1. Introduction: HRM and Entrepreneurship

The primary goal of firms is to reach and increase their profitability. Firms can target this goal by growing and therefore by improving their competitiveness on the market: they can enhance their economic efficiency, increase their market share or create new markets (reference). For these purposes firms need to develop new products or services, i.e. to be innovative. The process of introducing innovative products or services to the market is known as entrepreneurship (Schumpeter, 1934; Shane and Venkataraman, 2000), while creativity is the initial inspiration that leads to the creation of a new product or service. Talent, education, and cognitive skills can drive to an inspiration. However, in order for inspiration to become a daily driving force and therefore to foster continuous innovation within firms, high levels of creativity are required. This can only be attained through intrinsic motivation (Oldham and Cummings, 1996; Amabile, 1996). Within such an unpredictable context, when the people’s competence as well as motivation is called to contribute to innovative and thus uncertain outputs, human resource management (HRM) becomes a crucial factor. It is therefore important and theoretically interesting to explore the contribution of HRM to the entrepreneurial growth of new and established firms.

As our paper is exploratory by nature, it aims, firstly, at reviewing the relationship between entrepreneurship and HRM. The second objective of our paper is to point out the differences and similarities which characterize HRM in entrepreneurial and established firms, and therefore highlight the potential function of HRM in both sustaining growth and fostering intrapreneurship. This goal is achieved through the analysis of two case studies.

Entrepreneurship may include the creation of new organizations (Gartner, 1989) or may be pursued within already existing firms (intrapreneurship). Entrepreneurs who choose to start a new firm are usually categorized into novice (founders of their first independent business) and habitual entrepreneurs (founders of several companies consecutively). We

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assume that, due to the liability of newness (Stinchcombe, 1965), novice entrepreneurs lack human resource management competences. As the company grows, the size of the entrepreneurial team and the dynamic of its composition increase (Chandler, Honig and Wiklund, 2005). This makes the need for HRM competence all the more pronounced. Personnel are considered a crucial resource for the successful performance of a firm which, if it aims at rapid growth, should manage its employees accordingly (Barringer, Jones, Neubaum, 2005).

There exist several ways to generate HRM competence and to lower the probability of mistakes: external consultants can be asked, entrepreneurs can attend courses and/or seminars (Klaas, Yang, Gainey, and Mcelendon, 2005), or the HRM function can be outsourced (Cardon and Stevens, 2004; Cooke, Shen, and Mcbride, 2005). This paper argues that HRM tasks can be shared among all members of a start-up firm; in this case they take on the tasks as a part-time job. The result is a kind of networked learning process, for which the ability of the involved members to learn and to work in team becomes crucial. A second result is the development of managerial resources: while the start up grows, the people involved in the networked HRM acquire competences and become the future managers/executives.

In the case of habitual entrepreneurs, it is plausible to assume HRM competences as already present but intrinsic, and to see habitual entrepreneurs as experienced in acquiring and motivating personnel. As it is difficult to transfer tacit knowledge (Polanyi, 1967), they take the HRM functions upon themselves and thus decrease the probability of mistakes such as hiring the wrong people. The risk here is that, whenever such habitual entrepreneurs decide to leave the firm, the HRM competences leave with them.

Established firms may fear changes and become rigid (cf. Stevenson and Sahlman, 1989). Our paper posits that HRM can be a tool to retrieve their entrepreneurial spirit and enhance their innovative capabilities. A wide part of theoretical literature views innovation as the successful implementation and commercialization of creative ideas in the shape of products and services (Amabile 1996; Woodman 1995; Oldham and Cummings, 1996). Before being launched to the market and becoming an innovation, every new product and service has been an invention, which means the outcome of creativity. As mentioned before, intrinsic motivation is determinant for high levels of creativity. There are five aspects of the work environment that are particularly relevant for intrinsic motivation: encouragement, challenge, autonomy, resources and team composition. These aspects reflect the characteristics of entrepreneurial ventures.

Usually, entrepreneurs are autonomous, and motivated by uncertainty which they recognize as an opportunity. In order to pursue this opportunity they are ready to start up a new firm and take on the related risk. However, to turn an opportunity into a viable business the team composition is critical. Only an appropriate team composition can turn inventions into concrete and marketable innovations (Chandler, Honig, and Wiklund, 2005). The same holds true also within an established firm. Entrepreneurship can in fact be understood as the management process by which a group of individuals, starting up a new firm or launching a new product or market, accept risk and pursue an opportunity (Timmons, 1999; Schumpeter, 1934). Behind this process there is always a team of entrepreneurs or intrapreneurs who have to be selected, empowered, developed, motivated, and supported. It is within this context that HRM becomes important, and which our paper aims at investigating.

The paper is structured as follows. First we review the existing literature on HRM and try to point out the specificities of HRM in new and young firms, as well as its potential
links with intrapreneurship. Then we introduce and analyse two case studies. One case illustrates a start-up firm, while the other deals with both the attitudes of a start-up and an established firm. The cases have been selected from the media industry, the environmental dynamics of which constantly require changes, innovations and therefore entrepreneurial spirit.

2. HRM in emerging and rapidly growing firms

Investing in human resources for a firm means to improve the fulfillment of personnel’s labor contracts. Not investing in human resources through personnel development or appropriate leadership can lead to a decrease of performance or even to the loss of valuable competence, as employees quit their job. This holds true for any established, new and growing firm. Several empirical studies have further demonstrated that survival as well as growth of new firms strongly depends on their endowments with qualified and experienced personnel (Brüderl, Preisendorfer, Ziegler 1998; Ziegler 2000). Human resource management seems to be a critical function for a firm already at a very early stage such as its founding.

According to a growing body of research, HRM in small rapidly growing firms is different both from their slowly-growing counterparts and the large companies (cf. Barringer et al., 2005; Heneman and Tansky, 2002; Katz et al., 2000). Compared to large established companies, small firms may be subjected to liabilities of smallness and newness, which often demonstrate themselves through the scarcity of resources including employer’s legitimacy (cf. Stinchcombe, 1965; Cardon and Stevens, 2004; Williamson et al., 2002). Even rapidly growing companies may suffer lack of experience as far as personnel management is concerned; as a result, it is quite possible to expect small companies to abstain from elaborate and expensive HRM practices (such as formal training programmes; cf. Cardon and Stevens, 2004) and, on the other hand, their personnel management systems to be less formal but more innovation-oriented compared to established firms.

The absolutely necessary function that must be included in the human resource management of a firm is the salary book-keeping, together with the payments for salary taxes and health insurances. However, the entrepreneur still has to deal with other human resource management functions such as planning, acquiring and especially selecting the personnel. A unified human resource management concept would further include issues such as leadership, personnel motivation and development, compensation as well as performance management. Such a concept needs to be aligned or harmonized with the remaining firm strategies and especially those concerning product portfolios, marketing and financing. The importance of this alignment increases with the size of the firm. As resources are limited and entrepreneurs usually do not have human resource management competences, it can be appropriate for new firms to concentrate on the two most critical functions: acquisition of personnel and leadership. However, in order for emerging firms to rapidly grow and be successful, it is convenient for them to consider and deal with the other human resource management issues, too (Drumm 2000, Cardon and Stevens 2004). We argue in fact that HRM practices can be considered one of the core competences of rapidly growing firms.

Beside recruitment, compensation, leadership, development and performance management, this paper also discusses factors, critical for emerging firms, such as the outsourcing of HRM and the use of contingent labor.
2.1. Recruitment

According to HRM literature, all companies, however small, do apply HRM practices, even though this function can be implicit (Aldrich and Von Glinow, 1991). However, recruitment seems to be one of the most challenging HRM tasks for small companies. This is due to their lack of financial and material resources (Hannan and Freeman, 1977) and, in emerging firms, the lack of experience. In such firms HRM often becomes the responsibility of the general manager, rather than of trained HRM professionals (Longenecker, Moore and Petty, 1994). Under these circumstances attracting and selecting competent personnel can become a problem (Arthur, 1995).

Barney (1991) posits that many companies, instead of suffering the liability of newness, turn their condition of emergence into a competitive advantage. Their hiring practices would depart from the industry norms: examples would include the absence of job descriptions (or having only vague ones) or the absence of stock-based compensation (Alexander, 1999). Rapidly growing firms are often founded with the idea of being “anti-bureaucratic”, and their approach to hiring is characterized by providing realistic job descriptions, communicating both positive and negative aspects of a job (Deshpande and Golnar, 1994). Such firms also exhibit strong tendencies to using the informal approach to work and to empowering their employees (Cardon and Tolchinsky, forthcoming).

Extant literature indicates that entrepreneurial firms often acquire the core employees through networks (Leung et al., 2006). These authors provide an important insight in the hiring practices of the entrepreneurial firms by highlighting the fact that the firms shift their network pools during different stages of emergence and growth. During the start-up phase the core team members are recruited from both social and business networks, whereas during the growth phase recruitment is carried out almost solely from the business network (Leung et al., 2006). In other words, entrepreneurial firms would recruit their core personnel through the start-up and growth phases using strong ties (cf. Granovetter, 1973). Furthermore, the people employed to initiate the business are not necessarily the same type of people who will continue to sustain the firm. At the beginning founders usually hire generalists who are willing to put a lot of effort into and feel very passionate about the new venture. Later, when the firm starts to grow, more seasoned professionals are employed, who through their knowledge and experience can accelerate the business and foster growth (Swiercz and Lydon 2002). The inability to foresee how and if a given individual will fit within the next level of firm growth can therefore becomes a major problem for the founders, as far as recruitment is concerned. Recruiting core employees through social networks during the start-up phase may enhance this problem.

2.2. Compensation

Alongside with recruitment, compensation is another crucial area for small firms’ survival and growth. Appropriate compensation is extremely important for emerging firms to acquire core talents (Cardon and Stevens, 2004). Entrepreneurial firms are willing to reward creativity, innovation, willingness to take risks, cooperation, interactive behaviour and tolerance for ambiguity and uncertainty (Balkin and Logan, 1988). Rewards systems are usually based on bonuses which may include both profit and stock sharing (Cardon and Stevens, 2004). By creating the feeling of ownership interest in the firm, such systems allow emerging firms to retain core talents (Barringer et al., 2005; Cardon and Stevens, 2004). However, according to Barringer’s et al. (2005) study of rapidly growing firms – so called gazelles – providing the employees with financial incentives and stock options is a
distinctive feature of gazelles compared to their slowly-growing counterparts. Furthermore, providing the personnel with modest salaries and generous bonuses if the firm performs well, allows rapidly growing firms to shift a portion of business risk to the employees (Bar- ringer et al., 2005).

As entrepreneurial firms often tend to have a flat organisational structure, their employees are often treated in an egalitarian fashion as far as compensation is concerned (Graham et al., 2002). In such firms financial rewards are not indicative of an employee’s status, as traditional hierarchical distinctions are kept to a minimum (Balkin and Logan, 1988). Instead, entrepreneurial firms provide a multidimensional reward based on the payoff from acting in uncertain environments, which includes gambling on innovations. The satisfaction and responsibility of having a stake in the business adds up to the perceived feelings of reward (Graham et al., 2002). Moreover, rapidly growing firms often operate without formal HR policies for compensation, which is often negotiated on an individual basis depending on the needs and resource constraints of the firm and, on the other hand, on the skills and experience of the employees (Balkin and Swift, 2006).

2.3. Leadership, training and development

Through direct involvement entrepreneurs usually lead a process that creates value for stakeholders by bringing together a package of resources in order to exploit a recognized opportunity. In fulfilling this process, entrepreneurs innovate, take risks and act proactively (Morris et al. 2004). By innovating they search for creative solutions to operational problems or needs. According to Schumpeter (1934) a successful innovation requires an act of will and not of intellect. Therefore innovation, which should not be confused with an invention, especially depends on leadership and not only on intelligence (Hebert and Link 1988).

The concept of entrepreneurial management leadership is important for founder-driven organizations but can also be used to foster entrepreneurial orientation within larger firms (Darling, Gabrielsson and Seristö 2007). The entrepreneur typically identifies an opportunity, and then surrounds herself/himself with individuals to help pursue it, while providing the necessary leadership to develop and motivate these individuals (Martins and Terblanche 2003, Stevenson 2004). This happens in new firms as well as in established firms when for instance a new organizational unit is set up to develop a new product or service. Entrepreneurial management leadership is all about breaking new ground and going beyond the known. It is also about helping people to engage in new opportunities (McLagan and Nel 1995). Therefore, it is the entrepreneur’s ability to effectively deal with opportunities through the dynamics or an organizational setting which determines the success of a firm. Failures sometimes refer back to organizations being over-manager and under-led. This happens when entrepreneurs or managers excel in their ability to handle the daily routine, yet never question whether the routine should be done at all (Darling, Gabrielsson and Seristö 2007).

An entrepreneurial leader inspires, by appropriate means, sufficient competence to influence a group or individuals to become willing participants in the fulfilment of innovative goals. For this purpose entrepreneurial leaders must have first of all an exciting and contagious vision to encourage others to commit to organizational achievement. Second, this vision has to be communicated. Openness and dynamic contacts between individuals, teams and departments within an organization facilitate the acceptance of new perspectives and represent relevant traits of organizational cultures able to stimulate creativity and innovation (Martin and Terblanche 2003, Mumford et al. 2002). Open communication is fostered
by teamwork which provide the conditions for a dynamic mixture of ideas and competencies (Fong 2003). Furthermore, by delegating some decisions entrepreneurs can give responsibility to the employees and by assigning stimulating tasks create the preconditions for the development of their internalized motivation (Drumm 2003).

Acting in this way entrepreneurs reflect the characteristics of both transformational and charismatic leadership (George and Jones 2005). Transformational leaders pay attention to the developmental needs of the followers by helping them to look at problems in new ways; as a result followers tend to increase their level of trust in the entrepreneur and therefore be motivated to put extra effort to achieve group goals (Cacioppe 1997, Darling, Gabrielsson and Seristö 2007). Charismatic leaders have a vision of how things could be, clearly communicate it to their followers and, through their excitement, motivate them to support this vision (Darling, Gabrielsson and Seristö 2007). Both leadership styles contribute to build up an organizational culture based on learning, tolerance and trust (Cardon and Stevens 2004, p. 310). However, entrepreneurs tend to be authoritarian and to take all decisions themselves. This behaviour discourages in particular highly skilled employees (Drumm 2003).

Personnel development appears to be an important issue within the concept of entrepreneurial leadership and therefore requires close research attention. Employees’ skills and knowledge represent in fact small companies’ most valuable assets. According to Cardon and Stevens (2004), however, there is little research on training non-founders in SMEs.

As mentioned before, small companies do abstain from formalised training programmes, mostly due to their cost, both in terms of money paid and the loss of employees’ immediate working time (Banks et al., 1987). Training and learning exist in small firms, but are at times unstructured and supplemented (if not even substituted) by organizational socialisation (Chao, 1997). According to Barringer et al. (2005), fast-growing firms, compared to their slow-growing counterparts, put stronger emphasis on training and development of their employees; development of multitasking and increase of role transitions are important factors (May, 1997). Further, if the firm still employs a little team of people, the concept of networked leadership can be applied as personnel development measure (Dal Zotto, 2001). Here the leader’s authority is granted by her/his expertise and ability to provide professional and psychological support to the entrepreneurial team. Serving as mentor and coach to the employees in order to develop them as leaders is considered to be one of the self competencies that encompass entrepreneurial leadership (Comelli and von Rosenstiel 1995, Swiercz and Lydon 2002).

2.4. Performance management

Although performance appraisal is considered to be of crucial importance for fostering entrepreneurship (Jones et al., 1995) very little research has been found on this issue (Cardon and Stevens, 2004). A possible explanation, indirectly supported by Barringer’s et al. (2005) findings, is that in rapidly growing entrepreneurial firms employees’ performance is evaluated and appraised through financial incentives and stock options, rather than through other established HRM procedures.

Another explanation is provided by Heneman and Tansky (2002). According to their study, high turnover of the employees can be expected in the companies oriented towards innovation and flexibility. The steady in-flow of new knowledge and skills, provided by new employees, in such firms can be even regarded as desirable. Nevertheless, intensive employee turnover can be detrimental for companies aiming at fast growth (Baron and
Hannan, 2002), especially in knowledge-intensive industries, if the companies do not possess practices for capturing and retaining organisational knowledge.

2.5. Outsourcing HRM practices

According to a number of studies, outsourcing of HRM and increasing reliance on contingent labour becomes more common among small firms (Cardon, 2003; Klaas, 2003; Cardon and Tolchinsky, forthcoming). The gains for small companies would include reduced costs and administrative burdens, as well as increased access to diverse skills and talents provided by contingent labour force, or to the superior skills in HRM provided by professional employer organisations (PEO). All these factors combined can, in turn, lead to increased competitive advantage.

However, the implication of outsourcing HRM could be different depending on the small firm’s prime goal (Klaas, 2003). If a small company mostly desires to reduce costs and administration, hiring a PEO might quickly lead to competitive advantage; when, on the contrary, an SME wishes to improve its HRM practices, a successful collaboration with a PEO would require time in order to establish trust and gain firm-specific knowledge (Klaas, 2003).

If no specific qualifications are required, the entrepreneur can hire human resources from temporary employment agencies. In this way the risk related to the fixed cost of employment can be avoided. In case when specific qualifications are required and need for personnel increases in terms of time, then the firm is bound to hire employees on a permanent basis. With regard to executives new or young firms have the possibility to source – for a limited period of time – older experienced managers who previously served in medium-sized or big firms and are now approaching retirement (Niedhof, 1999). This solution presents an attractive challenge for these managers, while it allows young firms to bridge a phase in which their development is still uncertain and future executives still need to be developed or hired. Furthermore, the presence of experienced managers for a period of time triggers learning processes among all the staff within the firm. This Interims-management acquisition strategy is carried out mainly with the help of specialized consultants, who often help entrepreneurs in selecting the personnel. Experience is in fact critical also within this human resource management function. Young entrepreneurs can be biased by the favourable appearance of candidates. Further, there are candidates that can play-act and others that know by heart the guides to job applications (Beitz and Loch 1996).

3. HRM and Intrapreneurship

Corporate entrepreneurship, also called intrapreneurship (Pinchot, 1985) is a prominent feature in large organisations concerned with increased profitability through creativity and innovation (Zahra, 1996). Intrapreneurship implies organisational learning; it facilitates individual risk acceptance and promotes entrepreneurial contribution (Hayton, 2005). Therefore it is quite possible to assume that HRM practices could play a prominent role in fostering intrapreneurship. Indeed, the existing small (albeit growing) body of literature demonstrates consensus on this issue, although, according to Hayton (2005), the empirical evidence is somewhat inconclusive and the theoretical clarity is lacking. Partially this state of things can be explained by the fact that intrapreneurship is a complex phenomenon which includes innovation, venturing and strategic renewal (Guth and Ginsberg, 1990). Sharma
and Chrisman (1999) define this phenomenon as “… the process whereby an individual or a group of individuals, in association with an existing organization, create a new organization, or investigate renewal or innovation within that organization”. Innovation implies a process of turning inventions into marketable products or services, venturing means that a new business is created either through establishing of a new business unit, acquisition of a new business or partnership with another company (Hayton, 2005). Strategic renewal is a process of organisational transformation through renewal of the organisation’s key ideas (Guth and Ginsberg, 1990). This process is infrequent and rarely observed empirically (Covin and Miles, 1999). As a result, the interplay of HRM and intrapreneurship is most commonly studied within either the process of innovation or venturing (Hayton, 2005).

According to the established opinion, intrapreneurship requires decentralisation of authority, participation in decision-making, cooperation, decrease of bureaucracy and encouragement of risk-taking and creativity (Luchsinger and Bagby, 1987). In large organisations a crucial role in fostering intrapreneurship belongs to the middle management (Kuratko et al., 2005). However, precise HRM practices to support such behaviour are difficult to find and may be contradictory (Hayton, 2005). Still, Hayton in his recent study (2005) was able to identify following suitable practices:

- HRM should encourage internal and external knowledge acquisition and integration, which facilitates the ability of management to “endorse, refine, and shepherd entrepreneurial opportunities and identify, acquire and deploy resources needed to pursue these opportunities” (Kuratko et al., 2005, p. 705).
- HRM should encourage the formation of co-operative and trusting relationships which enable sharing of tangible and intangible resources (including knowledge; Hayton, 2005).
- Finally, HRM practices should focus on encouraging behaviour which accepts risk taking and tolerates failure. This is crucial as risk and uncertainty are inherent features within a context of entrepreneurship or innovation (Hayton, 2005). Recent studies point out that HRM practices should focus on innovative inputs rather than reward the outcomes (Balkin et al., 2000).

4. A general framework

From the analysis of the extant literature it appears that for emerging firms human resource management practices are more important than entrepreneurs would expect. In particular, the fact that HRM competence is not typically available within the founder team, the application or different HRM practices is important to overcome this lack. As general managers rather than trained professionals are usually responsible for HRM, in order to recruit core talents emerging firms need to combine sourcing from social and business networks with attractive compensation measures. Such measures also foster the creation of an ownership feeling among newly acquired employees, the existence of which is important when firms grow and entrepreneurs need to delegate responsibility.

Further, as emerging firms exist under conditions of uncertainty, entrepreneurial leaders need to inspire as well as internally motivate employees by openly communicating an exiting vision and by helping them develop professional skills. By applying a combination of transformational and charismatic leadership approach entrepreneurs can overcome the problem of typically being too authoritarian and therefore discouraging skilled employees.
Anyhow, a certain amount of turnover cannot be avoided in emerging firms. In order for turnover not to be detrimental, rapidly growing and knowledge intensive firms need to start building up a knowledge management system already from an early stage. Last but not least, as the risk of hiring wrong people is very high among inexperienced entrepreneurs, outsourcing HRM practices to professional organizations or using contingent labour when no specific qualifications are required seems to be not only reasonable but also necessary.

We can therefore argue that the implementation of a unified HRM concept – and not only of fragmented practices such as recruiting and leadership - represents a critical success factors for emerging firms. Such a concept seems to be a necessary measure also to maintain and further develop entrepreneurial orientation, and thus foster innovation, within established firms operating in a highly dynamic environment.

The media business provides a fertile ground for entrepreneurial and intrapreneurial processes due to the media companies’ development and adoption of technological innovation. Below we introduce two case studies of small and rapidly growing media companies, which can help us explore whether HRM practices in these companies can enable growth and encourage entrepreneurial behaviour. Before introducing the cases the next section explains the method we used to conduct our empirical study.

5. Method

The application of HRM measures both to foster growth in emerging firms and to enhance entrepreneurial behaviour in established firms is under-researched (Leung, Zhang, Wong and Foo, 2006). Our purpose is to fill in this gap, thus this study is exploratory by nature. HRM is regarded here as a pool of management techniques – such as empowerment, personnel acquisition, motivation, development – that aim at strategically integrating labour management into the future plans of the organization, individualizing the effort assessment with differentiated rewards in terms of pay and conditions, as well as enhancing not only the commitment to managerial decisions (Marlow, 1997) but also the willingness to engage in entrepreneurial behaviour and act proactively (Brown 1996, Wiklund 1998). Because of the complexity and the dynamic setting of the phenomenon under study (Eisenhardt 1989), the case study method appeared to us as the most suitable. Unlike quantitative methodology that seeks to predict behaviour, qualitative research methods are suited for understanding meanings, context and processes in their natural settings (Maxwell 1998). They give insight through rich details and are typically conducted using different methods for gathering empirical material (Stake 1995, Pettigrew 1997).

As the access to data is determinant for the case studies to fulfil their purpose, two cases from the media industry were selected. One of the authors works at a Research Institute for Media Management. It was therefore easier to access data from companies which already are within the network of contacts of the Institute. Furthermore, the media industry is populated by both well established and emerging firms, which operate within a very dynamic environment and are therefore bound to quick reactions and proactiveness. This context is well suited for testing the application of HRM measures as entrepreneurial tools. While conducting the case studies we found it useful to think of the chosen firm as the case and of the HRM measures as the unit of analysis. This means that we did not focus on analysing the firms themselves but rather on capturing the influence of HRM on entrepreneurial behaviour by investigating which HRM measures for which purpose were applied by the
firms. The case of Ellibs was chosen as an example of a typical start-up, while Metro was used as being both a start-up and a spin-off from a well-established media firm, thus presenting a case in intrapreneurship. In this way we also could explore the influence of experience in the application of HRM measures for entrepreneurial purposes.

To collect the empirical material a multi-method approach (Denzin and Lincoln 1994) was followed. Semi-structured interviews were conducted with the CEOs of both firms involved in the study and secondary data were sought from the firms’ websites, press releases and firms’ reports. Documents enable researchers to investigate and reconstruct ongoing processes that are not available for direct observation (Lindlof 1995). This method is ideal to complement primary data when analysing young firms within a dynamic context such as the media industry.

6. Entrepreneurship and HRM in media business context: two case studies

6.1 The case of ELLIBS.COM

The company

Ellibs.com was founded by Kristian Laiho. Being the manager of an event portal for three cities in Finland - Turku, Tampere and Oulu - Kristian realized that even if there is a lot of content being produced and available in Internet, users do not seem interested in most of this content. Kristian recognized that there was a need for quality and qualified knowledge in Internet (2001), which surfers would have soon been willing to pay for.

In order to carry out his idea of selling quality information Kristian knew that he had to find a viable business model. Kristian decided to commission a market research to Gallop, which identified an interest in buying electronic books. 35% of the people interviewed answered that they would buy e-books, 17% even preferred e-books to paper books. Considering that in 2001 the worth of non-fiction book market in Finland was 180 Million Euro, Kristian recognized this fact as an opportunity. He talked about his idea with Idea Development, which agreed to help him create a suitable Web-Site: Eweline.com.

After checking the interest of publishers he contacted all major telecommunication companies and finally made an agreement with Elisa Innovation, a famous mobile phone provider in Finland. Elisa Innovation agreed on selling to Eweline.com a Digital Right Management System to allow the handling of pdf files. The first step was to go out in the press with a headline stating the cooperation between the two partners for a big project on e-books. In this way eventual competitors were scared away and the public came to know about Eweline.com. As a second step Kristian contacted small publishers, which were trying to become more visible, and publishers which were already dealing with e-books. Finally a US publisher, Dorrance Publishing, agreed on a contract for 30 books to be published online. Dorrance is not a quality publisher; however, it allowed Kristian to start his adventure.

Kristian received the first 35,000 Euro of seed financing in the form of a loan from the Government Bank. The money was mainly spent on book fares and on the web-system during 2002. In November the site Eweline.com was launched and online surfers could start buying e-books. Thanks to the word of mouth, the first Finnish quality publisher and the
biggest IT book publisher in the Nordic Countries – Docendo – contacted Eweline.com and agreed on a contract. Through an agreement with the University Library in Helsinki Kristian succeeded in becoming a mediator between publishers and libraries – like the bookstores are.

In order to contact the libraries and look for subscriptions Kristian hired a call center offering a revenue sharing agreement: the call center would have retained 30% of the fee. This agreement lasted until the 16th sale, when Kristian decided to hire Marlene, the lady in charge of the task at the call center. As the company was growing Kristian realized he needed real office space so he entered a co-operation with the Turku Science Park Incubator, which offered facilities supporting 45% of all costs the company had to pay, including the salaries. This support started at the beginning of 2004 and lasted for one year. Kristian was now ready to hire the needed human resources: one technical support person, one content manager to put the books online and Marlene in charge of the book selling to the libraries. After a first Venture Capital round in spring 2004 and further support from the Governmental Bank, Eweline.com was ready to enter the UK market. At this stage the company name was changed into Ellibs, which would have been easier to pronounce in English.

Human Resource Management Practices

Ellibs has now seven full-time and one part-time employees. Several students are working as content managers. There are 2 key account managers, 1 manager for publishing operations, 1 content manager, 2 technical developers, 1 technical support and the CEO. The new employees were hired along the way, and responsibility was delegated following an “empowerment” pattern. The leadership style can be considered both task- and people-oriented with a charismatic touch. An incentive system exists and is based on bonuses, which are payed when performance targets on sales and development are achieved. Flexible working time is allowed as the company is managed by objectives.

A human resource development program has also been introduced. It is partly outsourced as the former managing director of the World Trade Center in Turku has been hired as a consultant for human resources. She comes in one afternoon every second month and leads a seminar together with Kristian on topics that the two of them have previously agreed upon. Basically the program aims at summing up the actual situation of the company and informing employees about the next goals and steps as well as suggesting them possible paths how to reach those goals. Employees themselves should then find the best way to reach the set objectives. The program tries to make employees feel like intrapreneurs or self-employed making decisions on their own projects: the sale people can decide which clients they prefer to deal with, while developers can choose the projects in which they are more interested. Every Monday the Ellibs team meets in a briefing to discuss what has happened the week before. In this way employees feel belonging to a team and participate in the day by day development of the company.

According to the CEO, when starting his company, the first problem he encountered was the acquisition of personnel, i.e. finding skilled employees. Kristian Laiho thinks that the solution to this problem can be found in personnel marketing, which cannot be performed by start-ups because of their lack of image (cf. liability of newness, Stinchcombe, 1965). The first employee at Ellibs was a friend of an employee at Idea Development, the company where Kristian was previously working. She was qualified (BBA at the Polytechnic) and looking for a job. Kristian hired her when Eweline.com got the contract with Do-
cendo. The first developer was a friend of a friend and was recommended as being good. The first sales person was Marlene, who was previously working for the telemarketing company hired to find the agreements with the libraries. All these cases can be seen as providing support to the Leung’s et al. findings (2006) that small firms use their networks for hiring.

The second technical developer came in as present developer, Miska, had to join the army. When Miska came back, the second developer had the chance and decided to stay in the company. When Ellibs got new office space at the Turku Science Park and the first venture capital investment came in, the situation was good enough for the company to be promoted as the biggest e-book seller in Europe and to gain a positive image. Hiring people became easier and Ellibs could start targeting more qualified people, i.e. people who knew the publishers’ business. When Marlene left because she felt not to be skilled enough for the job, a job position was posted on Ellibs’ own News Bulletin on the website. A guy from WSOY, the most famous publisher in Finland, read the advertisement and decided to start at Ellibs as manager for public relations.

Of course managing employees is not easy. They seem to be motivated and therefore more productive when working autonomously. However, according to Kristian, experience is the critical success factor for managing people. In fact, experience is a key, when evaluating people’s potential, as it is easy to overestimate their capabilities.

(This case is based on interviews with Kristian Laiho, CEO)

6.2 The case of Metro

The company

The world’s largest chain of free newspapers is run under the brand name Metro. Metro was started as a subsidiary of the Modern Times Group (MTG), which in turn was part of the Kinnevik Investment Group. During the late 1980s and early 1990s Kinnevik acted almost like an incubator launching several companies, which now represent market leading international brands within the fixed line and mobile telecommunications, free-to-air, pay-TV broadcasting, publishing as well as financial services industries. As a subsidiary of MTG, Metro became profitable already after one year of operations. In order to secure its expansion, Metro International S.A. was first incorporated in Luxemburg as a holding company for all Metro operations. In 2000 the company was listed both at the Stockholm and New York stock exchange, even if it is still controlled by the Kinnevik Group.

The first edition of Metro was published in Stockholm and distributed in the Stockholm underground. The concept of the free commuter paper was developed in Sweden already in 1992. However, it took three years to convince investors and the Stockholm public transport system to support the new paper. Today the newspaper is still primarily distributed in the underground transport, and locally the name may vary due to trademark issues. For instance the Chilean and Mexican editions are called Publimetro, the Danish Metro is named MetroXpress.

All Metro editions carry headline local, national and international news in a standardized and accessible format and design, which enables commuters to read the newspaper during a typical journey time of less than twenty minutes. Metro’s editorial content aims at being independent and focuses on giving readers the news they need at the time they read, rather than comment or views. Following this strategy Metro has become the largest and
fastest-growing international newspaper in the world. Seventy daily Metro editions are published in more than one hundred major cities in 21 countries in 19 languages across Europe, North & South America and Asia. Metro has a unique global reach - attracting a young, active, well-educated audience of more than 20 million daily readers and over 42 million weekly readers. Metro has an equal number of male and female readers, of which 70% are under the age of 45. This demographic group is not typically reading daily newspapers but is most attractive for advertisers. By delivering a new generation of newspaper readers Metro's advertising sales have grown at a compound annual growth rate of 41% since the launch of the first edition in 1995.

However, not every Metro launch was a success. Operations in Switzerland, Argentina and the UK were terminated after some time while an afternoon free paper (almost every free newspaper is a morning paper) in Stockholm was closed within a few months. Further, even if profitability goals are reached by almost every edition within three years, overall profits have not been realized by the company so far. This depends on the high launching costs and the interest on loans that were used for these launches.

Human Resource Management Practices

Today the company employs around 1500 people, of which 500 are part of the editorial staff (journalists, photographers, editors) while 750 are salespersons. A few other employees operate in the distribution area. Even if the company has grown rather rapidly the working style still remains very informal. Efforts are made to maintain the entrepreneurial spirit of the start-up. In order to foster the entrepreneurial orientation managing directors delegate responsibility for the projects to their employees. Because of their small size empowerment measures are facilitated also at Metro headquarters. Further, as MTG supported its staff when they came up with the idea of a free newspaper, Metro is now supporting a research project called Metro Life Panel. Some employees have created a panel of online readers which has already been expanded to 7 countries including 20,000 readers. Readers are asked to give their opinion about the advertisements posted in the newspaper. In this way opinions are collected on how to improve both the newspaper, which can be more customer-oriented, and the advertising performance. A by-product of this initiative is represented by readership statistics that can be obtained through the readers’ online registrations. These data are then sold as research services. If the business becomes profitable Metro will consider the possibility of a spinning off the activity.

New staff is acquired according to their fit with the entrepreneurial and informal organizational culture of Metro, too. Usually managing staff are recruited from the radio, Internet or magazine industry. There Metro can source professionals who are fresh to and therefore challenged by the newspaper business. The sales force instead is acquired from any media industry. The criteria for the recruitment are in this case the young age and the aggressive attitude of the candidates. In the editorial department positions of the editors in chief are mostly filled with experienced journalists who are bored with the traditional way of working in other newspaper companies. The editor in chief of Metro in Denmark was an editor in a traditional Danish newspaper company. After 4 years as an editor in chief and managing director at Metro, he became global editor in chief and then left for a position as CEO at the Danish TV2.

With regard to personnel development Metro conducts two formally organized conferences a year: one for the sales and managing directors and the other for the editorial and
distribution staff. During these conferences, which usually run for 3 days, the staff is informed about results and new goals of the company. On top of that seminars and award ceremonies for outstanding achievements take place. Metro further promotes a management program, opened to all the staff, which allows skilled and dedicated employees to speed up their career by following a fast-track training as assistants to the CEO. Thank to this program one trainee happened to become Executive Vice President after 4 years. Within the sales department the staff are offered the opportunity to attend the sales training academy.

Compensation at Metro is based on sales volume for the sales staff, while for managers and marketing people the company offers bonuses related to the overall performance of the company, as well as personal performance. For the editorial staff Metro does not provide specific compensation measures as it is apparent for the staff that the possibility to work for Metro is already a great experience. Furthermore, compensation incentives could affect the overall content quality.

In order for the human resource management function to be successfully implemented at Metro, a Vice President for human resources has been appointed at the headquarters and one responsible for human resource management is present in each country.

(Based on interviews with Bill Skerett, Vice President Human Resources and Wilf Maunoir, Head of Research, Metro Headquarters in London)

7. Discussion and Conclusions

Both the Ellibs and the Metro case studies give high importance to HRM practices, even if in different ways. Being still in an early stage of its development Ellibs still relies on a very informal HRM. However, its application is very clear. The founder tried to minimize the risk of hiring wrong people by looking for skilled employees within his network of social and business relations. This method appeared to be successful so far as only one person left the company, so the turnover has been very low. In order to keep fixed cost under control the company adopted a compensation system based on low salaries complemented by performance-related bonuses. Empowerment has been applied in terms of delegation of responsibility and choice of the type of project to work on given to the employees. Flexible working time was introduced to further motivate employees. Last but not least an employee development program was introduced to stimulate knowledge transfer and learning processes.

At Metro the HRM system looks more established and some of its features have already a formal character. This stresses the importance which the company lays on human resources and their goal-oriented management. Despite the fact that it is already 11 years old, the working style within the company remained very informal and based on empowerment of employees. Even staff is acquired according to their fit with the entrepreneurial orientation of the company. Today Metro can already count on its image of unconventional and fast-growing company, which seems to be appealing for young and ambitious potential employees. Also at Metro, for managerial and sales staff, compensation is based on a fixed salary which is complemented by bonuses. Training and development is considered critical. In fact, formal measures such as informational conferences, the management executive program and the sales training academy are nearly part of the organizational culture of the firm. Multitasking and role transition practices take place regularly as staff are promoted to different departments and sometimes to different countries. Furthermore, a multi-skill strategy is supported also by the acquisition of staff coming from different media industries, not
only the newspaper. This also permits the firm to pursue a multi-media development which seems to be necessary for the future of newspapers. The leadership style adopted by Metro, by encouraging innovative ideas, proved to be successful both for keeping an entrepreneurial spirit within the company and for enhancing innovation and firm growth.

The selection of cases may suffer from a cultural bias: one firm is Swedish and the other is Finnish. They are therefore influenced by the Scandinavian social culture. As all organizations exist within the framework of national cultures, different historical traditions and political systems influence the way organizations come to existence and operate. Every effort to introduce standardized modern instruments of HRM will therefore be impacted by national factors.

As stated earlier, the aim of this paper was to understand if and how HRM practices can foster growth in new and young firms as well as stimulate entrepreneurial spirit within more established firms. So far both the exploration of the case studies and the review of the existing literature concerning HRM practices in rapidly growing firms point out that, with their financial resources constrained, new and young firms would benefit from a thoughtful application of HRM measures. Recruiting personnel from pre-existing social and business networks is not expensive and allows firms to avoid the risk of hiring the wrong employees. The development of a compensation structure based on a modest salary plus profit as well as stock sharing oriented bonuses represents both a motivational factor for employees and a way for emerging firms to share the risk with the employees. Furthermore, stock options give the employees a highly motivating feeling of being themselves entrepreneurs. By offering the employees stimulating assignments and delegating responsibilities while assuring a coaching presence allows the entrepreneur to be a charismatic but motivational leader. Finally, emphasizing the development of multitasking skills and role transitions makes the employees feel to be considered important. At the same time this prevents young firms to rely only on highly competent and experienced employees, whose departure would mean a loss of key competences and replacement problems for the company.

HRM practices appear to be highly important for established firms, too. Their main concern is not the lack of resources. On the contrary, the abundance of resources may cause a lack of entrepreneurial creativity as no urgency for innovation is felt. HRM measures might therefore help incumbents to re-introduce or keep alive some entrepreneurial spirit and act proactively.
References


