Human Resources Management and the Growing Entrepreneurial Enterprise

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Many successful entrepreneurial ventures recognize that even from the very outset, a balanced management team and an adequate cadre of key personnel is needed to address the myriad of problems that arise in today's complex business environment. For those entrepreneurial organizations seeking venture capital funding to assist them with their start-up, a summary of management qualifications is expected to be included in the business plan. Venture sources and others (e.g., banks, key vendors, landlords, etc.) analyze the plan, putting more faith in those organizations that have a balanced team approach.

Unfortunately, the myth of the "lone wolf" entrepreneur continues to persist, with many start-up organizations being run by a single individual. Almost as limited is the family-run business, where one individual takes the lead, sporadically supported by other family members. In the same vein is the organization started by the engineer with a great start-up idea, who partners with another engineer to develop a business. In each of these scenarios, the balance needed to address the many facets of business is clearly lacking.

For these one- and two-person operations, there comes a time in the organizational life cycle when the circumstances are such that the energy of the founder(s) alone is no longer sufficient to accomplish the mission of the business. This can be a significant turning point in the life of the organization. It is at this point that the successful staffing, orientation, and ongoing management of human resources becomes essential to the overall vitality of the growing firm.

Krembs (cited in Renesch, 1994) points out that this is the crucial period when many new business ventures fail, if the owner/founder is unable to give up hands-on involvement in every detail of operations, and assume the role of leader and coach within the organization. He illustrates his conviction with this brief story:

> A brilliant engineer whose ideas give birth to a new venture is thrust unwillingly into the role of leading other talented people attracted to the growing enterprise. The result is a person who is unaware that his or her interest and heavy involvement in details may be robbing other technical professionals of their opportunity to invent and, ultimately, generating organization-wide fear that no one is at the helm of the ship. (p. 1)

Organizational leaders of today recognize that the long-term success of their operations is dependent upon their ability to manage and leverage their human resources to achieve their potential. The effective management of human resources can be a source of competitive advantage for organizations in today's volatile marketplace. Employees of an organization are one of the most valuable, if not the most valuable, assets of the firm.

This is not a new concept. The idea that employees are one of the greatest assets of a business has been around since at least the 1950's. Appley (1956) quotes Clarence Francis (Chairman of the Board of General Foods) as having said:

> I believe the greatest assets of a business are its human assets and that the improvement of their value is both a matter of material advantage and moral obligation; I believe, therefore, that employees must be

> treated as honorable individuals, justly rewarded, encouraged in their progress, fully informed, properly assigned, and that their lives must be given meaning and dignity on and off the job. (p. 18)

Clearly, Mr. Francis was a visionary. His words could have been written yesterday, in the latest copy of Harvard Business Review or The Wall Street Journal.

As the entrepreneurial organization adds employees, the founder must become involved in human resources planning, recruiting and selection, leadership, motivation and rewards, employee involvement, training and development, compensation and benefits, employee relations, as well as the health, safety, and security of employees. This paper will touch on each of these areas, with emphasis on what they mean to the growing entrepreneurial enterprise.

The Role of Human Resources

In established businesses, the handling of employee matters has been historically performed by the "personnel" department, which consisted of primarily administrative and clerical responsibilities. The personnel function concerned itself with record keeping, compliance with employment laws, and possibly the threat of collective bargaining and work stoppages. Some operations also included involvement with employee productivity management practices.

As organizations have become increasingly more enlightened with regard to employee policies and programs, the term "personnel" has been gradually replaced by the term "human resources," when referring to the management function that deals with employee matters. In fact, one recent survey found that 60% of practitioners today use human resources as the department title (SHRM Learning System, 1996).

These distinctions may seem somewhat rhetorical to the entrepreneur. The new business owner is likely to be more concerned with survival than semantics. However, a basic competency in human resources management practices, as opposed to personnel responsibilities, is needed for the continued growth and vitality of the firm. Dann (1996) observes that:

> By maintaining a stable employee base, you avoid the high costs of the revolving-door approach to hiring and managing workers - - everything from the "hard" costs of advertising for positions and training new employees to the "soft" costs of lost time and productivity while finding new hires and bringing them up to speed. (p. 6)

Beyond the costs suggested by Dann, the entrepreneur may experience additional losses if key personnel relocate to work for the competition.

Organizational Life Cycle

Speaking generically about the entrepreneurial start-up, the owner or founder sets the direction of a company by making the nature of the business explicit, developing an appropriate business plan, and then communicating the plan to others in a way that is clear, exciting, and inspiring. Initially, the plan will be communicated to investors and others in the business community. Eventually, the plan will be communicated to the staff of the new organization, and will hopefully serve as a powerful motivational tool.

When organizations are in their introduction or "start-up" phase, basic employee policies may be set, but there is usually little regard for formalized employee procedures, rules, or structures. Some broad employment policies may exist in the business plan, but generally start-up companies recruit and hire locally, train on the run, and write or revise terms and conditions of employment as the situation arises.

Employees who are willing to work through this chaotic period are rewarded by active participation in the introduction of a new product or service. They usually have a greater scope of involvement in the firm, and are able to perform a wide variety of functions, since formalized job descriptions are generally not available early on. There is typically a sense of adventure, challenge, and excitement that is rare in more mature organizations.

Human Resources Planning

Assuming that the entrepreneur has done a good job of setting the direction for the company, human resources strategic planning will naturally flow from the organization's strategic plan. The strategic plan should consist of a management philosophy statement, a vision statement, a mission statement, goals, objectives, and organizational competitive strategies. If all of these components are present, then human resources planning is facilitated.

The forecasting of human resources requirements means simply the estimating of future staffing needs based upon fulfilling the organization's mission, goals, and objectives. This process is rarely as simple as it sounds. The planner, in this case the business owner, needs to anticipate employee skill and labor needs based upon the business strategy and other variables, such as level of sales, type of operations, and/or quality of service. Economic indicators (e.g., interest rates, the consumer price index, inflation rates, etc.) and work force indicators (e.g., unemployment rates, rates of wage increase, etc.) will also need to be factored into the forecast.

If the entrepreneur already has a few employees or contractors, the human resources forecast should include a human resources inventory. This inventory will help the entrepreneur take stock of what internal resources currently exist, prior to adding staff. This is generally accomplished by developing employee profiles which document employee knowledge, skills, abilities, competencies, and experience. With these profiles, and accurate forecasting of future requirements, a serviceable human resources plan can be developed.

Initially, a short-range plan (six months to one year) will need to be developed. Intermediate (one to three years out) and long-range (more than three years) plans are also advisable, however it is rare that the entrepreneurial enterprise is able to plan to this level in any great detail. Typically, it is more difficult to develop intermediate and long-range plans than it is to develop short-range plans (SHRM Learning System, 1996).

Recruiting and Selection

Expansion of an entrepreneurial firm will generally call for an overall increase in the work force. This increase can be achieved through either internal recruiting sources (e.g., present employees and employees' friends), external recruiting sources (e.g., colleges, universities, employment agencies, etc.), or a combination of both. Regardless of the source, emphasis should be placed on hiring people who already possess most if not all of the needed skills for the position, since time for training will be at a premium (more information on training and development will be presented later in this paper).

An essential consideration for the administration of the selection process is to ensure that there is consistency. One of the most direct ways to achieve consistency in hiring practices is to make certain that all employment decisions are job- and business-related. Following this one guideline will help the entrepreneur avoid a myriad of legal and regulatory difficulties (e.g., compliance with equal employment opportunity requirements, conforming to the Americans with Disabilities Act, and so on).

If employment decisions are to be job- and business-related, then the employer will need to identify selection criteria in advance of the recruitment process. Selection criteria (also called a job specifications statement) should include a description of the knowledge, skills, and abilities needed to perform the job being filled, which should be found in the human resources plan. Ideally, these criteria will be formally recorded in a written job description, which can be used as a recruitment tool and as an aid for measuring performance later on.

The selection process involves matching suitable candidates with tasks that need to be performed. In mature organizations, selection is a multi-stage process, which involves several human resources staff members and takes a considerable amount of time and effort to complete. Steps in the process generally include the posting/advertising of a job vacancy, a review of some type of job application form or résumé, a prescreening interview, one or more in-depth interviews with the candidate, preemployment testing, a background investigation, the contingent job offer, a qualified medical exam, and finally the offer and acceptance (SHRM Learning System, 1996).

In a smaller organization, such as the entrepreneurial venture, the entire selection process will often be handled by the owner/entrepreneur. This has a number of implications for the success of the transaction. First, the owner is likely to be inexperienced in employee selection and placement. Second, very little time is likely to be allocated to the process, since other operational priorities will seem to take precedence. Third, the owner will generally have few resources to turn to for consultation and advice. Faced with this situation, the entrepreneur may scale back the process to the bare minimum of steps, i.e., advertising an opening, interviewing candidates, and making the hiring decision.

The existence of a job vacancy can be communicated in a number of ways. The entrepreneur is most likely to rely upon word-of-mouth referrals, walk-ins, and media advertising. Depending upon the nature of the business, trade and professional organizations may also provide leads. The use of third-party sources (e.g., temporary agencies, educational institutions, public employment agencies) should not be overlooked.

Once enough applicants have been identified, the next step is for the entrepreneur to evaluate their relative suitability for the job. As stated earlier, larger more mature organizations typically use a standardized job application. Due to inexperience and the press of other obligations, this may be seen as a formality by the entrepreneur, which means that the interview may be the only method used for evaluating job candidates.

An important consideration when conducting a job interview is to limit the questions to only those that are job-related. By keeping the interview narrowly focused on the job, the interviewer can avoid inadvertently asking illegal or discriminatory questions. That is why structured interviews, where every applicant is asked the same set of questions, are preferred over unstructured ones. The use of structured interviews makes it possible to compare qualifications and can reduce concerns about equity and discrimination.

Another aspect of the interview is the process of providing information about the nature of the job for which the interviewee is applying (i.e., a realistic job preview). Presenting a clear picture of the nature of the job and the company during the interview can reduce the likelihood of unrealistic expectations. This in turn can reduce employee turnover and dissatisfaction later on.

The entrepreneur will typically lack the resources for conducting preemployment testing or conducting background investigations. This in effect increases the importance of conducting a thorough, well planned job interview. The interviewer should plan, in advance, what questions to ask, and focus on asking open-ended questions that will encourage candidates to share as much information as possible. Taking notes during the interview is highly recommended, particularly if a number of candidates are being considered.

In the final analysis, the entrepreneur has complete authority and responsibility for making all initial hiring decisions. At no other time in the life of the organization will hiring be as crucial as it is during the original expansion of the firm. For these reasons, the entrepreneurial leader is well advised to spend some time specifying the knowledge, skills, and abilities that will be critical to the organization's success, and planning the selection interviews accordingly.

Although it may be tempting at times to be distracted by outside influences (e.g., a neighbor's child seeking employment), recruiting and selection should reflect the human resources requirements as specified in the human resources plan. That plan takes into account the organization's overall strategic plan, making staffing estimates based upon fulfilling the organization's mission, goals, and objectives. Following through on these two planning processes can save time and trouble in the long run.

Leadership

As mentioned earlier, the owner or founder of an entrepreneurial firm needs to transition from the role of producer to the role of leader as the firm adds employees. Leadership involves not only providing a vision and direction for the firm, but also the ability to inspire and motivate people to perform towards the accomplishment of organizational goals. This balance between the completion of tasks and the development of relationships is the basis of considerable literature in the area of leadership.

A great deal of research has been conducted on the art and practice of leadership. Leadership theories and models, such as McGregor's Theory X and Theory Y approaches to employees, or Hersey-Blanchard's situational leadership approach, or even Blake and Mouton's managerial grid, seek to provide an understanding of leadership that will help individuals become more effective in performing leadership roles.

Perhaps one of the most useful conceptualizations of leadership, particularly for the entrepreneur, is classification of leadership acts as either transactional or transformational. Bass (1990) describes transactional leadership as the exchange of reward for effort, where as transformational leaders provide vision and a sense of mission, inspire followers through individual attention, and gain respect and trust from those they lead.

Entrepreneurs who start their own businesses can be either transactional or transformational leaders, or use a combination of the two styles. What they need most of all, is to de-emphasize their role as producer and enhance the leadership aspects of their role. A common failing of entrepreneurs is lack of any definitive leadership skills at all.

A transactional entrepreneur will tend to follow existing business paradigms. For example, Sam Walton's concept of WalMart was not a quantum leap or transition from the existing Sears and Robuck "one stop" shopping construct of retailing. Although it is true that he performed it better and enhanced it, the operation was not significantly different from anything else that had gone before.

Steve Jobs, on the other hand, or even Bill Gates, represent more of the transformational entrepreneurial archetype. Their ideas inspired the creation of industries that did not previously exist. They were able to inspire their followers (employees) with the notion that they were pioneers, and instilled a sense of urgency and pride in the mission of the organization. As a result employees worked unusually hard for the organization, as evidenced by the T-shirt slogan at Apple Computer which read, "Working 90 hours a week and loving it."

Most writers distinguish between the art of leadership, and the practice of management. Bass (1900) discusses these concepts as follows:

> Leaders manage and managers lead, but the two activities are not synonymous. Leaders facilitate interpersonal interaction and positive working relations; they promote structuring of the task and the work to be accomplished. They plan, organize, and evaluate the work that is done (F.C. Mann, 1965). Managers plan, investigate, coordinate, evaluate, supervise, staff, negotiate, and represent (Mahoney, Jerdee, & Carroll, 1965). All these management functions can potentially provide leadership; all the leadership activities can contribute to managing. (p. 383)

At the early stages in the development of an entrepreneurial enterprise, what the firm needs first and foremost is leaders, not managers. Managers, with their ability to create orderly results and maintain an efficiently run organization, are needed once the organization matures. It is important that the entrepreneur understand this distinction, and concentrate initially on leadership skills.

Motivation

The foregoing discussion of leadership alludes to the fact that leaders need to have a fundamental understanding of motivation in order to be effective. This applies not only to the motivation of followers, but to maintaining self-motivation as well. One of the best ways to understand motivation is to have a working knowledge of the principles of human behavior upon which most theories of motivation are based. Entrepreneurial leaders should have a working knowledge of these principles of human behavior in order to assist them in motivating their employees.

To begin with, most theoreticians would agree that human behavior is need based, and goal directed (ontological). That is to say, people have reasons for doing what they do, and those reasons generally point in the direction of achieving some goal. Although it may be popular to believe that human behavior is random at times, in reality people do things to accomplish something, even if that "something" is not immediately obvious to anyone (including the originator of the act).

Every person will have their own unique, individual method for achieving a goal. Every person will likewise exhibit specific, deliberate behaviors to achieve a goal, assuming of course that they are acting in a rational manner. By understanding this link between behaviors and goals, leaders have a better chance of achieving desired behaviors and diminishing undesired behaviors.

In the literature on employee motivation, certain theories appear with great regularity: Maslow's hierarchy of needs, Herzberg' two factor theory, Skinner's behavioral reinforcement theory, and so on. Each major theory has made a contribution to the understanding of human behavior and motivation. Needless to say, the already overwhelmed entrepreneur would be hard pressed to become adept in all of these theories and their associated managerial implications.

A better course of action would be to isolate one or two approaches to motivation, and concentrate on operationalizing them on a daily basis. One recommendation for implementation in an entrepreneurial firm would be the expectancy approach to motivation, which was originally proposed by Victor Vroom in 1964 and later enhanced by David Nadler and Edward Lawler. Leaders have found this particular model useful because of its generality of application and ease of use (Kreitner & Kinicki, 1998). It also supports the transactional leadership style, yet does not conflict with the transformational leadership style.

The expectancy theory of motivation is based on four key assumptions. First, behavior is determined by a combination of forces in the individual and in the environment. Second, individuals make conscious decisions about their own behavior in organizations. Third, individuals have different needs, desires, and goals. Fourth and last, individuals decide among alternative behaviors based on their expectation that a given behavior will lead to a desired outcome. Stated succinctly, individuals choose behaviors which achieve goals or rewards, which satisfy needs, which in turn creates new choices of behavior.

The expectancy model is a clear, easy to use model for the entrepreneurial leader to follow when dealing with employees. As long as employees believe that certain job-related behaviors are linked to receiving desired outcomes (e.g., interesting work, appreciation for work performed, a feeling of being in on things, help on personal problems, etc.), they are more likely to put effort into those behaviors. The key is for the leader to make an explicit connection between the preferred job-related performance and those desired outcomes.

A common misconception in the area of employee motivation is that most if not all employees are only concerned about pay or other monetary issues, and that money is the most important motivator. While pay is important, recognition and rewards are far more powerful motivators. Nelson (1994) points out, "results of a recent survey by the Council of Communication Management confirm what almost every employee already knows: that recognition for a job well done is the top motivator of employee performance" (p. xv). For the entrepreneur on a tight budget, this should be good news indeed.

Before leaving the topic of employee motivation, one closely related topic merits attention, namely the use of fear and intimidation as a means of increasing production. While it is true that fear does indeed motivate, it does so in a very negative way. Additionally, whatever the momentary gains achieved through fear, in the long run this tactic is counter-productive. Deming (1986) has observed that "no one can put in his best performance unless he feels secure . . . a common denominator of fear in any form, anywhere, is loss from impaired performance and padded figures" (p. 59).

Leadership and motivation are two very important aspects of human resources management. The concepts involved are not complicated, however, implementation involves some concerted effort on the part of the entrepreneur, which may be seen initially as detracting from the core business. Fortunately, for those who do follow the guidelines suggested above, the payoffs are almost immediate.

Rewards

Reward systems and theories of motivation are unequivocally interrelated. Most motivational approaches suggest some form of reward or reinforcement to urge employees towards the completion of organizational goals

and objectives. Nelson (1994) contends that "few management concepts are as solidly founded as the idea that positive reinforcement - rewarding behavior you want repeated - works. In fact, in today's business climate, rewards and recognition have become more important than ever" (p. xi).

An important human resources function is to provide organizational reward systems and strategies that reinforce acceptable or desirable employee job performance. These systems include formal, extrinsic rewards (e.g., pay, fringe benefits, bonuses, promotions) and intrinsic rewards (e.g., meaningful work, good feedback on performance, autonomy). Reward systems are not a "one size fits all" proposition. Different employees will perceive the same reward from different perspectives, which means that organizations need a variety of reward strategies in order to be effective.

With regard to formal, extrinsic reward systems, it is important that employees see a direct relationship between the performance of their work and the receipt of rewards (e.g., pay for performance). If a performance appraisal system is used as a basis for the distribution of formal rewards, then it needs to be administered in an equitable manner. The perception of inequity in a reward system can cause major issues with regard to employee satisfaction, turnover, and productivity.

The entrepreneurial firm will no doubt rely more heavily on intrinsic rewards than extrinsic rewards, particularly while the organization is in the start-up phase. The ability to perform meaningful work, the realization of an individual's ideas, or the ability to exercise autonomy in the performance of one's work can all be characterized as intrinsic rewards. These types of rewards are more easily achieved in the chaotic environment of the new business start-up.

In summary, recognition and reward systems can take many forms. To be effective, they must reflect the individual, the organizational culture, and the nature of the achievement. Additionally, the reward should be tied as much as possible to the desired behavior, so that employees see a direct connection between their efforts and the rewards they receive.

Employee Involvement

If employees are to be involved in the success of the firm, then they must be kept informed of the company's goals, objectives, and strategies. In this way, employee behaviors are more likely to be aligned with company values. While this may seem intuitively obvious, this is precisely the type of information that is not readily available to the rank and file employee in large, mature organizations.

While it is more likely that employees will be involved in a broader range of operations in the small entrepreneurial start-up firm, this is not always the case. Entrepreneurial leaders need to ensure that employee input on important organizational issues is both requested and acted upon. Nothing leads to extinction of a behavior faster than a combination of apathy and negative reinforcement, which means that if employee ideas are ignored and/or dismissed without explanation, employee involvement is likely to cease.

Keeping employees informed and involved is beneficial to both the employee and the employer. Employees gain through a sense of empowerment, and generally have better attitudes towards their job and their employer. Employers reap the benefits of employees who contribute more to the long-term success of the firm. This in turn contributes to the prosperity of not only the company, but the employee as well.

The bottom line of employee involvement is this: employees are more likely to do a good job if they can influence how the work gets done. However, regardless of how much influence they exercise, they will not be productive if they lack the knowledge and skills needed to perform the job, which is the topic of the next section.

Training and Development

With the rate of change in today's business environment, the need for ongoing organizational learning is almost assumed. There is a danger, however, particularly for the entrepreneurial firm with limited resources, that improperly directed training activities will not have the desired results. Training interventions and developmental

activities must be aligned with the organization's philosophy, vision, mission, goals, objectives, and strategies as described in the strategic plan. Without this alignment, training and development activities can divert valuable resources, with little or no return on investment.

Learning is an ongoing process, that will exist in an organization whether or not formal training is offered. However, companies can benefit from the implementation of systematically planned training, by accelerating and directing this learning process in ways that will contribute to the success of the organization. Consequently, training efforts begin to be viewed as an investment as opposed to an expense.

Successful training efforts are usually carefully planned. A classic model for the systematic planning of training includes five phases: analysis, design, development, implementation, and evaluation. This systematic approach, sometimes referred to as the ADDIE model or the generic model of instructional design (Hodell, 1997), seems to be the currently prevailing model in training literature, and has widespread acceptance and application in many large, mature organizations.

During the analysis phase, gaps between actual employee performance and desired employee performance are identified. These gaps may result from a lack of knowledge or skills, in which case training is clearly advisable. On the other hand, gaps between actual and desired performance may stem from other factors that can not be attended to with training. Examples of these non-training factors may include poorly designed job processes, ineffective procedures, obsolete equipment, conflicts of values or managerial styles, inappropriate reward systems, or faulty individual job fit.

If a company implements training without first conducting a needs analysis, then they run the risk of squandering resources, and even not addressing the performance gap at all. Training decisions need to be based upon reality rather than assumptions, which is why it is critical for organizational leaders to have data gathered on actual employee performance. Data can be collected in a myriad of ways, including the use of surveys, questionnaires, interviews, performance appraisals, observation, tests, assessment centers, focus groups, document reviews, and/or advisory committees (SHRM Learning System, 1996).

Irrespective of the methodology used to gather the data, the important outcome of a training needs analysis is the identification of performance deficiencies that can be remedied through training and development. Once these deficiencies have been captured, the next step is to design or select a training intervention that will address them. This marks the beginning of the design phase of the training plan.

In the design phase, specific learning objectives are written, the course content is outlined, instructional strategies and methods are chosen, an evaluation plan is prepared, and resource requirements are specified (Ford, 1996). The primary output of the design phase is a plan, sometimes referred to as a design blueprint or map. These plans are usually very detailed, and supported by thorough data collection and evaluation.

There are several different types of training programs which can be used to address performance deficiencies and developmental needs. These include orientation programs, basic skills training (e.g., reading, writing, mathematics), technical training, sales training, interpersonal skills development, quality training, management and supervisory training, executive development, personal development, awareness training (e.g., sexual harassment, diversity), and mandated training (e.g., OSHA requirements, CPR, fire safety). These programs can be used for the training of new employees, or the retraining and reassignment of existing employees, as well as the development of the entrepreneurial leader.

After the design phase, the next major issue is development. Training programs can be developed internally to meet the unique needs of an organization, they can be purchased as ready-to-use modules for implementation within an organization, or training can be outsourced to a third party. The decision as to which approach makes the most sense for a particular application depends upon the nature and urgency of the performance deficiency and the resources available to address it. For example, a new employee orientation program may need to be custom-designed around company-specific policies, procedures, and work context, whereas training on a particular type of universally available software package (e.g., Microsoft Windows) may be outsourced.

Implementation of the training plan is naturally contingent upon the analysis, design, and development that has gone before it. The roll-out of training includes such tasks as scheduling, coordination, monitoring, record keeping, and sometimes organizational politics. Unless training is viewed as an organizational priority, even the most well-designed program can be subverted by the employee or supervisor who feels that training is less important than "getting out the daily wash."

The fifth and final phase of training is evaluating the effectiveness of the intervention or developmental activity. Simply stated, training evaluation compares post-training results with the objectives that were specified in the design phase. Evaluation serves several purposes, including the determination of the value of training, and the enhancement of future training efforts. It also provides insights for the next training needs assessment.

One of the best known, and probably the most widely used frameworks for evaluating training programs was developed by Donald Kirkpatrick (Phillips, 1991). The Kirkpatrick model has received widespread application in training and development circles. Even though critics have charged that it is incomplete and lacks empirical testing, it is nevertheless acknowledged as a standard in the field (Holton, 1996).

Kirkpatrick's classification system consists of four levels of training evaluation, two which occur at the end of the training session, and two which occur some months after training has been completed. Level one and two measure student reaction and testable learning levels, respectively, and are usually administered immediately after instruction is complete. Level three measures the effect of training on job performance, typically three to six months after the conclusion of training. Level four attempts to assess the impact of training on the achievement of organizational objectives, and may take place up to a year after training.

With the possible exception of level one, for Kirkpatrick's levels to work, the objectives of the training program must be stated in specific, behavior-based, observable, and measurable terms. Also, care must be taken to isolate the results of training from other variables, such as new incentive programs, upgraded equipment, or improved organizational design. Finally, feedback on the effectiveness of training should be solicited from several sources, such as the student, the instructor, and front-line supervision.

Following the ADDIE or system's model of training and development, an organization can be assured that their training efforts will be on target and make a measurable impact on the bottom line. Of particular importance is the training needs analysis stage, which can prevent an organization's resources from being diverted to unnecessary training interventions. The system's model is, however, a complex and sometimes labor intensive approach to training design, which is why organizations frequently seek shortcuts and streamlined processes.

Lessons for the Entrepreneur

As mentioned earlier, the entrepreneur should concentrate on hiring the most highly trained, skilled, and motivated workforce available. Even so, with the accelerated pace of change in society and business today, even the most highly trained workforce needs ongoing personal and professional development. That being the case, the entrepreneurial leader will need to make some decisions on how to manage learning within the organization.

With limited time, money, and human resources expertise, one of the most typical reactions is for the entrepreneur to totally neglect training. This strategy usually backfires, resulting in diminished organizational performance, lost efficiencies, and reduced effectiveness. In the start-up phase of an organization, this could spell the difference between financial health and bankruptcy.

Although every phase of the training plan is important, if the entrepreneur must pick and choose among the various phases, then concentrating on phase one and two will do the most to leverage the investment of time. Specifically, effort should be made to identify performance deficiencies that can be mitigated through training, and objectives for the training should be clearly identified. The development, implementation, and to a lesser extent evaluation, can all be outsourced if necessary.

This approach contrasts against the prevailing view that many entrepreneurs hold with regard to training, which is to supplant a structured training environment with on-the-job training (OJT). Their attitude of "just follow

me around and you'll get the hang of it" undermines the importance of training, as well as other aspects of human resources management.

The skills, knowledge, attitudes, and capabilities of an organization's human resources is one key to the overall success of the business. Training and development activities can enhance this human potential, and have a beneficial effect on both the productivity and the profitability of the firm, as well as impact the organization's ability to fulfill it's mission, goals, and objectives. In addition to training and development, there is another function within the human resources area of influence that can have a similar impact on the company, namely compensation and benefits.

Compensation and Benefits

The compensation strategy chosen by an organization plays an important role in attracting, motivating, and retaining employees. This strategy needs to include the design of a total compensation system, which is comprised of all forms of financial returns that employees receive from their employer, both direct and indirect. The goal is to design a system that is affordable, internally equitable, externally competitive, and aligned with the organization's mission, goals, objectives, and competitive strategies.

Direct compensation (e.g., base pay, differential pay, incentive plans, cash recognition awards, and other cash disbursements) is the visible portion of the total compensation system. Indirect compensation (e.g., medical and dental benefits, disability insurance, paid time off, and other perquisites) is not readily visible, but can have a profound effect on an employee's perception of the value received from the employer's compensation system. It is generally considered a human resources function to design a strategy that blends direct and indirect compensation in a way that is attractive and rewarding to employees, yet stays within an organization's budget.

In designing a compensation system, human resources operatives must take into account both internal and external factors. Rewarding equal work with equal pay is an example of an internal consideration relevant when designing a compensation package. Labor market conditions and economic trends are examples of external considerations.

A number of pay strategies are possible, subject to the internal and external considerations previously mentioned. One possible strategy is a single- or flat-rate system, where every employee who performs a given job has the same rate of pay regardless of performance or seniority. A variation on this strategy is the time-based step-rate system, where pay is predefined as in the single-rate system, only pay increases occur as the employee increases in seniority. Both of these systems avoid linking pay to job performance, and are frequently found in collective bargaining environments where there are large groupings of homogeneous workers.

Performance-based and productivity-based pay systems, in sharp contrast with single-rate and time-based systems, tie compensation to an individual's contribution to the organization. Performance-based systems typically make use of some type of performance appraisal method to help in determining differences in pay. Productivity-based systems rely on some readily quantifiable measure of output as the basis for pay determinations.

If either performance-based or productivity-based systems are used, it is important that employees clearly see a direct link between their efforts on the job and the rewards that they receive in the form of compensation. This relates back to the earlier discussion on the expectancy theory of employee motivation. Mathis and Jackson (1994) describe this important point as follows:

> Employees must see a direct relationship between their efforts and their rewards. Further, both employees and managers must see the rewards as equitable and desirable. Expectancy theory indicates that incentives are most effective when employees can see clearly that their extra efforts lead to increased performance and desirable rewards. Otherwise, stress can be created. (p. 391)

While performance-based and productivity-based systems can increase the amount of discretionary effort that an employee applies to the job, there are dangers to be guarded against. When employees concentrate exclusively on their own individual performance levels, they may lose sight of overall organizational effectiveness.

For this reason, employers may wish to base a portion of an employee's pay on overall company performance. These organizational incentive systems (e.g., gainsharing, profit sharing, employee stock ownership plans) tend to promote teamwork, encourage organization-wide cooperation, and minimize internal competition.

Work force characteristics are another important factor that could affect the design of the compensation package. For example, a compensation system appropriate for young, inexperienced workers performing repetitive entry-level tasks would not be a good fit for seasoned professionals, performing knowledge-intensive work. Such a mismatch would inevitably create organizational problems.

For the growing entrepreneurial enterprise, a multi-faceted approach to compensation may be in order. First, employees need to receive a base pay level that is adequate to meet their basic needs, thus minimizing fear and insecurity about compensation issues. Added to this base pay, employees should receive incentive compensation that is tied to their individual contribution to the firm, with payouts frequent enough to keep them interested. Finally, with so much riding on the organization passing through the survival phase, a portion of the employee's pay should be linked to the overall health and vitality of the firm, which will help to keep employees goal congruent with the organization.

Employee Benefit Programs

As mentioned earlier, indirect compensation (i.e., the employee benefits program) is the less visible portion of an employer's total compensation package. Even so, benefits can have a profound effect on an employee's perception of value received from an employer. They can be a key factor in attracting and retaining employees, as evidenced by the following passage:

> Employee benefits have become an increasingly important factor in acceptance or rejection of offers of employment and a central issue in the work lives of employees . . . Many employees give as much weight to the value of their benefits as they do to their salary. (Tracey, 1994, p. 547).

Since benefits now average 39.2% of an organization's total payroll (Mathis & Jackson, 1994), the effective management of employee benefits can be of strategic concern.

Benefits programs offered by employers include mandated benefits, health care benefits, retirement plans, income protection (e.g., sick leave, life insurance), and other benefits designed to enhance an employee's welfare (e.g., paid time off, dependent care, tuition reimbursement). With the exception of mandated benefits (e.g., social security/medicare, unemployment insurance, workers' compensation, and family and medical leave), employers have a great deal of discretion when designing benefits programs. The highest priority, from a human resources perspective, is to balance the benefits received by the employee and the employer, with the cost of offering the program.

Entrepreneurial organizations have special concerns when it comes to employee benefits. Milkovich and Boudreau (1991) make the following observation concerning benefit strategies for smaller firms:

> A large well-established employer in a growing or mature industry, for example, may offer a relatively generous benefit package. But a smaller newly formed emerging firm may find that the high fixed costs attached to may benefits, particularly pensions, entail too great a financial risk. Instead, such firms may emphasize incentive pay or profit sharing, where costs will vary with the firm's profitability, and de-emphasize benefits with fixed costs. (p. 532-533).

Larger firms may also choose to emphasize profit sharing plans, in an attempt to capture the entrepreneurial spirit of smaller firms.

One other trend in benefits programs seems worth mentioning at this point, one that may have a disproportionate impact on entrepreneurial ventures. Since employees today are much more likely than in the past to work for several different employers during their career, the concept of making benefits portable from employer

to employer is becoming increasingly attractive. Noted author William Bridges made the following observation about employee benefits in a recent interview:

> I think in the long run the government is going to have to do something about portable benefits. And this means health and pensions. It doesn't necessarily mean the government has to supply them, although all other Western countries do look to the government to do this. But it has to somehow guarantee portability and give access to these things even as we shift jobs and change careers and start over again. (McNerney, 1996, p. 9)

For the entrepreneur, this means offering a retirement plan (and other benefits) that can be transported to another employer should the occasion arise. These types of provisions can help an entrepreneur attract key talent, that might otherwise be skeptical about joining a newly formed organization.

In the final analysis, there are numerous possibilities for the overall design of an organization's total compensation system. Regardless of the design chosen however, it must accomplish some basic objectives that are fairly consistent across organizations. For example, a compensation system should be designed to attract and retain employees, and it should be viewed as equitable, fair, and compatible the organization's mission. Additionally, it should be externally competitive, cost-effective, and in compliance with all applicable laws and regulations.

Legislative Issues Affecting Compensation and Benefits

There are numerous legal and regulatory factors that affect compensation and benefits. Legislation covering the establishment of a minimum wage, the administration of overtime pay, the protection of employees from discrimination, the regulation of benefits, the determination of compensation taxes, or provision of unemployment insurance are but a few examples. Employers are required to keep abreast of these factors in order to comply with the provisions of relevant laws and regulations.

The complexity of these legal and regulatory issues can be intimidating and confusing, particularly for small-business owners with limited resources. Palmeri (1997) observes:

> Congress in its great wisdom has seen fit to pass a mass of sometimes conflicting, frequently onerous laws with the stated goal of protecting working stiffs. In fact these laws are more often a bonanza for lawyers and a costly headache for small businesses. (p. 168)

This situation has given rise to the new, and fast-growing field of staff-leasing. For a modest percentage of overall personnel expenses, a staff-leasing firm will handle payroll taxes, process IRS forms, administer workers' compensation, and generally eliminate employment regulation hassles for the small business owner.

While care should be taken to select a firm with high standards and a good reputation, staff-leasing may be the answer to an entrepreneur's prayer when it comes to handling the administrative burden associated with employee compensation and benefits. The business owner still has control over hiring and firing decisions, while the staff-leasing firm handles all of the paperwork. Properly executed, this type of arrangement could be beneficial to everyone concerned.

Employee Relations

For some, any discussion of employee relations is inextricably intertwined with union and industrial relations practices. This is not necessarily an accurate reflection of current trends in the workplace. With union membership on the decline, and more employee-focused management attitudes, employee relations activities today are geared towards greater organizational effectiveness rather than union-management policies. A more current definition of the objective of employee relations, according to Milkovich and Boudreau (1991), "is to provide an atmosphere in which all employees can perform their jobs to the best of their abilities and creatively contribute to the organization" (p. 569).

If management concentrates on removing barriers that might impede employee performance and/or participation in the attainment of organizational goals, employees are more likely to feel that a union is not needed. Employers who inform and empower their employees, as mentioned earlier in the section on employee involvement, are already on the road to good employee relations. Other considerations include employee assistance with special needs, shared decision making policies, and conflict resolution strategies.

The ultimate goal of good employee relations is to encourage a cooperative, rather than an adversarial affiliation between employee and employer. Open communications can go a long way towards the achievement of that goal. As Tagliaferri (cited in Tracey, 1994) points out, "an important attribute of effective human resources utilization is management's willingness to listen and respond to employees' interests, needs, concerns, and suggestions" (p. 619).

Health, Safety, and Security

If employees are truly the most important asset and resource of an organization, then it follows logically that employers have a vested interest in protecting their health, safety, and security. While safety issues involve those aspects of the work environment that pose the potential for immediate harm (e.g., unsafe equipment), health hazards slowly and cumulatively lead to deterioration in an employee's health (e.g., stressful working conditions). Security measures deal with the protection of people, property, and information. Taken collectively, attention to these three areas is needed in order to provide a safe, healthy, and productive working environment.

Employee rights with regard to workplace safety are clearly spelled out in the Occupational Safety and Health Act (OSHA) of 1970. These include the right to safety and health on the job, the right to request and accompany on an inspection, the right to file a complaint, and the right to be informed of workplace hazards (SHRM Learning System, 1996). However, since people can typically circumvent almost any mandated safety standard, it is also necessary to work on encouraging safe behavior and safety awareness. This combination of approach of eliminating hazards and addressing attitudinal variables seems to be the most effective in dealing with employee safety (Mathis & Jackson, 1994).

Similarly, occupational health programs that merely apply to employee exposure to health hazards in the work place (e.g., toxins, carcinogens) are limited in their effectiveness. Preventive health or wellness programs take into consideration an employee's health and well-being both on and off the job. These programs include employee assistance plans, fitness club memberships, and stress management programs, and are designed to maintain or improve employee health before problems arise. This preventive approach has been proven to have a beneficial impact on the organization's bottom line (SHRM Learning System, 1996).

In addition to safety and health, an employer also needs to address the question of workplace security. Security refers to an employer's effort to "safeguard the company's property and other assets and to protect employees from personal injury or loss due to internal or external forces or conditions" (Tracey, 1994, p. 721-722). Rather than thinking of security in terms of surveillance cameras, restricted areas, and alarm systems, effective security systems begin with employees who are committed to the organization's and each others' well being. Organizations with committed and well-treated employees are far less vulnerable to loss than those organizations with disgruntled employees.

If an employer has been following the recommendations discussed under employee involvement and employee relations, implementation of an effective health, safety, and security program will seem second nature. This is particularly true for the small, but growing entrepreneurial concern, where employees sometimes seem like an "extended family." The safeguarding of an employee's physical and mental well-being is in perfect alignment with regarding employees as the most important resource of the company.

Conclusion

Throughout this paper, it has been demonstrated over and over how entrepreneurs must adapt, learn, and change as they move from a sole proprietorship or partnership to a multi-employee organization. If the founder(s) never attempts to grow the business beyond the capacity of the original staff, few adaptations will be necessary. On

the other hand, “transforming a fledgling enterprise into an entity capable of an independent existence, however, requires founders to undertake new roles” (Bhide, 1996, p. 129).

Three key roles for the entrepreneur have been addressed in the preceding discussion, namely, the roles of architect, leader, and manager. The entrepreneur, as the architect of the firm, must begin by establishing a plan for the recruitment, selection, compensation, and development of employees. Further, as the leader of the organization, the entrepreneur needs to formulate an appropriate leadership style, which includes such important considerations as employee involvement and motivation. Finally, as a manager, the entrepreneur will need to consider ongoing employees relations, and the health, safety, and security of the employees within the organization’s purview.

The management of human resources is a critical function in big business today, and no less so in smaller, entrepreneurial firms. The development, leadership, and utilization of human resources can profoundly affect the efficiency, viability, and profitability of organizations. The key is in recognizing the essential nature of employee contributions to the firm. Dann (1996) summed it up well when he commented that “in short, we have invested in our employees as valuable resources, and they, in turn, have developed a loyalty to the company - - a win-win situation” (p. 6).

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