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Entrepreneurial Human Resource Strategy

Abstract

[Excerpt] Entrepreneurship is the process by which "opportunities to create future goods and services are discovered, evaluated, and exploited" (Shane and Venkataraman, 2000: 218). In other words, it is the process by which organizations and individuals convert new knowledge into new opportunities in the form of new products and services. Strategic human resource management (SHRM) has been defined as the system of organizational practices and policies used to manage employees in a manner that leads to higher organizational performance (Wright and McMahan, 1992). Further, one perspective suggests that sets of HR practices do not themselves create competitive advantage; instead, they foster the development of organizational capabilities which in turn create such advantages (Lado and Wilson, 1994; Wright, Dunford, and Snell, 2001). Specifically, this body of literature suggests that HR practices lead to firm performance when they are aligned to work together to create and support the employee-based capabilities that lead to competitive advantage (Wright and Snell, 2000; Wright, Dunford, and Snell, 2001). Thus, entrepreneurial human resource strategy is best defined as the set or sets of human resources practices that will increase the likelihood that new knowledge will be converted to new products or services.

Keywords

entrepreneurship, human resources, strategy, performance, knowledge

Disciplines

Human Resources Management | Labor Relations | Performance Management | Strategic Management Policy

Comments

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Entrepreneurial Human Resource Strategy

Christopher J. Collins, Matthew Allen and Scott Snell

Entrepreneurship is the process by which "opportunities to create future goods and services are discovered, evaluated, and exploited" (Shane and Venkataraman, 2000: 218). In other words, it is the process by which organizations and individuals convert new knowledge into new opportunities in the form of new products and services. Strategic human resource management (SHRM) has been defined as the system of organizational practices and policies used to manage employees in a manner that leads to higher organizational performance (Wright and McMahan, 1992). Further, one perspective suggests that sets of HR practices do not themselves create competitive advantage; instead, they foster the development of organizational capabilities which in turn create such advantages (Lado and Wilson, 1994; Wright, Dunford, and Snell, 2001). Specifically, this body of literature suggests that HR practices lead to firm performance when they are aligned to work together to create and support the employee-based capabilities that lead to competitive advantage (Wright and Snell, 2000; Wright, Dunford, and Snell, 2001). Thus, entrepreneurial human resource strategy is best defined as the set or sets of human resources practices that will increase the likelihood that new knowledge will be converted to new products or services.

Strategic Human Resource Management and Knowledge Creation

Based on the above definition of entrepreneurship, new knowledge creation is key to the entrepreneurial process. Further, organizational researchers have pointed to both the ability to diffuse and exploit current knowledge and the ability to create new knowledge as critical capabilities for organizational success (Kogut and Zander, 1992). This is especially true for entrepreneurial firms whose success and survival are dependent upon identifying and exploiting opportunities in rapidly changing markets (Christiansen, 1997). Nahapiet and Ghoshal (1998) argued that for exchange and combination to take place, parties must have access to one another, be capable of combining and exchanging ideas and information, and perceive value from the exchange and combination process. Most studies of organizational learning recognize initial knowledge of employees as a key factor in organizational learning and employees as a primary repository of organizational knowledge (Argote, 1999). Further, the ability of firms to create new knowledge is dependent upon the social capital that exists inside the firm, because the social connections between employees lead to productive exchanges and combinations of ideas and information (Nahapiet and Ghoshal, 1998).

Further, research on SHRM suggests that companies can build and reinforce a knowledge creation capability by aligning HR practices to create the employee-based capabilities necessary for knowledge creation. For example, Snell, Youndt, and Wright (1996) noted that HR practices can be used to increase the transfer of knowledge between employees and institutionalize knowledge in the form of processes and procedures. As noted above, one of

the key elements in creating new organizational knowledge is the human capital of the company, defined as abilities, intelligence, and skills acquired from informal and formal education and job experience of key employees in the firm (Becker, 1964). There is some evidence that firms can systematically affect the human capital of the firm through systems of HR practices. For example, firms create higher levels of employee human capital by implementing multiple recruiting sources, extensive selection practices, paying above-market starting salaries, investing more in training and development, etc. (Koch and McGrath, 1996; Snell and Dean, 1992).

Nahapiet and Ghoshal (1998) argued that social capital is another key employee-based resource that both increases the ability and motivation of employees to exchange and combine knowledge. Leana and Van Buren (1999) argued that different human resource practices can be used to build social capital between the employees within an organization. In a recent empirical study, Collins and Clark (2003) found that several bundles of HR practices were related to the internal and external social networks of top management team members in high-technology firms. Similarly, Collins (2003) found that a high-performance bundle of HR practices was related to measures of core employee social capital (measured as trust and shared norms).

While these two empirical studies are promising, future research in SHRM must continue to explore the relationships between bundles of HR practices and the employee-based resources that lead to knowledge creation. Recently, Kang, Morris, and Snell (2004) posited two different forms of social capital - or relational archetypes - that represent different approaches to knowledge exchange. On the one hand, the entrepreneurial archetype is characterized by sparse networks of loosely coupled parties whose exchange relationships are based on personal dyadic trust and common component knowledge. This archetype is more closely aligned with the requirements of exploratory learning for absorbing novel and diverse knowledge in new and unfamiliar domains (March, 1991). Kang, Morris, and Snell suggested it would be facilitated through HR practices that support flexible work structures, multiple career (boundary less) development strategies, trans-specialist skill development, and results-based incentives and performance management systems.

In contrast, the cooperative archetype is characterized by strong and dense social networks where relationships are reinforced by generalized trust and common architectural knowledge. This type of archetype is perhaps best for combining and integrating fine-grained and in-depth knowledge in familiar knowledge domains (March, 1991). The cooperative archetype is perhaps best supported by HR practices that focus on interdependent work structures, staffing, and socialization systems that reinforce organizational values, employment security, cross-functional skill development, and performance management systems that emphasize collective achievements.

Based on these types of frameworks, there appear to be multiple bundles of HR practices that firms can implement to increase knowledge creation among employees. Further, as suggested by the SHRM literature (e.g., Wright, Dunford, and Snell, 2001), firms should use different sets of HR practices depending upon the type of knowledge sharing and requisite social networks that the firm is attempting to foster. As noted above, Kang, Morris, and Snell (2004) argued that firms should implement a more individualistic set of HR practices that lead to sparse and broad-reaching individual employee networks in order to foster novel combinations of previously unconnected knowledge; whereas firms seeking to foster the

recombination of existing knowledge should implement team- and organizational-based HR practices that lead to dense employee networks. While these theoretical proposals are interesting, additional empirical research is needed to specifically link HR practices to hard measures of knowledge creation through employee-based capabilities.

Strategic Human Resources and Knowledge Exploitation

While knowledge creation is important, by itself it is not enough to ensure that the entrepreneurial process occurs in companies. Instead, HR practices must also create and reinforce an environment in which employees convert that new knowledge into new products and services. Further, there is some empirical research to suggest that HR practices can lead to greater innovation in the form of the introduction of new products and services. For example, Chandler, Keller, and Lyon (2000) also found that reward systems could positively affect the performance of entrepreneurial organizations that face a rapidly changing environment when the rewards are aligned to create a culture that is supportive of innovation. In a paper that more closely follows the SHRM approach, Collins (2003) found that multiple sets of practices led to innovation in high-technology firms. Specifically, he found that both high-commitment and network-building bundles of HR practices were related to firm innovation (measured as the number of new products and services) through their effects on an organizational climate of cooperation and core employee internal and external social networks.

As with the effects of HR on knowledge creation, these papers suggest that there are multiple sets of HR practices that can be used to facilitate the exploitation of knowledge in the form of actual product or service innovations. Further, as is suggested by the theoretical work on SHRM (e.g., Wright, Dunford, and Snell, 2001; Wright and Snell, 2000), it appears that firms can positively affect their competitive advantage by designing their HR systems to support employee-based resources. Specifically, firms can design and implement HR practices to create the organizational climates, culture, and employee network relationships that support innovation. Again, while these studies are useful, additional empirical research is needed to explore the array of possible relationships between HR practices and knowledge exploitation in the form of new products and services.

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