RECONSIDERING THE LINK BETWEEN HUMAN RESOURCE MANAGEMENT AND FIRM STRATEGY FOR FIRMS AT THE BEGINNING AND END OF THE ORGANIZATIONAL LIFE CYCLE

Jason Harkins, University of Maine, Orono, Maine, USA
Niclas Erhardt, University of Maine, Orono, Maine, USA
David Finegold, Rutgers, The State University of New Jersey, New Brunswick, USA

ABSTRACT

There is a general premise that effective human resource management (HRM) strategy must stem from a company’s strategy, which we argue does not hold when considering the beginning and end of the organizational lifecycle. Drawing on upper echelon and human capital theories, we develop propositions that suggest that the relationship between HRM and firm strategy in the birth and decline stages should be different than the existing HRM literature has adopted base on the model developed in mature organizations. Specifically we posit first that firms that must adapt their strategy to survive should base their strategy on the human capital available to the firm. Our arguments integrate the strategy and HRM literatures to look at the specific context of firms at the beginning and end of the organizational lifecycle to provide a more nuanced understanding of the relationship between HRM strategy and firm strategy.

Keywords: Human Resource Management, Firm Strategy, Birth, Decline

1. INTRODUCTION

Organizational theorists generally hold that strategy, defined as a pattern in a stream of decisions (Mintzberg, 1978), drives structure (e.g. Chandler, 1962). The human resource management (HRM) field (for a review see Boxall, Purcell and Wright, 2007; Lengnick-Hall, Lengnick-Hall, Andrade and Drake, 2009) has extended this logic, and rests almost exclusively on the premise that an effective human resource management (HRM) strategy must stem from a company’s strategy (Schuler and Jackson, 1989, 2005; Arthur, 1992; Wright and McMillan, 1992; Lepak and Snell 1999). While it is limited, some research has argued a unidirectional perspective whereby firm strategy drives HRM strategy is too simplistic and that the relationship between firm strategy and HRM strategy is more complex within the context of a dynamic firm (e.g. Hall and Saïas, 1980; Golden and Ramanujam, 1985).

The majority of HRM scholarship has implicitly or explicitly adopted the context of mature firms with a formal human resource management function (Huselid, 1995). The focus of this literature has traditionally been on the overall design and execution issues of HR practices and policies by business units and companies, with the underlying theme of measuring and linking management of labor with performance (Lengnick-Hall et al., 2009). However, this literature has tended to take a static view of the firm and firm strategy wherein the firm does not significantly grow or shrink, in spite of the fact that there is ample evidence that firms do evolve over a lifecycle (e.g. Miller & Friesen, 1984, Hanks, Watson, Jansen & Chandler, 1993, Cardon and Stevens, 2004).

Accordingly, a relatively new stream of research has focused on exploring the role of HR in the various organizational lifecycle stages (For example, special issues in Human Resource Management in 2003 and in Human Resource Management Review in 2006 discussed informal versus formal HRM, simple versus complex HR systems, types of HR problems they face with an emphasis on recruitment and selection as the central concern for growing a firm). For the most part, this literature has focused on either contrasting small, birth and growth stage firms with mature firms (Buller & Napier, 1993; Jack et al., 2006) or on specific HRM challenges that firms face through the lifecycle (e.g. Cardon, 2003; Ciavarella, 2003; Rutherford et al., 2003). This focus on HRM challenges and practices, however, begs the question what is the relationship between HRM and firm strategy in the different lifecycle stages?

Both of these streams of research have generally built their arguments on the assumption that firms have a strategy without acknowledging that firm strategy is not always set. This is particularly true for firms in the birth and decline stages, where firms are experiencing great change to try to adapt for survival (e.g. Chandler, Honig and Wiklund, 2005; Ferris et al., 1984) For instance, firms in the birth stage tend to not
have a deliberate strategy at all (Mintzberg and Waters, 1982), and, for firms in the decline/revival stage, firm strategy can require a significant change to attempt to revive the firm’s fortunes (Barker and Duhaime, 1997). Few papers have explored the relationship between firm strategy – HRM strategy for firms in the birth and decline/rebirth stages, when firm strategy is least likely to exist.

Thus, our goal in this paper is to shed light on the relationship between HR strategy and firm strategy for firms in the birth and decline lifecycle stages. Drawing on upper echelon, HRM, and lifecycle literatures, we develop a prescriptive model of the firm strategy – HR strategy link. We offer specific propositions regarding the link between firm strategy and HRM strategy within the birth and decline stages. We conclude our paper by highlighting how we extend current theories in both the field of SHRM and entrepreneurship research.

2. CONCEPTUAL BACKGROUND

There are a number of different life cycle models that have been proposed, which look at the evolution of firms (e.g. Rutherford et al., 2003; Adizes, 1979; Hanks and Chandler, 1994; Kazanjian, 1988; Churchill and Lewis, 1983). Each model is based on some argument that organizations cycle go through similar, predictable stages. In each of these stages, different problems gain primacy in the organization, and they require diverse management skill sets (e.g. Adizes, 1979; Kazanjian, 1988).

The HRM literature has looked at the role of HR in the organization across the lifecycle or within a particular stage in the lifecycle. While the number of stages adopted in the HRM literature varies, recent work has focused on 4 or 5 stage models (e.g. Cardon, 2003, Rutherford et al., 2003) in the same way that the broader lifecycle literature now primarily focuses on 4 or 5 stage models (e.g. Lester and Parnell, 2008; Bonn and Pettigrew, 2009). Almost all of the commonly accepted models at this point begin the organizational lifecycle with the birth or start-up stage and have a decline/revival stage at the end of the lifecycle.

Most of the existing literature that has endeavored to utilize the organizational lifecycle model in HRM has focused on either the value of specific HR practices or HR systems in organizations throughout the lifecycle (e.g. Cardon, 2003; Ciavarella, 2003; Rutherford et al., 2003; Griffith et al., 2006; Leung, 2003; Jack et al., 2008). The idea has been to understand the value of HRM to organizations. However, this literature generally ignores the relationship between HRM and firm strategy, and relies on the commonly held assumption that HRM has to be aligned with the existing firm strategy (e.g. Baird et al., 1988). This logic, built from the strategy-structure-fit argument, presumes firms have existing strategies and HRMs role is to make sure the firm has the employee capabilities demanded by the extant strategy fostered through a set of HR practices.

This logic rests on two fit arguments that support organizational success. First, firms align their internal talent (i.e. human resources) and HR management activities (i.e. practices) with the firm’s strategy in a vertical fit fashion (Dyer, 1985). That is, the strategic goal of the firm influences decisions for managing talent. Second, these HR activities should be horizontally aligned, meaning that management uses the firm’s strategy as a guiding framework wherein each HR practice is designed to support and match other HR practices to assure consistency for managing human capital, which assures congruency (Baird and Meshoulam, 1988). For example, a collaborative culture has to hire team-minded applicants, offer team skill training (conflict resolution and team building) and team-based reward compensation elements. Both vertical and horizontal fit alignments are efforts to maximize organizational outcomes (Huselid, 1995; Wright & McMahan, 1992), based on the firm’s strategy. However, startups and emerging firms generally have no firm strategy from which HRM could be based on (Mintzberg and Waters, 1982), and for firms in decline, firm strategy typically needs to change in order to avoid the death of the firm as has been observed by the actions of many Fortune 500 businesses, including Coke, Sprint, and Apple.

There are a few authors that have endeavored to look specifically at the relationship between firm strategy and HRM using a lifecycle perspective (Rutherford et al., 2003). Based on the assumption of cost, market and employee-role-behavior similarities, scholars initially took a highly condensed approach to lifecycles stages (Starbuck, 1965; Lorange and Murphy, 1983). Schuler (1989) offered a contingency
framework for understanding the HR practices and policies a company is likely to adopt based on the current lifecycle stage of the organization. Drawing on an HRM perspective, Schuler (1989) assumed a pre-existing firm strategy and outlined key behaviors believed to help drive a particular strategy (e.g. cost, quality enhancement or innovation) at a particular lifecycle stage. In contrast, Lengnick-Hall and Lengnick-Hall (1988), drawing on the human capital perspective, took a different approach and mapped out a 2x2 SHRM framework focusing on a firm’s growth expectations and the organizational readiness of its human capital. They delineated four different typologies based on two dimensions: organizational strategy and organizational skills.

Both Schuler (1989) and Lengnick-Hall and Lengnick-Hall (1988) provided a starting point from which we depart. Schuler (1989) assumed that the firm’s strategy is a given regardless of the lifecycle. In contrast, Lengnick-Hall and Lengnick-Hall (1988) assumed that the firm’s strategy is not fixed, but rather that management of human resources contributed directly to firm’s strategic formulations in a growth stage. However, our central contention here is that the relationship between firm’s strategy and HRM doesn’t fit within the prevailing theory in the birth and decline lifecycle stages.

1.2 Firm Strategy – HR Strategy Literature

The notion of “HRM strategy” has been defined in different ways. Some scholars have emphasized a management approach that involves “the pattern of planned resource deployments and activities intended to enable an organization to achieve its goals” (Wright and McMahan, 1992: 298). That is, it is the systematic deployment of HR practices, policies and systems to drive key employee behaviors that would contribute to execute the firm’s strategy (Messersmith and Guthrie, 2010; Huselid, Jackson and Schuler, 1997; Schuler and Jackson, 2005). Others have deemphasized the management angle and focused on the human capital – the talents/knowledge, skills and abilities (KSA’s) of the workforce as part of HR strategy (Erhardt, Martin-Rios and Way, 2009; Lepak and Snell, 2002; Lepak, Bartol and Erhardt, 2005; Martin-Rios and Erhardt, 2008; Way and Johnson, 2005; McMahan, Virick and Wright, 1999). The human capital approach commonly utilizes the resource-based view (RBV) (e.g. Barney, 1991) as a theoretical backdrop whereby HRM scholars argue that human capital (as it is valuable, rare, inimitable, and non-substitutable) can contribute to a competitive edge and set it apart from competitors.

While we recognize that important scholarship has occurred in both camps, we draw on the latter view, which holds that human capital is the foundation for HR strategy in this paper. Our rationale for this conceptualization of HR strategy is that firms that operate in different stages of the lifecycle may not have many formal HR practices such as recruitment, training and compensation, especially in early lifecycle stages. Yet, human capital exists within a firm involving people regardless of the stage of the organizational lifecycle the firm is in, which has implications for the firm’s business strategy.

Drawing on the human capital argument built out of RBV (Barney, 1991; Wright, Dunford & Snell, 2001), HRM has offered extensive supportive linking management of employees’ competencies with a positive impact on firms’ financial bottom line (e.g. Hitt, Bierman, Shimizu and Kochhar, 2001; Lado & Wilson, 1994; Pennings, Lee & Van Witteloostuijn, 1998). Youndt, Snell, Dean and Lepak (1996) offered evidence that human-capital-enhancing HR systems can have significant bottom line results in their study on manufacturing firms pursuing a quality strategy. Snell and Dean (1994) noted that human capital adds value based on the enhanced productivity generated by a system of HRM practices to further advance employee knowledge, skills and abilities (KSA). The assumption made by the proponents of human capital HRM approach is that an existing firm strategy guides human capital enhancing HRM efforts. However, while the notion that firm strategy dictates what talent is needed is valid in stable and mature firms, it may not always hold, because as the firm experiences different stages of its lifecycle, the link between firm strategy and HRM strategy should change along with the rest of the firm. While having firm strategy guiding the acquisition and retention of human capital can help foster and sustain a competitive edge for mature firms, in other circumstances, it can have detrimental effects and actually create barriers and impact firm performance negatively if firm strategy does not consider the existing human capital.

For instance, in the top management team literature (TMT), top management’s human capital is considered an important driver of adaptation by the firm as it strives to survive in a changing environment (e.g. Boeker, 1997; Wiersema and Bantel, 1993). Building on this perspective is especially relevant for
scholarship focused on firms in both the birth and decline stages that still need to integrate HRM strategy and firm strategy to achieve superior performance (e.g. Finegold and Frenkel, 2006; Messersmith and Guthrie, 2010). The human capital argument for firm performance is particularly interesting in small high-growth startups, as founder’s knowledge and experience can have a profound impact on the firm’s direction. Along these lines, the type of human capital the firm has can contribute to the nature of how employees are managed even if formal practices are yet to be developed. For example, Welbourne and Cyr (1999) found that smaller, fast-growing IPOs (initial public offerings firms) reap the most gain from having senior human resource executives. While they did not explore the actual HR practices in place, the mere HRM executive presence appeared to have positive impact on firm performance. Building on their findings and the broader TMT literature suggesting that changes in top management serve as an adaptation mechanism, we argue that when firms need to change their strategy to adapt, they should do so based on their human capital.

3. TOWARD A CONCEPTUAL FRAMEWORK

Having identified a gap in current knowledge on the relationship between firm strategy and HRM in the birth and decline stages of the organizational lifecycle, we now present a conceptual framework that offers testable proposition.

3.1 The Birth of the firm -

The organizational lifecycle begins with the birth of the firm wherein organizations are characterized by “entrepreneurship, management by informality, and limited products and markets” (Baird and Meshouglam, 1988: 118). At the start of a firm, the entrepreneur or venture team, referred here to as founders, is looking for the ability to translate the idea of the firm into action (Kamm and Nurick, 1993). In the birth stage, the firm has few if any formal functions (Hanks, et al., 1993), and the founders are in charge of virtually all business-related activities. Below, we explore the link between the founders’ human capital and emergent firm strategy in the birth stage.

Birth stage firms are evolving and rapidly changing (Schindelhutte and Morris, 2001). In addition, they often face severe resource constraints (e.g. Baum, 1996) and face concerns about their legitimacy (e.g. Singh, Tucker and House, 1986). In spite of empirical evidence which suggests that it may be advantageous for entrepreneurial firms with ambitious growth plans to engage HR professionals (Finegold and Frenkel, 2006) and formal HR systems (Messersmith and Guthrie, 2010), most entrepreneurial firms manage human resources informally, and rely on the founders (Heneman, Tansky and Camp, 2000; Leung, 2003; Hayton, 2008; Taylor, 2006). Founders generally handle all HR-related activities including recruiting talent often based on informal social networks (Leung, 2003). Critically, no HR function, HR professionals, or formal HR practices generally exist in these firms at this stage, yet human capital is essential for the survival and success of the firm.

Whether HRM in the birth stage firm is informal or formal, relying on the firm’s strategy to make decisions about how to manage human capital is problematic. For most new entrepreneurial firms, the decisions that will define the company’s strategy are as yet unmade and must be shaped by the founders (e.g. Chandler and Lyon, 2001). Strategy in entrepreneurial organizations is often a mix of deliberate and emergent strategies (Mintzberg, et al., 2005). The emergent strategy, which becomes the firm-level strategy for most organizations in the birth stage, evolves, in part, from actions in the competitive market (Mintzberg and Waters, 1985) and, more relevant here, from the founders’ knowledge, skills and abilities (i.e. human capital). As the firm engages the broader market, the leadership team makes decisions day in and day out with the intention to grow the business.

Accordingly, the notion of HRM strategy at the birth stage is primarily represented by the acquisition and maintenance of the human capital of the founding team and early employees (Lado and Wilson, 1994; Ensley et al., 2002). The initial human capital is what the emerging firm builds its strategy on (e.g. Kazanjian, 1988), and the composition of the team’s combined knowledge and experiences are critically important to the success and survival of the firm (e.g. Schein, 1991; Erhard, Werbel and Shrader, 2003). This fact in particular is what drives venture capital (VC) backed ventures to install a new top management team if an idea shows promise but the founders are unlikely to be up to the challenge. In the
birth stage, the formation of a strategy is particularly dependent on the talent of the founders and the way they view the possibilities for a successful venture.

Specifically, venture capitalists are known to prefer a "B" idea with an "A" management team to an "A" idea with a "B" management team (Kazanjian, 1998; Byrne, 2000; Zacharakis and Meyer, 2000). This preference comes from the belief that almost nothing is controllable in a new firm except the new venture team and its talent. With a small number of team members making decisions in most new ventures, selecting one bad person, either as an addition or through retention, has a disproportionate effect on the firm by virtue of its small size (e.g. Chandler et al., 2005). The strategic element of HRM in the birth stage is having the right people with the right capabilities and experience in place to deal with current and potential needs of the firm given changing market and competitive conditions (Rutledge, et al., 2003).

For example, in many instances, investors will be presented with a founder who has a promising technology, but limited experience running an organization without a well developed business strategy. If they find the opportunity attractive enough, they will seek to add value to the enterprise, and protect their investment, by bringing in a set of individuals with the right capabilities and prior experience needed to move the business forward in a particular domain (Beckman, Burton and O'Reilly, 2007). They pick these individuals not to execute a particular strategy, but rather to have the right team composition to create a strategy in response to technological and market shifts, understanding that the original business plan is rarely the one that produces success.

The decisions that new firms make that determine the emergent strategy are made on the basis of the founders' shared sensemaking about the reality of the competitive environment (e.g. Mintzberg and Waters, 1985; Hill and Levenhagen, 1995). It is the human capital of the founders that determines the way founders see the world (Levenhagen, Porac and Thomas, 1993) as they seek to respond to the competitive market. It is the founders' existing human capital that allows the firm to develop a firm strategy necessary for growth (i.e. firm performance) (Gulati and Higgins, 2003). Hence, firm strategy at the birth stage, should be set on the basis of the human capital of the founders, as it is combination of their knowledge, skills and abilities that allows for an effective and viable firm strategy. Not only should strategy be set based on the talent in the firm, but given the very real lack of resources most birth stage firms face, it would be inefficient for entrepreneurial firms in the birth stage to develop a strategy first and then strive to build a human resources strategy that was optimized to fit the firm strategy. We propose the following:

P1: In the birth stage of the organizational lifecycle, HRM strategy, in the form of human capital should drive emerging firm strategy.

3.2 The rebirth (or decline) of the firm -
As firms become more established and successful, they develop institutionalized sets of capabilities and routines (Hannan and Freeman, 1984). However, at some point, all firms begin to decline. Cameron, Sutton and Whetten (1988) defined decline as involving the reduction of internal resource munificence, both financial and managerial, over time. For many, if not most of these declining firms, the dominant firm strategy the firm was pursuing prior to entering decline is no longer suitable to the competitive environment (D'Aveni, 1989). For firms in the decline stage of the lifecycle, firms either fail completely or experience significant declines in their markets, translating into shrinking organizations. Not all firms that enter decline die, however (Ferris, et al., 1984); of particular interest theoretically are those firms that begin to decline and work to adapt to their new situation by focusing on their talent and changing strategy to revive their fortunes.

To date, scholars have given only cursory attention to the role of HRM in reviving the firm. Of the few exceptions, scholars have generally outlined differences in HR practices as a firm moves into decline (Lengnick-Hall and Lengnick-Hall, 1988; Jackson & Schuler, 1995). For example, drawing on Miller & Friesen's (1984) four stage lifecycle model (introduction, growth, maturity, decline/revival), Ciavarella (2003) argued that the sophistication of HR systems are the lowest in the introduction stage and increased in growth and maturity. He further argued that firms that experience revival have higher levels of HR systems than those that continue to decline. Cardon (2003) found evidence that firms trying to
move from decline to growth through diversification make careful considerations around hiring and integrating a contingent workforce, which in turn impacted growth and productivity. While this literature has offered important insights to research on HRM-decline/revival lifecycle stage, the role of the firm's strategy remains absent in the discussion, and seems to hold the same underlying assumption that a firm strategy exists to guide HRM changes.

In contrast, in the strategic management literature, Hall and Saines (1980) argue that while it may be the case that for a given strategy structure must move to accommodate it, during times when strategy is being formulated or reformulated, structure serves to bind the available choices. This suggests that firm strategy does not necessarily have to precede HRM when the firm must change. They further argue that as a new strategy emerges, the context, including HRM, cannot be ignored. Top management's actions are limited by the possibilities they see and the organization they operate within when they are formulating strategy (Hill and Levenhagen, 1995).

A few theoretical and empirical contributions follow similar thoughts. For example, Wright and Snell (1998), in their discussion about building both fit and flexible HR systems simultaneously, pointed out that the strategic choice of one company is driven by the mission and goals of the company. More importantly, they argued that the firm strategy- HR system relationship is to some degree contingent upon the internal strengths and weaknesses of the firm's human capital. This relationship was illustrated in their study of recruitment by NCAA basketball teams. They argued that depending on the strengths and weakness of a particular season's talent, the team's strategy would follow. Their logic was that coaches cannot control who or what talent will ultimately be acquired or be available for the season, thereby necessitating the development of strategy that fits the human capital the team possesses during any given season. These arguments make a case for talent serving to inform strategy when a change in strategy is necessary, as it most certainly is when a firm or team is in decline. Given the need for a new strategic plan to aid in the revival of an organization, we argue that human capital, especially at the upper echelon, should play a key role in the new strategy that is chosen, as has been argued in the TMT (e.g. (Finkelstein and Hambrick, 1996; Hambrick and Mason, 1984) and strategic change literature (e.g. Boeker, 1997).

While the existing employees within the firm are a key factor when considering a new strategic path for the firm, many organizations choose to first turn their focus to the very top, replacing their top management team in search for a new strategy with the hope of turning around the declining business (Hambrick and Mason, 1984). For example, Apple Computer's declines in the 1990s brought the company to the brink of failure, and it was only by changing the talent at the top (by bringing back Steve Jobs in 1997) that the firm hit upon a strategy that would work. Indeed, this same scenario has played itself out time and again in declining companies where changes in strategy, after the firm enters a period of decline, are based on new TMT human capital (e.g. Coke in 1980 with Roberto Goizueta, Sprint Nextel in 2007 with Dan Hesse, GM in 2010 with Ed Whitacre Jr.). A new strategy is possible to the extent that new top management human capital guides it, and the organization has the human capital to implement it (Ferris et al, 1984).

New CEOs are selected based on their knowledge, skills, and abilities (i.e. human capital). This is true whether the new CEO is an executive selected and promoted from within, or executive talent from outside (Hambrick and Mason, 1984). This new leadership is put in the position because the owners and/or board of directors believe they have the talent necessary to generate a new strategy that can save the firm from further decline. Drawing on their experiences and skills, these new executives are empowered to put forth a new direction based on what they see as the most viable option; they are not brought into the company to continue with the current firm strategy. A new strategy will emerge as the new top management team goes through a due diligence process identifying strengths and weakness of current operations, market competition (e.g. Boeker, 1997), as well as current and potential human capital of the firm that can be successfully implemented. Thus, formally:

P2: In the decline stage of the organizational lifecycle, HR strategy, in the form of top management team human capital, should drive the development of a new firm strategy.
4. DISCUSSION

4.1 Theoretical Contributions

In contrast to the mainstream HRM literature that assumes a pre-existing firm strategy on which HRM strategies are built, our model suggests that in the birth and decline stages of the organizational lifecycle, this relationship should be reversed, with HRM, in the form of talent, driving the choice of firm strategy. In the birth stage, firms should rely on the new venture team’s talent and knowledge, skills and abilities to guide development of an emergent strategy. At the beginning of the lifecycle, management uses informal mechanisms as the foundation for how employees are hired and managed. The initial founders and members of the entrepreneurial team brought into to the firm are the human capital that informs the firm’s strategy. As the firm moves beyond the birth stage, the firm’s strategy necessarily becomes more deliberate and begins to guide future HR strategy, falling in line with the extant SHRM perspective on this relationship (Baird and Meshoulam, 1988; Jackson & Schuler, 1995; Rutherford et al., 2003). Also, in the final stage, decline, firm strategy once more is uncertain. As the firm faces the possibility of organizational death, a new firm strategy is necessary if the firm is to be revived, and as outlined above, a successful new strategy is likely driven by the knowledge, skills and experience (i.e., human capital) of the top management team.

Both the birth and decline stages provide a unique context for the relationship between firm strategy and HRM in firms that should not be limited by theory developed in mature firms. The overwhelming presumption of the HRM literature is that firms have strategies and so the role of HRM is somewhere between administrative service to the strategy and integrated with firm strategy (Golden and Ramanaiah, 1985). Golden and Ramanaiah (1985) suggest that companies adopt a level of HRM integration based on factors such as the business strategy itself. However, as we explore above, it is not necessarily the case that firms have a set strategy to guide HRM. In situations where firms do not have a deliberate strategy, or where the firm must significantly change its strategy to attempt to revive its fortunes, we argue that human capital guides the development of a (new) firm strategy.

4.2 Direction for Future Research

We argue that in the birth stage, the founders/entrepreneurial team, in response to the environment, sets firm strategy as the entrepreneurial team coalesces. There is some literature in entrepreneurship that has looked at the impact of changes in the entrepreneurial team on performance (e.g., Chandler et al., 2005) with an eye toward the impact of the level of heterogeneity/homogeneity on team performance (e.g., Amason et al., 2008; Li, 2008). There is not, however, existing research exploring when, why and how the team itself develops an understanding about who to add or subtract from the team, which affects the human capital available to the firm. In light of our arguments and related evidence about the impact of the team on the strategy of firms in the birth stage (Ensley et al., 2002), this is an area that future research should look closely at to develop our understanding of how firms can manage the process of entrepreneurial team change as effectively as possible, while also informing our understanding about whether certain team types pursue different strategies based on their human capital.

Prior literature looking at the birth stage of the organizational lifecycle has linked the existence of formal HR mechanisms with superior performance in early stage firms (e.g., Messersmith and Guthrie, 2010 with high performing work system and Finegold and Frenkel, 2006 with HR professionals), suggesting that these firms should engage HR practices and HR professionals early in the lifecycle. Our model assumes that organizations in birth stages do not have formal HR practices (Cardon, 2003; Clavarella, 2003; Rutherford et al., 2003), yet human capital is needed for the organization’s existence. We believe that more empirical research is needed to better understand how the formal human resource management in early phases evolves. A better understanding of this process could potentially have important implications for small start-ups that are trying to grow their business and with the help of a functional administrative component.

Likewise, the founders’ values that drive so many of the decisions in the firm in the birth stage link to HR philosophy. Schuler (1989) suggested that HR philosophy is a guiding force for the type of people a company needs and how they ought to be treated. While HR management philosophy has generally been discussed with a focus on established firms (Lepak, et al., 2007; Schuler, 1992), when firms in the
birth stage do not have a formal business strategy, matching an HR philosophy with a strategy is premature. Yet, HR philosophy is particularly relevant for these firms as it is this philosophy, rather than any HR policies or professionals that may drive management of early talent, organizational and culture-forming decisions. As the firm engages the market and works on turning vision into strategy, it must add people. It would be interesting for future research to investigate how HR philosophy drives management of talent in the birth stage of the lifecycle. If talent drives firm strategy, then further research into HR philosophy would be useful for understanding possible links between HRM and firm strategy.

5. CONCLUSION

Our model suggests that the relationship between HRM and firm strategy in the birth and decline stages should be different than the existing literature has adopted base on the model developed in mature organizations. We have offered propositions that advance our understanding of this relationship in these stages. Specifically we posit that firm strategy is driven by HR strategy, in the form of human capital acquisition and maintenance, in the birth stage and decline stages. We hope our model provides additional ideas as to the role human capital strategy in firm strategy formulation in the context of the birth and decline lifecycle stages. More theoretical and empirical research are clearly needed to expand on our arguments, and we believe our arguments should be the basis for advancing our understanding of the role of HR strategy in developing firm strategy when strategy is not set.

REFERENCES:


Azides, Ichak, "Organizational Passages: Diagnosing and Treating Life-Cycle Problems in Organizations", *Organizational Dynamics*, Volume 8, Number 1, Pages 3-24, 1979.


AUTHORS PROFILES:

Dr. Jason Harkins has his Ph. D. in Strategic Management from the University of Oklahoma. His primary research interests are in small business strategy and the impacts of governance on managerial actions in small firms. He is an assistant professor of management at the University of Maine. His work is published in Strategic Management Review.

Dr. Niclas Erhardt (PhD, Rutgers University) has wide research interest at multiple levels, including team-based knowledge work, workplace diversity, HRM, outsourcing, and intra- and inter-firm collaboration. His work has been published in journals including Journal of Management, Human Resource Management Review, Corporate Governance: An International Review, and Management Learning.

Dr. David Finegold (Ph. D., Oxford University) is Senior VP for Lifelong Learning and Strategic Growth at Rutgers University overseeing all of Rutgers international, online, and continuing and executive education programs. He has published more than 80 journal articles and books.