



# Emerging organizations' characteristics as predictors of human capital employment mode: A theoretical perspective

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## ABSTRACT

Entrepreneurship is important to capitalistic economies, and in management studies. Additionally, organizations recognize that human resources are imperative to survival. Although human resources is an important field, sparse theory has been applied to human resources in emerging organizations. Recognizing that emerging organizations are different from established organizations, we expand prior work in human resources and emerging organizations to introduce a human resource architecture of emerging organizations. We introduce a model for the employment mode of emerging organizations based on intentionality, resources, boundary, and exchange. We present propositions drawn from our theory, and conclude with implications and suggestions for research.

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## 1. Introduction

Although the field of Human Resources (HR) has been criticized for lacking a theoretical framework (Wright & McMahan, 1992), several theoretical advances have been made describing how and why organizations develop particular HR architectures. For example, Lepak and Snell (1999) predict the mode of employment, employment relationship, and HR configuration based on the level of human capital value (low or high) and human capital uniqueness (low or high) within the firm. They introduced the term “HR architecture” to describe the entire HR system as an alignment of “different employment modes, employment relationships, HR configurations, and criteria for competitive advantage” (1999, p. 32). Similarly, Matusik and Hill (1998) predict the use of contingent work (contract workers) from the organization's environment (stable or dynamic) and the importance of the knowledge (low or high) associated with the work. More recently, Kang, Morris, and Snell (2007: p. 236) have offered an integration of the HR architecture and organizational knowledge literatures with their introduction of relational archetypes – “social relations within and across firm boundaries” – that can be managed through HR configurations. These are important advances in HR theory, but do they apply in the context of emerging organizations? We argue that a closer look at each and a deeper understanding of the characteristics of emerging organizations will reveal that they fall short of being able to explain the HR architecture of emerging organizations.

Matusik and Hill (1998) base their theory on the organization's need to build and protect its stock of knowledge (according to Dierickx & Cool, 1989, stocks of knowledge can roughly be viewed as a firm's collective knowledge, skills, and abilities). Although stocks of knowledge are unarguably an important resource for any organization to acquire, they are just one of the many resources (financial, institutional, social, etc.) that emerging organizations struggle to accumulate as they mature. Therefore, a theory of HR in emerging organizations needs to take into account the level of all firm resources, not just their levels of stocks of knowledge. Kang

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et al. (2007) build on Matusik and Hill (1998) but also recognize the importance of managing knowledge flow (the exchange of new knowledge across and within firm boundaries) as well as building knowledge stock. Although important to all organizations, the management of knowledge flow in emerging organizations must be subordinated to the development of organizational boundaries and supplier/customer exchange relationships. The former because knowledge flow presupposes the existence of organizational boundaries; the latter because as the lifeblood of the organization, the risk associated with too few suppliers and customers far outweighs the risk associated with knowledge leakage. Therefore, a theory of HR in emerging organizations must consider organizational boundaries and exchange relationships with customers and suppliers. Even Lepak and Snell's (1999) classic HR architecture falls short of explaining the HR architecture of emerging organizations, with its focus on the value and uniqueness of human capital as predictive of employment mode. Both "value" and "uniqueness" imply a level of intentionality on the part of the firm that may not exist in emerging organizations. As the emerging organization builds its niche within its industry or field it often redefines (or modifies) its intentions as an organization. It is not until these intentions are relatively stable that a firm's "value" and "uniqueness" begins to become clear. A theory of HR in emerging organizations must consider the level of the firm's intentionality.

Emerging organizations are by nature changing organizations; further, it is during the start-up phase of an organization that it is most vulnerable to extinction. Procuring and keeping the right configuration of human capital in this phase of an organization is essential. The human capital configuration of an organization may be a source of competitive advantage; and the path dependent nature of a developing HR architecture (Barney, 1991; Itami, 1987; Lepak, Bartol, & Erhardt, 2005; Lepak & Snell, 1999) implies that HR planning must be deliberate from the inception of the organization in order to increase the inimitability of the HR architecture, and thus sustain the competitive advantage of the firm (Barney, 1991).

Jackson and Schuler (1995) make the case that a true understanding of HR requires its study within the context of the organization. Indeed, Thakur (1998) has shown that the HR needs of start-up organizations change as they mature. Likewise, the entrepreneurial literature has shown that the contexts within which entrepreneurial start-up firms operate are substantially different enough from mature and established firms' contexts that existing static models cannot be cut and pasted to apply to start-up firms as well (Kotey & Slade, 2005; Taylor, 2006).

Sound HR choices lead to a good fit between HR management and the life cycle stage of the firm (Cook & Ferris, 1986; Lengnick-Hall & Lengnick-Hall, 1988). Although Pfeffer (1994) argued that the empirical evidence supports best practice models over contingency models, others support and have demonstrated evidence for contingency or "fit" models (Alvarez & Barney, 2005; Becker & Gerhart, 1996; Chandler & McEvoy, 2000; Jackson & Schuler, 1995). Chandler and McEvoy (2000) have shown the importance of "fit" between the HR practices and strategies of small firms. Likewise, a description of changing managerial roles across phases of an organization's life cycle was used by Gerstein and Reisman (1983) to argue that selection criteria and performance evaluation measures for top level executives need to match the particular needs of the organization's given life cycle.

We agree that a contingent, configurational approach to HR systems and practices is useful, and that the configuration of the HR architecture is contingent upon the environment within which the organization exists. The purpose of this article is to develop a configurational HR architecture within the context and characteristics of emerging organizations. In essence, we argue that established drivers of HR architectures such as human capital value and uniqueness, organizational environment, and knowledge type become increasingly important as an organization matures from nascent start-up to established firm. However, in the early start-up phase and during this maturation process, the more important drivers of HR architecture are associated with the drive to increase the organization's intentionality, resources, boundaries, and exchange in order to survive (as shown in Fig. 1). These four dimensions represent the key properties of emerging organizations (Katz & Gartner, 1988), and are discussed in greater detail below. We begin with a detailed review of previous theories of HR configurations, followed by an overview of some extant taxonomies and typologies of emerging organizations. We then integrate these perspectives into a proposed HR architecture of emerging organizations and research hypotheses.

## 2. The Human Resource architecture

Although the extant HR architecture literature clearly falls short of an explanation of HR in emerging organizations, it is important to understand the HR architecture literature before we build a new theory of the HR architecture of emerging organizations.

### 2.1. Dimensions of the HR architecture

The term *HR architecture* refers to the interrelationships among the employment mode, employment relationship, and HR configuration within a firm (Lepak & Snell, 1999). *Employment mode* refers to the mode through which the organization employs the human capital. Specifically, the mode of employment is determined by whether the requisite human capital is acquired (hired), internally developed (trained), contracted for, or gained through a strategic alliance such as outsourcing.

The *employment relationship* dimension refers to the style of relationship between the supplier of the human capital (e.g. employee, contractor, or alliance partner) and the management of the organization. The employment relationship can be transactional, symbiotic, organization focused, or viewed as a partnership.

The *HR configuration* refers to the human resource systems (selection, training, benefits, compensation, etc.) designed to complement the employment mode and relationship. The HR configuration can be commitment, compliance, collaboration, or market based.

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