within growing organizations results in structural cohesion. Structural cohesion is "an employee generated synergy that propels a company forward." Based on the population ecology literature (Hannan & Freeman, 1977), we then suggested that a company could enhance structural cohesion by using employment practices that reflect employee value (or placing a high value on employees). Thus, population ecology arguments led to our hypothesis that employee value increases structural cohesion, which improves survival chances. Our hypothesis was supported with the data.

We alluded to, but did not test, the fact that growth or movement is an important part of the performance equation. Thus, firms that are "standing still" may not necessarily obtain a performance gain by valuing employees. In fact, according to population ecology, valuing employees would tend to increase inertia, thus further encouraging being 'at rest'. Given that today's environment is one in which all organizations need to move at a rather rapid pace, employment practices geared toward 'standing still' should not, by themselves, improve firm

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<sup>1</sup> The variable being studied is pace. It represents rate of growth for the organization and rate of work for the individual. The underlying phenomenon, defined later in the discussion section, is sense of urgency.

performance. Therefore, rate of movement, or pace, becomes an important variable for understanding performance.<sup>2</sup>

In this research, I expand our application of inertia to IPO firms. We assumed in our earlier paper (Welbourne & Andrews, 1996) that all the firms in our IPO sample were in motion. But, needless to say, the rate of motion for organizations differs, therefore, rate of change (or motion) should also have an effect on firm performance. Structural cohesion should have a stronger and more positive impact on firm performance as a company's rate of movement, or pace, increases. This is due to the fact that structural cohesion helps employees propel the company forward, even when tasks becomes more complex due to increased pace. Thus, both rate of change and valuing employees are important, and I hypothesize that the two will interact in predicting firm performance.

Hypothesis 1: Valuing employees will interact with rate of change to predict firm performance. Valuing employees will be more effective for firms that are experiencing a faster rate of change.

The dynamics of valuing employees and rate of change at the organization level assume an underlying process that involves individual employees. Those individuals who work in fast growth environments are assumed to be more likely to work towards the goals of the company when they feel they are valued. Although this is an assumption, population ecology does not focus on the effects on individual workers, therefore, the next section utilizes protection motivation theory to understand the individual process.

#### PROTECTION MOTIVATION THEORY AND INDIVIDUAL PERFORMANCE

Protection motivation theory has been used in both communications and marketing research to understand how advertisers can create communications that influence behavior (Tanner, Hunt & Eppright, 1991). The theory focuses on the necessary balance of energy and coping ability (Welbourne, 1995). Energy is derived from a strong emotional need to change behavior. Applied to the marketing research, this energy directed toward change results from communications aimed at triggering a strong emotional response. Protection motivation theory has specific applications to the emotion of fear, and advertising campaigns aimed at dental hygiene, safety, cigarette smoking, and alcohol have all attempted to make appropriate use of fear in their campaigns to change behavior. Lazarus and Folkmann (1984) refer to fear

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<sup>2</sup> This study only investigates pace in a positive direction (growth vs. downsizing), even though the negative form (reducing size) may have similar effects.

inducing messages, such as those used in these types of communications as "hot information" that people cannot ignore. The goal of a fear inducing message is to raise the awareness of an individual through triggering an emotional response. When awareness is raised, it should be accompanied with energy directed at changing behavior.

But, protection motivation theory is clear in stating that in order to obtain a behavioral reaction the emotion associated with the fear appeal must be combined with the ability to cope. For example, an effective anti-smoking campaign should have a strong fear appeal associated with smoking, but it should also be combined with a message about how one can quit smoking (e.g. use the nicotine patch). Therefore, high energy associated with the emotional need to stop smoking (due to advertisement), combined with a perception that one can quit smoking (coping via the patch) should result in the desired behavior (they attempt to quit smoking).

How can this theory be used to predict individual work-related performance? Employees who are higher performers in fast-growth firms should be those who personally have a high level of energy around getting their work done and who feel that they can cope. In fast growth firms, the fast pace of the organization parallels an advertising campaign in that the fast growth encourages an emotional response. In this case, the emotional response is a high need for accomplishment, which results in energy around goal attainment. Thus, the inertia concept of rate of change at the organizational level becomes pace of work at the employee level. Working at a fast pace is associated with being driven to accomplish a task. However, this fast pace needs to be associated with coping in order to obtain high performance. Although coping can be operationalized in a number of ways, the organizational level conceptual arguments from population ecology provides a clue about coping strategy. I suggest that employees who feel that they are valued by the management team are those who are more likely to feel that they can cope with the a fast-paced environment. Thus, paralleling the organizational level work, employee value interacts with pace to predict individual performance.

Hypothesis 2: Perceptions of being valued by management will interact with pace of work to predict individual performance. Being valued by management will be more important for employees who work at a faster pace.

#### SUMMARY OF CONCEPTUAL ARGUMENTS

Two theories, population ecology and protection motivation theory, are used to state that fast pace and creating an environment where employees feel valued affect both individual performance and firm performance. I argue that this process works at the individual employee level and at the organizational level. Thus, fast growth firms will be more successful if the

management team creates an atmosphere where employees feel like they are valued. In that type of environment, employees will be energized, and because they personally feel valued, that energy and sense of value will combine and result in their contributing to the firm's success through exceptional performance. The two hypotheses will be tested with two different samples. The first is a sample of firms that conducted their IPO in 1993, and the second is a sample of workers who are employed by a fast growth firm that conducted its IPO in 1996.

## RESEARCH METHODS

### Study #1, Organizational Level Research

The sample consists of firms that conducted their IPO in 1993. Although a total of about 700 firms are in the overall sample, the final sample for this study is 383 due to firms being dropped because they do not manufacture a good or service, they do not have any employees, or as a result of missing data.

As in the earlier research (Welbourne & Andrews, 1996), the prospectus of each firm was coded to obtain measures of employee value and several control variables. In addition, measures of firm performance were acquired from COMPUSTAT. An additional component of this study is the inclusion of a second measure of employee value obtained with a survey.

### Employee Value

I use two different measures of employee value for this study. The first is the same measure used in the Welbourne and Andrews (1996) study. This variable attempts to assess the degree to which a firm values its employees and views employees as a strategic advantage. Because the prospectus describes a company's competitive advantages, it is a good source of information on the importance of employees as one of those potential advantages. The presence of a variety of indicators are coded and then summed. Those indicators of employee value are:

1. Whether the company's strategy statement and/or mission statement includes a reference to employees being a strategic competitive advantage.
2. The existence of a training program for employees.
3. The inclusion of an officer responsible for the human resource management function.
4. If the company used full-time employees, rather than part-time or temporary workers.
5. The SEC required rating of employee relations environment.

An additional measure of employee value was used for this study, and as you will see, the analyses are run separately for each measure.

A survey was sent to all members of the top management team listed in the prospectus of each firm. Thus, a total of approximately 5,000 surveys were sent to top management at all the original 700 organizations. We received survey responses from 500 individuals, representing 356 organizations. The survey listed 40 different factors that were obtained from the literature on survival of IPO firms. The executives were asked the degree to which each of these factors was important for their firm's performance since the IPO. The items dealt with the firm's overall strategy, financing, venture capital backing, product, technology, management team, IPO timing, and employee relations. The questions were based on the items that we used in the telephone survey to survivors in the 1988 IPO study (Welbourne & Andrews, 1996). The factor analysis resulted in a 5-factor solution, with the first factor being employee value. The eigenvalue for this factor is 7.38. The coefficient alpha for the eight items included in this factor is .83. The items are: (1) company's approach to employees, (2) commitment of employees, (3) way employees work together, (4) overall culture of the company, (5) family atmosphere, (6) company's values, (7) training our employees receive, and (8) hiring practices. The other factors which resulted from the survey, but which are not used for this study due to the nature of the research question, are management, the rewards system, product, and technology. Descriptive statistics for both measures of employee value are found in Table 1.

TABLE 1  
Means, Standard Deviations, Correlations, Study #1

Variable	Mean	Standard Deviation	1	2	3	4	5	6	7	8
% change in stock price	.18	.94	1.00							
# emps.	950	2,992	.18***	1.00						
# risk parag.	15.95	5.02	-.20***	-.60***	1.00					
Net income (mm)	10.13	74.88	.11**	.16***	-.15***	1.00				
Price per share IPO	10.92	5.16	.14***	.54***	-.51***	.14***	1.00			
% change in sales	2.11	9.26	.11**	-.18***	.11***	-.08*	-.01	1.00		
Value - prospectus	4.56	1.62	.03	.10**	-.10**	.02	.06	.00	1.00	
Value - survey	3.79	.58	.18***	.07	-.03	-.02	-.03	.11*	-.02	1.00

### Pace or rate of growth

Change in sales from year end 1993 to year end 1995 is used as a measure of rate of change or pace. Sales data were gathered from COMPUSTAT.

### Control Variables

Several control variables were used in the analysis. Those include organizational size, number of employees at the time of the IPO (logged to correct for skewness), risk (measured as

the number of paragraphs in the risk section of the prospectus), stock price per share at the time of the IPO, net income at the time of the IPO, and industry (using the groupings recommended by the Small Business Administration).

### Dependent Variable

Firm performance is measured as the percentage change in stock price from the time of the IPO to the end of 1995. In order to correct for skewness, the square root of this number is used in the analyses.

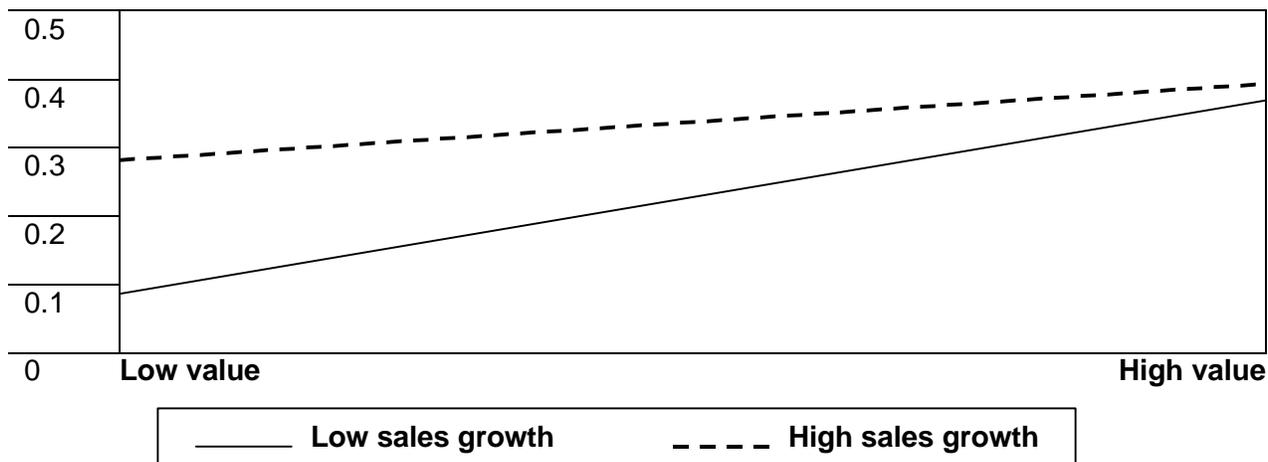
### Data Analyses

Two separate regression analyses are run. The first includes the control variables, the measure of employee value taken from the prospectus, change in sales from years ending 1993 to 1995, and an interaction term with employee value and sales change. The second analysis is the same, except that the survey measure of employee value is used in the regression equation. The resulting sample size for the second analysis is smaller (250), as a result of missing data. The survey measure was obtained by averaging the responses of all individuals who responded within one firm. The correlation between the average response and the response from the highest ranking officer is .93.

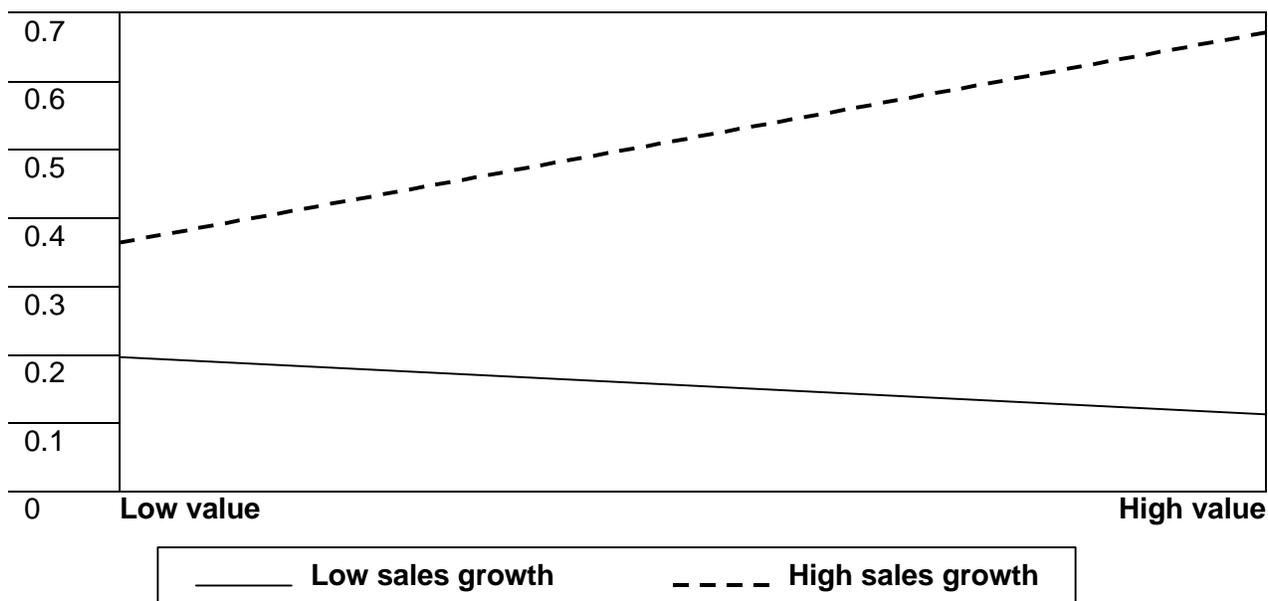
### Results

Both analyses support hypothesis 1 in that there is a significant interaction between valuing employees and rate of growth on stock price growth (see interaction graphs). The first analysis that used the measure of employee value obtained from the prospectus resulted in an  $R^2$  of .16 ( $F=4.92$ ,  $p \leq .000$ ). In order to interpret the interaction, I plotted the data based on splitting the sample into four categories (low and high on valuing employees and low and high on sales growth). Companies with high scores on value and sales growth have a 42% increase in stock price. Those low on both variables have an 8% increase in stock price. For those firms low on sales growth, valuing employees increases stock price growth from 8% to 27%. For those high on sales growth, valuing employees increases stock price growth from 39% to 42%. The more significant gain in performance is from employee value seems to be seen in the low sales growth firms.

INTERACTION OF VALUING EMPLOYEES (MEASURED FROM PROSPECTUS) AND PACE ON CHANGE IN STOCK PRICE FROM 1993 TO 1995.



INTERACTION OF VALUING EMPLOYEES (MEASURED FROM THE SURVEY) AND PACE ON CHANGE IN STOCK PRICE.



The result of the second analysis, using the measure of value obtained from the survey, is similar in that the interaction term is also significant. However, the pattern of results is different, and this analysis is supportive of hypothesis 1 in that the larger gain from valuing employees is evident in the high sales growth group of firms. The total R<sup>2</sup> for this equation is .18

( $F=3.08$ , significant at the .000 level). The analysis using the same four categories shows that companies claiming employees are highly valued and that have faster sales growth experience a change in stock price of 69%, while those low on both variables have a 20% increase in stock price. For those organizations low in sales growth, being low on value results in a 20% increase in stock price, while those high on value have a 36% increase in stock price. For those firms with high sales growth, the low value firms experience a 13% increase in stock price compared to the 69% growth rate for high value organizations. Thus, using the survey data, the higher gain is seen in the fast sales growth group of firms. However, in both samples, valuing employees leads to higher performance, whether sales growth is high or low.

TABLE2  
Regression Analysis for Study #1

DEPENDENT VARIABLE = CHANGE IN STOCK PRICE (1993 to 1995)

Variables	Equation #1 (prospectus measure)		Equation #2 (survey measure)	
	Beta	T	Beta	T
Number of employees	.19	2.83**	.22	2.35*
Risk factors	-.13	-2.18*	-.10	-1.19
Net income	.08	1.56	.09	1.28
Stock price per share	-.05	-.81	-.05	-.62
Sales change	.41	5.76***	.35	3.75***
Employee value	.04	.78	.17	2.57**
Interaction term	-.32	-4.61	-.28	-3.02**
R <sup>2</sup>	.16		.18	
F	4.92***		3.08***	

\*  $p \leq .05$     \*\*  $p \leq .01$     \*\*\*  $p \leq .001$

Note: Dummy variables for SIC code were also included in this analysis, however, to save space, they are not included in the tables.

## Study #2. Individual Level Performance

The second study focuses on the effect of pace and value on individual level performance. The sample comes from a fast growth software company that recently conducted an IPO (in 1996). The environment for employees is one in which there is a considerable amount of change, including a change in ownership as it moved from being a private company to a public firm.

An employee survey was conducted approximately one year before the IPO, and in that survey, I obtained a measure of employee value. A number of questions asked employees about the degree to which employees felt they were valued by the management team. After that, when the firm knew it was planning to conduct the IPO, we began to gather weekly data on the employee's pace of work, or the degree to which they were energized by their work. The data used in the study reported in this paper include 20 weeks of data, and the mean for each person is used in the analyses. Performance data are obtained at end of the first 20 week period of time. Therefore, the research design consists of survey data on employee value obtained at time 1, measure of pace obtained between time 2 and time 3 and then averaged, and a measure of employee performance obtained at time 3. Due to the longitudinal nature of the work, the sample for the final analysis is only 70 employees. The firm at time 1 had about 250 employees, and at time 3 it has over 400 employees.<sup>3</sup>

## Employee Value

The measure of employee value focuses on the degree to which employees think that the management team values them, their opinions, and their work. The questions consist of five items, and employees responded using a Likert scale with 1 being strongly disagree and 5 being strongly agree. The items are: (1) management makes me feel important, (2) management listens to my opinions, (3) management lets me know that my performance on the job is important for the firm to succeed, (4) management acknowledges the work I do, and (5) management makes me feel like the work I do is important. Several other items were included in the development of an overall value scale that includes the degree to which coworkers value an employee, and the result of the exploratory and confirmatory factor analysis are the items reported here.

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<sup>3</sup> A second measure of value was obtained at time 3, however, it is only one item (the degree to which you feel valued). The results with this one -item measure are identical to the results reported here.

### Pace

The pace at which the employee works, or the energy level expended in doing the job, is measured via a weekly measure that we called the company's pulse. It consists of a 10-point scale<sup>4</sup> that is consistent with the concept of having a target heart rate where one is most efficiently exerting energy. The 0 to 2.4 category is called the "at rest" zone, and in this area employees report they are not exerting much energy, if any at all, in doing their job. Newer employees report numbers in this category as do employees who are out sick, workers who are in between projects, and people who are upset with their coworkers or managers. During the holiday season, many employees reported in this area. The next range is called the "aerobic" zone, and it goes from 2.5 to 7.5. As the numbers increase, so does the degree of energy exerted and the efficiency of the employee. Basically, as they go up to 7.5, their pace goes up, and they become more efficient. The range from 7.6 to 10 is called the "anaerobic" zone, and in this area, employees are working so hard that they are becoming inefficient. A number of different analyses have been conducted with this data; in addition, I am working with a team of researchers to collect additional data for a validation study. To date, we have found that this measure is unique from other constructs such as job satisfaction, positive and negative affectivity, locus of control, and stress. In addition to its being related to performance (as will be discussed in this study), it also predicts student performance on exams. For the analyses in this paper, the mean pace of an individual over time was used. See Table 3.

### Control Variables

A number of control variables used in other studies of performance were used. These data were obtained from the original employee survey and from the company's personnel files. The variables are: age, education, gender, and salary.

### Dependent Variable

The company conducts quarterly evaluations of employee performance. Each quarter managers rate all of the employees with whom they have worked (not only their direct reports) using a 1 to 4 scale, although 4 is held out for a special quarterly award called "top gun," therefore, it is infrequently used. The data used were collected at time 2, after the 40-week pace data were collected.

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<sup>4</sup> Copyright by Theresa M. Welbourne, 1996.

TABLE3  
Means, Standard Deviations, Correlations, Study #2

Variable	Mean	Standard Deviation	1	2	3	4	5	6	7
Age	36.77	7.81	1.0						
Education (1 to 10 scale)	6.17	1.36	.14*	1.0					
Gender (0=female; 1=male)	.56	.50	.12	.09	1.0				
Salary	61,911	27,092	.44***	.17*	.30***	1.0			
Pace (0 to 10)	6.64	1.42	.17	.02	.12	.16	1.0		
Value	3.54	.72	.10	.00	.01	.16*a	.06	1.0	
Performance Score	2.73	.50	.05	.07	-.08	.10	.17**	.16*	1.0

Similar correlations are not significant due to different sample sizes.

\*  $p \leq .05$

\*\*  $p \leq .01$

\*\*\*  $p \leq .001$

### Analysis

A regression analysis was run. The control variables and independent variables were included in the analysis. In addition, an interaction term for employee value and pace was included in the equation.

### Results

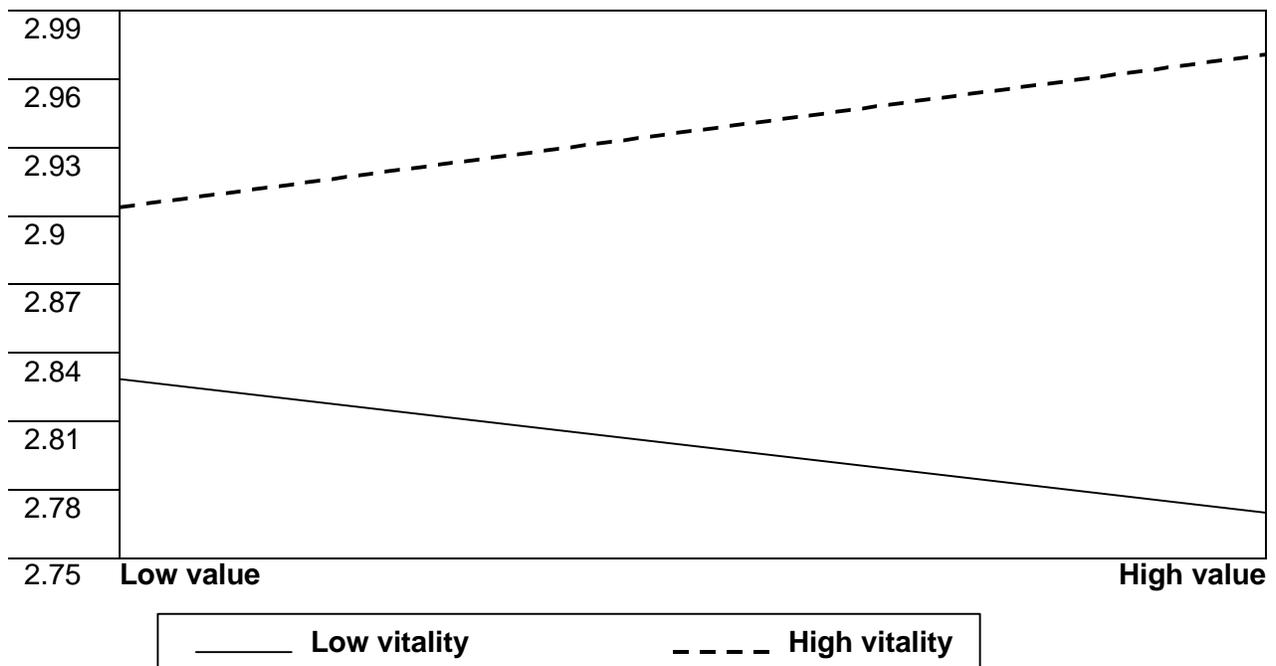
The regression analysis resulted in an  $R^2$  of .30 ( $F=3.79$ , significant at the .001 level), and the pattern of findings support hypothesis 2. The interaction term is significant. An analysis that grouped the sample into low and high levels of employee value and low and high pace revealed the following pattern (see graph). Employees who were high on both pace and value had a mean performance rating of 2.98. Employees low on both variables had an average rating of 2.83, but the lowest ratings are associated with employees who were low on pace and high on value; that number is 2.78. For low pace employees, value resulted in a decrease in individual performance. However, for higher paced employees, value improved performance from 2.90 (low value group) to 2.98 (high pace and high value). The results support hypothesis 2, and they indicate there is a negative consequence for valuing employees who do not have a high energy level. This is consistent with protection motivation theory in that it states both energy level and coping are needed for desired performance. See Table 4 for the results of the regression analysis. See the graph (on next page) for results of the interaction effect.

TABLE4  
Regression Analysis, Study #2  
DEPENDENT VARIABLE = EMPLOYEE PERFORMANCE SCORES

	Beta	T
Age	.01	.09
Education	-.07	-.60
Gender	-.32	-2.64**
Salary	.21	1.64
Average pace	2.50	4.68***
Management value	2.07	4.60***
Interaction term (pace and value)	-3.17	-4.46***
R <sup>2</sup>	.30	
F	3.79***	

\* p ≤ .05      \*\* p ≤ .01      \*\*\* p ≤ .001

INTERACTION OF PACE AND VALUE ON EMPLOYEE PERFORMANCE



## DISCUSSION

The variable being captured in these two studies, one at the individual level and another at the organizational level, could be called sense of urgency. It is the result of pace of work or rate of growth, and when combined with creating an environment where employees feel valued, it increases performance. According to protection motivation theory, the key to success is *balance* between sense of urgency and coping, and in this study I operationalized coping as valuing employees.

The results explain how fast growth firms can be successful. The results are also consistent with many of the case studies of fast growth firms with employee friendly practices. PeopleSoft and Starbucks Coffee are examples of successful firms that have supplemented their fast growth with a company culture that places the employee as key to success. PeopleSoft's lack of bureaucracy, including a no job description rule, and its impressive employee communications network, has been a formula for success in terms of stock price growth. Starbucks Coffee, in a completely different industry, has succeeded with a fast growth strategy that includes policies that make employees feel valued. Each worker, including part-time employees, have full benefits, and the stock ownership program includes all employees.

The results of this study seem to indicate that valuing employees can be a success strategy for fast growth firms. But what do the results mean for slow growth or perhaps downsizing firms? Most fast growth firms have a high sense of urgency due to the nature of their business. Their challenge lies in creating an environment that makes employees feel valued. Slow growth or stable firms have an even greater challenge because they need to create both the sense of urgency and the value environment. Given the findings at the individual level, this is critical, because increasing value while ignoring or even decreasing sense of urgency can lead to negative performance outcomes. Downsizing firms have an interesting dilemma. They can certainly create a sense of urgency, but the manner in which it is done (through layoffs, etc.) directly reduces the level of employee value. Many downsizing firms, in order to combat this, create programs that enhance value, but they may inadvertently lower sense of urgency.

Additional research, both in smaller, fast growth firms like the IPO sample, is needed to further clarify what enhances employee value and how energy, pace, or sense of urgency translate into both individual and firm success.

There are, of course, several limitations that should be considered when evaluating the results and when considering future research. The somewhat different pattern of results for the two measures of employee value at the organizational level indicate that these measures may

be capturing different phenomenon. In addition, the stability of employee value at the individual level is critical to understanding the findings in the second study. Although there are a number of questions, I hold that this work will help in our understanding of rate of growth both for firms and for individuals.

The conceptual arguments used in this paper are different from what has been done in much of the macro human resource management research. The dominant paradigm claims that it is the fit between corporate strategy and employment practices (HR strategy) that results in higher firm performance. However, the theoretical arguments developed in this paper suggest that it is not "fit" that results in higher firm and employee performance. Instead, it is the ability of the management team to enhance sense of urgency (or pace) and employee value. This can be done in a number of ways, some of which are governed by the human resource department, and many of which are in the control of direct supervisors and perhaps even coworkers.

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