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Development of HRM Practices in SMEs

A Case Study from the Founders and CEOs' Point of View

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Abstract

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Title: Development of HRM Practices in SMEs: A Case Study from the Founders and CEOs' Point of Views

Objectives: The aim of the research in this thesis is to study the development of HRM practices and strategies applied from the start-up phase to the growing stage in SMEs. The study will look at what factors and at which point the organizations break the path dependency - the point where organizations acknowledge a need and thus consider having an HR generalist and/or specialist to handle HRM.

Methods: Qualitative research, case study and depth interviews

Theories: Organization as a simple structure, organizational life-cycle theory and path dependency theory

Findings: During formatives years, small firms have relies on various types of network in recruitment. Although the firms in this study had instability in profits, they have provided formal training since in the formative years. With the problem of financial resource shortage, they have put emphasis on psychological rewards rather than financial rewards. All of these practices were managed by founders in the early years of foundation. Growing led firms to move from the simple structure to other forms. During the stage of growing, complexity and difficulty in management including HRM had also arisen. Firms thus restored another choice that could facilitate coordination in this complex situation. That choice was to employ an HR person whose specific duties and responsibilities were assigned.

Keywords: HRM, HRM practices, HR persons, SMEs, small firms, organizational life cycle, simple structure, start-up phase, recruitment, training, attraction and retention, path breaking, growing, formalization

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Chapter 1: Introduction

Small and medium-sized enterprises (SMEs) have a significant proportion of economic activity both in developed and developing countries. There are significantly more SMEs than larger organizations, SMEs employ more people and SMEs exist in every country. They eventually expand and enter their success time to the next step of larger enterprises in the future (Cooper and Burke, 2011). This existence of SMEs can imply that they rely as heavily (maybe as larger organizations) on their employees and their human resource management practices (HRM practices) for their success (Brand and Bax referred in Cooper and Burke, 2011, pp.10). There are some facts why SMEs are important for economic performance and thus are also a source of management research. For example, small firms account for over 95 percent of all businesses in the US and Canada (Henneman et. al., 2000). In Sweden, of the total number of enterprises, approximately 580,000 are small and medium-sized and 1,000 are large (<http://www.bizbeginners.biz/sweden.html>); hence, SMEs are a very important part of the Swedish economy, with 61% of the total employment (<http://www.eurofound.europa.eu>). In addition, in developing countries such as in Thailand, 92% of private sector enterprises are regarded as SMEs (<http://www.ismed.or.th>).

With this big amount of SMEs and its importance to economy, SMEs potentially provides a rich source of material for management researchers. For the survival and growth of SMEs, it is arguable that a number of skills are inevitably required. As a result, personnel management including HRM practices and strategies is one of instruments that can be used to support a better performance of the firms. Successful large organizations have also passed the stage of being small. Practices and strategies in managing employees can be one of the factors that lead to success.

Cassel et. al (2002) argue that small business are under a special condition that distinguishes them from large organizations. That condition is resource poverty, which in turn affects them to require some different managerial approaches than those employed by large organizations. However, most studies and researches in HRM pay attention to larger organization, and thus what we learn from them may not be applicable to smaller firms that have different environmental challenges and exist under different circumstances. Chandler and McEvoy (2000) state that even if it is indicated by published researches that effective HRM is one of problems that SMEs face, there is lack of research identifying practices used by SMEs. This implies that more researches concerning HRM in SMEs are in needed (c.f. Tansky and Heneman, 2003).

In addition, there is also lack of researches concerning the starting point when firms acknowledge the need of having HR persons and eventually employ them. Boxall and Purcell (2008) argue that only firms which have grown beyond about 150-200 employees employ HR specialist. However, it seems that reasons underlie why firms decide to hire HR persons have not been taken into attention. Organizations have their path which history matters in strategic choice. However, at one stage firms restore another choice and break their path. This path breaking can occur in organizations when new strategies including HRM are considered. Employing an HR person can be the point when entrepreneurs break their path. However, factors that lead firms to employ an HR person are still unanswered.

HRM is a management approach that considers people as a key asset (McKenna, 2009). It is defined by Storey that “Human resource management is a distinctive approach to employment

management which seeks to obtain competitive advantage through the strategic deployment of a highly committed and skilled workforce, using an array of cultural, structural and personnel techniques” (Storey quoted in Armstrong, 1999, pp. 3). The objectives of HRM are to ensure that the organization is able to achieve its aim through its employees, to increase organizational effectiveness and capability, and to be concerned with the right and the needs of people in organizations to the exercise of social responsibility (Armstrong, 2009).

HRM practices have been defined in various ways. According to Schuler and Jackson (1987), HRM practices are systems that are used to *attract, develop, motivate and retain* employees to ensure the effective implementation and the viability of the organization. It is also viewed as a set of internally consistent policies and practices designed and implemented to ensure that human asset of the organization can contribute to achieve its goals (Delery & Doty, 1996). From this, it can thus be concluded that HRM practices are concerned with philosophies, formal policies and activities that are planned and designed to manage employees in organizations by attracting, developing, motivating and retaining them in order to achieve the set goals and remain survivability.

Therefore, according to the definitions, it can be distinguished that HRM is a concept of managing people in organization in more abstract perspective. When organizations realize that their employees are valuable assets to them, plans and system, or so called “HRM practices and activities”, are designed and created to achieve the objectives of the organization.

Cassel et.al (2002) conducted a study concerning HRM practices in SMEs. What they found is that the extent to which the firms use HRM practices depends on how the firms define HRM strategies to their business need. In addition, they show that there is diversity in the use of HRM practices in the organization. They also suggest a model representing factors that influence the application of HRM practices in SMEs. They found the triggers to use HRM practices in SMEs are skill shortage, decrease in output or productivity or issues of individual performance. However, the key issue of implementing HRM practices depends on if those who have power in decision making see HRM practices as solutions to business problems. In addition, another factor is the awareness of current HRM trends which they may gain from local business support agencies. This knowledge can impact the intention of implementing or formalizing HRM practices. Those mentioned factors to use HRM practices also depends on if a company has resources – either human resource or financial resources – available. Furthermore, whether the company will decide to further use practices depends on if the previous using HRM practices have positive results or not. Growing evidence suggests that failure in new ventures’ business is resulted from a lack of founders’ ability to manage their employees effectively (Baron, 2003).

1.1 Objectives and Research Questions

The aim of the research in this thesis is to study the development of HRM practices and strategies applied from the start-up phase to the growing stage in SMEs. The study will investigate what kind of situations or problems that has occurred in the organizational life cycle and how those situations or problems have affected the development of HRM practices in SMEs. In addition, the study will look at what factors and at which point the organizations break the path dependency. The path breaking in the study means the point where organizations acknowledge a need and thus consider having a specific HR person for HRM matters. In this

case, factors influencing the decision of founders or top management in employing HR persons will be investigated. Moreover, the study will also cover the possible outcomes of having an HR person in the organization.

The thesis draws from four case studies of SMEs. Three companies have appointed HR persons in organization, while one has not. From this it is possible to compare the factors of decision in employing HR persons.

The case studies will give useful information and knowledge to entrepreneurs as they will gain a general picture of possible HRM practices of SMEs, since SMEs are majority in business in many countries and what they learn from the large ones may not be accurate or fit their business and resource conditions. In addition, the study can provide some possible guideline for founders or top management regarding the choice of time they may consider having an HR generalist and/or specialist. Moreover, the study would help pave some further ideas for research on HRM in SMEs. Although there are some studies concerning HRM in SMEs, most of them are based and conducted in USA. Firms in this study are Swedish and Thai, which may give some other perspectives that are different from previous researches published in USA.

The main research questions are:

How do SMEs manage human capital when they are in the condition of resource shortage at the start-up phase of organizational life cycle?

What could be consequences of those practices and strategies for employers? Are they able to recruit and retain the “right” employees?

What factors and at which point lead firms to decide to employ an HR generalist and/or specialist?

What are the outcomes of having a specific HR-person in organizations?

Chapter 2: Theoretical Framework and Previous Research

To investigate the development of HRM in SMEs from the formation year until the event breaking where HR persons are employed into the organizations, this study departs from the organizational life cycle and the path dependency theory. This section begins with a reminder of *the organization as a simple structure*, explaining the situational contexts that small firms are in at the formative years. Thereafter, the *organizational life cycle theory* and HRM concerned at the stage of growth is introduced. The section ends with explanation discussion of the path dependency theory, explaining how organizations create their path when practices and strategies are developed. At this point, there may be events or factors that can lead the organizations to employ some other ways of management which is called “*path breaking*”.

2.1 Organization as a Simple Structure

Mintzberg (1983) states that every organized human activity gives rise to two fundamental and opposing requirements - division of labor and coordination. The division of labor gives specific duties and tasks for the employees to perform and those tasks need coordination to accomplish

the objectives of activities. The structure of the division of labor should be selected to achieve an internal consistency or harmony and fit the organization's situation, such as its size, age, the kind of environment in which it functions and the technical systems it uses (Mintzberg, 1983). These factors explain most of the tendencies that drive effective organizations to structure themselves as they do. Small firms have particular situational factors such as they are young and small, have non-sophisticated technical system and have strong needs of top management. These firms are in situation that drives them to organize themselves according to the simple structure (Mintzberg, 1983).

The simple structure has little or no techno-structure, few support staffers, a loose division of labor, minimal differentiation among its units and a small managerial hierarchy (Mintzberg, 1983). In addition, the extent of the formalization of behavior appears very little. Fewer specialists are employed to this type of organization, but if they are needed, they will be hired temporarily on contract. Centralization in decision making appears in simple structure. The decision over important things is conducted by the chief executive officer (CEO). The structure is flat and communication flow informally between employers and employees. The work flow tends to be flexible, with the jobs of operating core being relatively unspecialized and interchangeable. The centralization of power allows for rapid response. Because future state cannot be predicted, the organization cannot coordinate by standardization of work process or output (Mintzberg, 1983).

Mintzberg continues argue that the newly formed organization tends to adopt the simple structure at this stage of development. A new organization has not had time and resources to manage its administrative structure. To get things going, leadership is important in this type of structure. Thus, we can conclude that most organizations pass through the simple structure in their formative years. However, many small organizations remain with the simple structure beyond this period. For them, informal communication is convenient and effective (c.f. Mintzberg, 1983). Moreover, their small size may mean less repetition of work in the operating core, which means less standardization.

As small firms inevitably organize themselves as simple structure at the formative years, HRM practices are also forced to manage simply under the hand of founders and/or top management. HRM practiced in small firms may be managed informally according to the situational contexts that constrain them in the formative years.

2.2 Organizational Life Cycle Theory

Development of any business organization tends to follow a predictable pattern that is usually characterized by progressive stages (Dodge & Robbins, 1992). This development of business progressive stages in organization is described in the *organizational life cycle model*. There are a number of organizational life cycle models, but the structure of each in general is similar with the starting point in struggling to obtain autonomy in the creation and development. Later stages are characterized as expansion, stability and institutionalization (Dodge & Robin, 1992). As there are various models of organizational life cycle, the models will be adapted to two stages to fit the study – the start-up phase and the growing phase.

The start-up phase is the stage when the business owner turns the idea into business entity (Dodge & Robin, 1992). Strategies at this early stage focus on the selection of products or services to enter the selected market. To move the business to the next stages depends on whether firms can gain customer acceptance or can obtain sufficient product capability with the limited resources available during the formative year (Dodge & Robin, 1992). The growing phase is the stage when business establishes itself through strong positive growth. When business faces high uncertainty, the firm may adapt some strategies to handle the changes. The typical problems at the stage of growth, when the sales continue increasing, are stabilizing production and product reliability, matching demand increased, maintaining cash flow and formalizing the organizational structure (Dodge & Robin, 1992).

Small firms face different environmental variables both internal and external as they move from one stage to another one. They hence inevitably face different problems and obstacles that are caused by those internal and external variables. Dodge and Robin (1992) have investigated problems occurring across the organization life cycle of small firms. They explored that small firms face the problem of personnel management when they grow in size.

Katzell (1962) suggests that there is no blue print of an organizational system that can apply for all. The dimensions considered as determinants of organizational practices and activities are organizational size and the degree of interaction and interdependence of organizational members. Blau (1970, 1972) suggests that the division of labor increases when firms grow in size and expand their business. Thus, at the stage of start-up, most firms remain simple structure and focus on their business and marketing and financial strategies. When they grow in size, they create a division of labor. At this point, an HR person may be required and even hired to develop human asset and to assist top managers who have farer distance with employees when numbers of people are added.

2.2.1 HRM at Stages of Growth

Kotey and Salade (2004) investigate the extent to which HRM practices become formal as firms grow in size. With the support of the life cycle theory, the result shows a move from simple structures with highly centralized and informal systems to functional structures with specialized functions and greater standardization and formalization of activities. The product lines may be broadened as the firm grows in order to support marketing strategies and to confront competition. Increased production means that more employees are needed to facilitate the operation level. More managers with specified responsibilities are also required and the founders and/or owner-managers take more strategic roles. The increase of documentation takes place in order to control the process. Barrett and Mayson (2007) argue that growth-oriented small firms are more likely to apply formal HRM practices (they are documented, regularly applied or assured to take place) than non-growing ones. Therefore, increasing in size relates to formalizing of HRM policies. However, the study could not clarify causes of this relationship.

As stated by Mintzberg (1983), a move from simple structure at the formative years toward other structures occurs when the organization adds more employees and coordination system becomes more complex (Mintzberg, 1983). When a group of people working together becomes larger, it is difficult to remain informal coordination. Organizations transit themselves toward standardization. They tend to rely on the standardization of the work process when the tasks are

simple and routine, or on the standardization of the outputs. Results of work are specified and the choice of process is left to the workers (Mintzberg, 1983). With standardization of coordination, formalization of behavior also takes place. Mintzberg (1983) states that behavior can be formalized in three ways - by the position, by the workflow and by rules. This relates to HRM where a person with specific reasonability is employed to handle HRM in order to facilitate coordination that becomes more complex and hard to manage only by the founders themselves like they did under the simple structure.

Mintzberg (1983) categorizes firms in five structures where the three structures that relate to the study in this thesis are the simple structure, the machine bureaucracy and the professional bureaucracy. Machine bureaucracy is typically found in mature organization since they are large enough to have the repetition of operating work that can be standardized (Mintzberg, 1983). Under this structure, the responsibilities are standardized with a clearly defined hierarchy of authority. Professional bureaucracy appears when the operating core is dominated by highly skilled employees. Organizations create coordination that allows for standardization and decentralization at the same time (Mintzberg, 1983). The move from a simple structure into other forms of structures may imply the change of HRM practices and the need of HR persons with specific assigned works and responsibilities. Moving toward other organizational structures and the changes of HRM can also imply the point where path braking occurs.

HRM practices are related to the firm's stage of development. Rutherford, Buller and McMullen (2004) explain that HRM problems vary over the organizational life cycle. They suggest that HRM practices should fit the business needs and point to the fact that business needs differ depending on each stage of SMEs development – start-up, fast growth, controlled-growth or mature stage. Rutherford, Buller and McMullen present HRM problems that SMEs face in different stages of growth, however, their study do not include how SMEs come across and solve those problems.

2.2.2. Challenges in the Start-up Phase

At the first stage (start-up) firms may face problems of attracting employees since they have high uncertainty, lack of organizational legitimacy and lack of various resources (Leung et. al., 2006). Leung et. al has shown that at the start-up phase, small firms rather employ people from their social networks and when they grow in size they rely more on business networks that they have built during the time of operation. For example, a typology of recruitment strategies that small or medium – sized firms are mostly classified as “*muddling through*” or “*flexible*” (Windolf quoted in Boxall and Purcell, 2008, pp.178) as they face serious difficulties when labor market are tight. Those companies in “*muddling through type*” usually seek people from the same channel, which may affect the companies that they cannot find the most right people with required competencies. When wrong people are hired, further problems can occur such as poor performance that can damage the success. In addition, to look for a new person is expensive especially when firms are in the condition of financial resource shortage in the formative years.

A survey of 641 small business entrepreneurs identified labor resource shortage as the most concerned issue (National of Federation of independent Business, 1998 referred in Heneman et.al., 2000). However, according to a survey of 173 CEO/Founders of fast-growth entrepreneurial firms conducted by Heneman et. al. (2000), indicates that HRM issues are of

significant importance to entrepreneurs in SMEs at both professional and personal levels. Those young entrepreneurial leaders of SMEs pay attention to HRM and actively seek additional knowledge about this issue. Rather than being concerned with traditional HRM practices, Heneman et. al. (2000) found that founders/CEO also tend to view effective HRM as interrelated activities that begins with the right person-organization fit, being able to attract that person and reward them for motivation and retention purpose.

CEO/founders in the growing small firms expressed their concern about matching characteristics of the person other than knowledge, skills and abilities to the values and culture of the organization. Therefore, selecting people for them tends to focus on matching the person to the organization. They focus on selecting someone who fits with organizational culture and are able to perform new duties when they are added to the current job. In this case, Heneman et. al. (2000) also suggests that growth models of SMEs should be useful in identifying relevant criteria. This means that the needs of staffing policies may vary across growth stage; therefore, there may be different firm's value that requires different value of employees across this stage. Hence, this suggestion means that research of HRM in SMEs should concern stage of growth and its value of organization at each stage as criteria of managing their employees.

2.2.3 Challenges in the Growing Phase

When the firms grow, they start to pay attention to develop their employees in order to remain them (Rutherford, Buller and McMullen, 2004). Rutherford, Buller and McMullen' study has shown that the high-growth organizations confront challenges with people development and training. This is because when the firm grows in size, communication between employers and employees becomes farer and managers themselves cannot train every single employee. This may be the point that small firms must move forward and formalize development and training.

In addition, high-growth firms in the study reported the lowest levels of retention problems. Their assumption, based on Muse et al., (in press) is that they have low level of people retention because high-growth environments tend to attract employees who enjoy the speed of development and therefore may tend to accept less money. However, there may be some other explanation, for example management style and/or autonomy in performing. Kazanjian (1988) suggests that the growing firms require some changes and adaptation because new employees, systems, functions and customers are added. The venture can become less centralized in decision-making (Greiner, 1972). In addition, when business expands, new levels of management are added and some decision-making authority is given to middle managers and employees (Miller & Friesen, 1984). Therefore, giving employees opportunity in involvement can have positive impact on small growing firms (Ciavarella, 2003).

For the perspective of attraction and retention, Heneman et. al. (2000) also suggest compensation from a total rewards perspective - compensation that includes psychological rewards, learning opportunities and recognition in addition to monetary rewards, as a topic concerned in the study of HRM in SMEs. This is because it appears that smaller firms are more likely to view compensation from a total rewards perspective than are large firms since it may be a source of competitive advantage as it may be difficult to imitate by others (Barney referred in Heneman et.al., 2000, pp.19)

2.3 Path Dependency Theory

The research from Mintzberg (1978) pointed out that strategic behavior is path dependence, in which the own history of the process could limit strategic decision making. The formation and evolution of path dependence in organization arises from strategic selection of actor and actor's managerial decision. The positive feedback and results of those strategies they made earlier causes the path freezing which the firm later will be locked and do not consider any other strategic choices.

Sydow et. al. (2009) suggests the three stages of how organizations step into their path dependence. The whole process of path creation begins with the preformation phase where scope of action is broad and various choices available. The result of a choice of actions cannot be predicted. Once a decision is made, the selected choice becomes unintentionally sets off a self-reinforcing process. Later phase is the formation phase where a dominant action pattern tends to emerge. The scope of action is narrow and it becomes difficult to reverse the earlier choice of action. At this stage, the path is evolving; however, decisions are still contingent. Finally the organization gets into the lock-in phase where the former dominant decision pattern becomes fixed and the actions fully stuck to a path. The lock-in phase can create inefficiency since the organization loses its capacity to consider better choice of decisions.

This path dependence can occur in small firms where entrepreneurs enjoy advantage of informality of their structure and their muddling strategy due to the lack of resources. As argued by Mintzberg (1983), many small organizations remain with the simple structure beyond the formation years. For them, informal communication is convenient and effective. HRM is also conducted under informal system where the power in managing employees is in the hands of founders only. At micro level, entrepreneurs who have power in strategic plan and decision making may be the ones who have enabling power in create and break the path (Garud and Kanoe, 2001)

Organizations may break away from the path when unforeseen events occur, such as shocks, catastrophes or crises (Arthur referred in Sydow et.al., 2009, pp. 701). Breaking the path may also occur when there is change in organizational demography or the incomplete socialization of new organizational members (Tobert, 1998). Moreover, Staber (2005) suggest that creative agents who have the power to employ practices and strategies in management are seen as a basic factor of path creation. At this point, entrepreneurs may well also be a source of path dependence since they are influenced by their history of decisions and process. To break the path, people concerned in decision making should restore a choice of action by inserting of at least one alternative course of action. However, the new choice has to be a superior one that can offer a better result. Hence, this study focuses on the path breaking – the point that organizations realize and acknowledge the need of an HR person and restore this choice to their management strategies.

2.4 Conceptual Framework

The model below presents a general picture of theoretical and conceptual framework in the study of HRM practices and strategies in SMEs across the stage of formation and growth. Firms start with a formation phase when they are born in business. They may begin with one person and later more people are added and divisions of labor are established. When the next person is added, firms create practices and strategies to attract, recruit, develop and retain that person. When they are young and are under a resource shortage condition, specific practices and strategies are used to managing their people in order to keep viability. As Kotey and Salade (2004) explain, firms at the stage of formation rely on simple structures with highly centralized and informal systems. In addition, recruitment strategies in small or medium – sized companies are classified as muddling through or flexible as they face serious difficulties when labor market are tight (Windolf referred in Boxall and Purcell, 2008 pp.178)

Baird and Meshoulam (1988) conducted in-depth case studies and the result shows that start-up firms exhibit more informal and flexible styles of HRM, when firms become larger and more mature, more sophisticated and professional styles become necessary to handle greater complexity. People joining a small firm are much more likely to agree that managing people is under the hand of one person which is the founder (Boxall and Purcell, 2008). At this point, it is argued that HR specialists are employed when the firms grow. It is more common that firms which have grown beyond about 150 to 200 employees employ HR specialists (Boxall and Purcell, 2008). This implies that the vast majority of HR specialists are working in the mature context of business life cycle stage. Organizations that grow beyond the formation stage and stepped into the mature context confront different problems and they require a different style of management. The challenge of size and increasing in workforce complexity mean that HR policies and practices need to become more comprehensive and formalized. At this point, earlier plans and informal practices of small entrepreneurial firms become much less realistic (Boxall and Purcell, 2008). Thus, it can be argued that growth and workforce complexity can generate a tension to step into the bureaucratic structure and it threatens the intimacy and challenge of practices, strategies and management style in earlier times.

Mintzberg (1978) points out that strategic behavior is path dependence, in which the own history of the earlier process and decision could limit strategic decision making in the future. This path dependence can occur in small firms where entrepreneurs enjoy advantage of informality of their structure and their muddling strategy due to the lack of resources. As argued by Mintzberg (1983), many small organizations remain with the simple structure beyond the formative years. However, small firms may acknowledge a need and consider employing a specific HR person at one point. This is the point when they break the path of being informal in managing people. HRM practices become more sophisticated when an HR generalist/specialist is employed to ensure the viability of the expanding business. At this point, the founder gives responsibility in managing people to those specific HR persons. Figure 1 illustrates conceptual framework in this study.

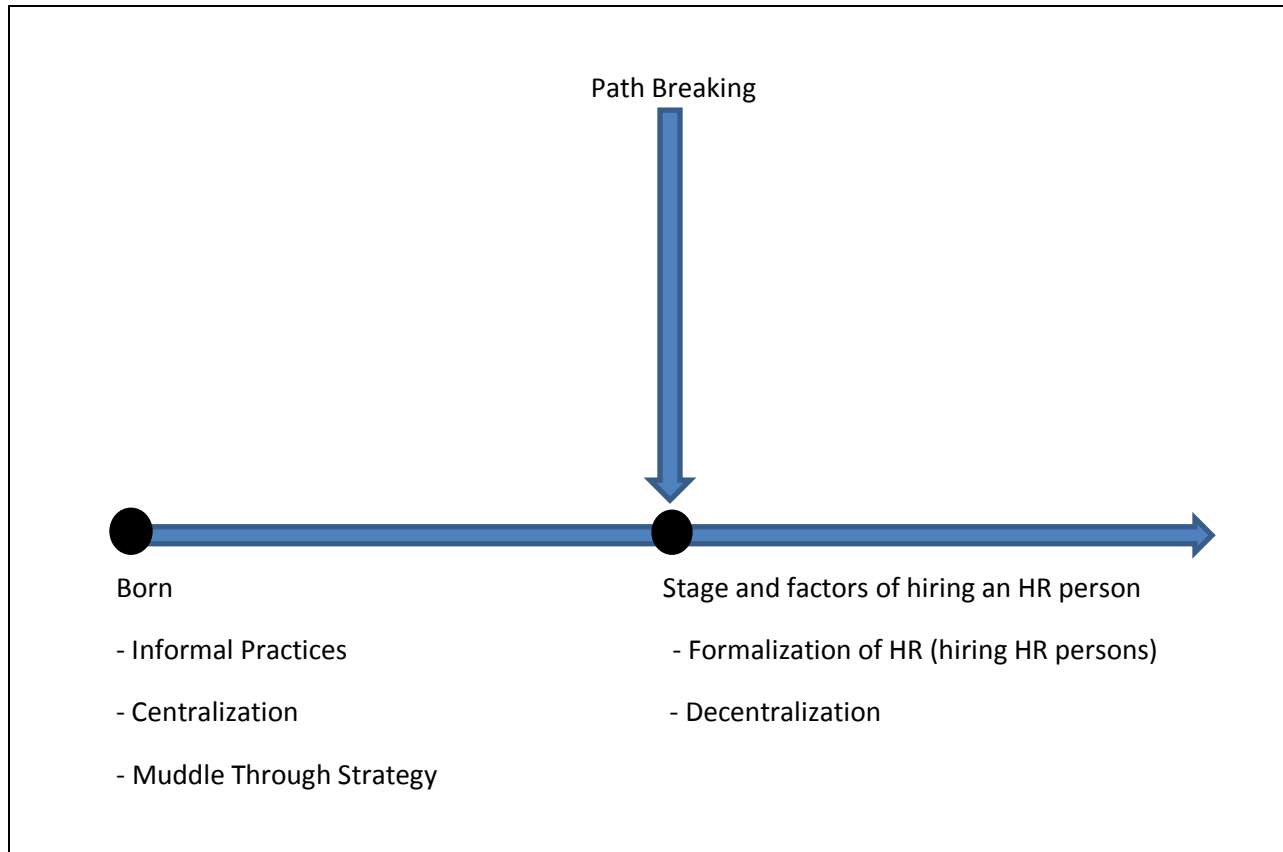


Figure 1: Framework of Development of HRM in SMEs

Chapter 3: Methodology

The aim of the study is to detect and describe what kind of HRM related problems that occur during the stage of formation, and to investigate practices and strategies that business firms employ to fit with situational contexts and problems constrained. In addition, the study thus investigates factors that influence SMEs to employ a specific HR person to manage their employees.

3.1 Case Studies

The present study is a case study, a qualitative kind of research that provides description of one or more cases. Data is commonly gathered by doing depth interviews which provides primary data. One or more examples of a social entity are selected as the subject when conducting case study (Hakim, 2000). The aim of case study is to achieve the experiment of selected social factors or processes that is conducted in a real life context. It can provide deep and rich details of a particular social phenomenon. Two types of case studies are prospective longitudinal study and retro perspective study. Longitudinal study is when the researchers collect data repeatedly over a

long period of time from the present to the future. A retrospective study is at hand when the researchers collect data from the history of organizations (Hakim, 2000). However, retrospective study is the most proper choice due to limited time of conducting the research which is four months approximately.

Since small firms are in contingent contexts, one may face different situations from another; therefore, case studies will support this thesis study in illustrating causes and effects that occur when an SME manages their people. The case study was conducted to describe the development of HRM in SMEs. To investigate HRM practices at the formative years until firms employ HR persons, case studies in this study rely heavily on depth interviews with founders and/or CEO who can give depth information of how they have experienced HRM at those days.

3.2 Selection of Cases

As stated earlier that there is no blue print of management style that will fit all since SMEs face different situational contexts that are caused by those internal and external variables; therefore, the study consists of cases of four SMEs that may present different or similar development of their HRM and factors of employing HR persons.

The thesis study started with searching for contacts of SMEs on a Swedish website (www.teknikforetagen.se) where a list of small technical companies available. Contacts were made by e-mail and telephone and the aim of this thesis study was presented to founders and/or CEO. In the end, one company participated in this thesis study was found on a www.teknikforetagen.se and the other three were found through the network of the author. Because of the limited of time and difficulty in finding companies to participate in this thesis study, the author needed to include one company in Thailand which comes from the author's own network. Since Sweden and Thailand have different societal contexts, this may affect the result. However, the author will discuss this later in the chapter of analysis if there is any relevant factor in term of societal context difference that might impact HRM practices between these two countries.

Each country has different definition for SMEs. Therefore, firms selected as case studies were selected according to SMEs definition from the country they come from. Firms in Sweden were selected according to SMEs definition by the European Commission (2003). The definition includes micro firms (less than 10 employees), small businesses (between 10-49 employees) and medium-sized enterprises (50-250 employees). Firms in Thailand were selected according to SMEs definition by SME Bank. Firms in Thailand are categorized as SMEs if they have less than 200 employees and fixed capital with less than 200 million baht, excluding land and properties (SME Bank, 2010).

Three Firms that HR department or HR persons exist were selected as cases to illustrate the pattern picture of the development and the point of formalization of HRM practices by employing HR specialists. At the same time, a firm without an HR person has also been included in this study in order to compare the reason why they do not see the need of having an HR person.

In addition, two firms in this study have core employees who can be regarded as white collar workers and the other two firms rely mainly on employees who can be regarded as blue collar workers. The reason of having different types of employees in the study is to show different situations that firms have. Different types of employees may reflect how founders and/or CEOs perceive the importance of HRM which may influence decision in HRM practices and strategies.

3.3 Research Conduction

The data was collected by depth interviews with founders or top management people and a current HR person. The author used semi-structured interviews, which there was an interview guide but no formal questionnaire.

The interviews comprise of three firms located in Sweden and one firm located in Thailand. The interviews with firms located in Sweden were conducted in English. The other interview with a firm located in Thailand was conducted in Thai. The interview that was conducted in Thai was translated into English by the author. Two interviews were done on telephone and three interviews were done by face-to-face at the companies' offices located in Lund and Gothenburg, Sweden. The average time of each interview was about an hour. All the interviews were recorded and transcribed into text. The time of field study took between the end of March and the beginning of May 2012. In addition to interviews, some information such as history of companies written on the "the cases" section in chapter 4 was gathered from the companies' website.

3.4 Analyze

The analysis began with transcribing recorded data from the interviews into text. Later, data was categorized into themes in order to specify similarities and differences practices among cases. Yin (2003) suggests strategies in analyzing data. The one that is used in this thesis study is an analysis that relies on theoretical proposition. Data gained from depth interviews with founders/CEO and an HR manager was analyzed according to theories and previous researches explained in Chapter 2.

3.5 Limitation

This study is a qualitative research and data was gathered from depth interviews with founders/CEOs who experienced practices by themselves. Therefore, this study provides primary data based on people who experienced practices themselves. However, the limitation of qualitative is that it cannot generalize practices in the society since small numbers of respondents cannot be taken as representative.

In addition, due to limitation of time, retrospective study which provides quicker alternative than prospective longitudinal has been conducted. However, since data is obtained from memory of respondents, it has weakness that those respondents may find it difficult to remember the past event. Moreover, interviewees may adapt things happened in the past. In addition, contacting companies to gain permission in access data took longer time than expected since most of them were busy with their business. The interviews took until the beginning of May 2010 and the

author had less time working on the analysis part. Moreover, as the author is Thai and the interviewees are Swedish and Indian, this created a little difficulty during interviews and transcribing recorded data when both interviewees and interviewers are not native English speakers.

3.6 Ethical Consideration

This thesis was conducted based on research ethical principles in the humanities and social sciences in Sweden. The four main principles are information requirement, requirement of consent, confidentiality obligations and utilization requirement (<http://www.stingerfonden.org/documents/hsetikregler.pdf>).

Regarding the information requirement rule, before conducting this thesis, persons who had potential in taking part in the project were informed the aim of this study and the roles of participants in this project. They were also informed that participation is voluntary and they have the right to withdraw later. For the requirement of consent, participants in this study have the right to determine their involvement. They have the right to independently decide how long the participations can take place. This thesis was also conducted based on confidentiality obligations. Data gained from the interviews and the participants were stated and remained anonymously throughout this thesis study. Those persons who participate in the interviews were given the right to read through the research before submission to approve that the information were transcribed accurately and quotes or statements of them were used respectfully. According to the utilization requirement, data collected was used confidentially for the scientific purpose only. Data collected for this research purpose will not be used for decisions or actions that may affect the individual.

Chapter 4: The Cases

In this chapter, information gained from the four companies in the study will be presented. The information includes history of companies and how structures in the companies that have been organized and changed until present.

4.1 Company A

Company A was founded in 1996 in Lund by three students from the University. The company's headquarter is situated in Lund, Sweden. The company has also offices in USA, UK and Japan. Since 1999, the company develops products together with partners in different areas.

The IT boom in the 90s, made it possible for Company A to raise a lot of funding which lead to a generous recruitment policy. Thus, in 2002, they had more than 350 employees. But since there was no market for the products, it took a very long time to have revenue to pay for operating expense and the company basically spent money that came from investors or shareholders, not from profit. Therefore, as the company lost money, they decided to reduce cost by reducing number of employees. Workforce reduction worked well and the company became more stable with revenue.

From three founders at the beginning, the company went to the peak with 350 employees and after the latest workforce reduction the number of employees is 100. Company A has thus moved from a simple structure of organization at the start-up phase to a line of work where top management are comprised of specialized persons with responsibility in specific areas. From a simple structure, Company A has maybe constructed themselves as professional bureaucracy according to Mintzberg (1983). Under a professional bureaucracy, firms use a coordinating mechanism that allows for standardization and decentralization at the same time (Mintzberg, 1983). Outputs – dimensions of the products or performance – are standardized under this structure. Hence, formalization of behavior (behavior of each position was also specified) had occurred in Company A in order to maintain standardized products or performance.

The CEO of Company A stated that managers are persons who take care of HRM at the beginning.

HRM at the beginning was handled by the managers. Entrepreneurs and founders had strong influence at that time. *(CEO, Company A)*

Company A hired HR manager 5-6 years after formation when the company started to grow and expand offices to another city in Sweden. A move from simple structure toward professional bureaucracy seems to raise the complexity of coordination. The number of employees at that time of having an HR manager was 100. She has a very important role in HRM especially for the workforce reductions that have been done more than one time during the years.

4.2 Company B

Company B has its business in sugar production. The company has both domestic sales and exportation. Before the founder started the company, he had worked in a sugar production company which was owned by his father. He decided to leave the job and start up his own company in 1973. The company was established in Prachuap Kirikhan, the South West of Thailand and the headquarters is located in Bangkok, the capital city of Thailand. At present, the company has 180 employees.

Due to the good relationship that the founder had created with colleagues and subordinated, 30 percent of the workers came from his network of the previous company. They comprised of engineers and managers with excellent skills and competences.

It was my father's company. I worked as a manager there and when I left there to start my own business, those subordinated and colleagues, they wanted to follow me, we had good relationship and we wanted to grow together...*(Founder, Company B)*

In an organization with a simple structure there is fewer support staffs and a minor division of labor, power over important decision is centralized in the hand of CEO, Mintzberg (1983). The person who had responsibility in managing everything at the early days of foundation was also the founder him/herself at Company B. From the simple structure, today the line of work in the company is comprised of a management team working in the headquarters. There are also chiefs in production and purchasing area who are allocated in the factory. Since the company is a production company, most of employees can be regarded as blue collar workers. The simple structure that Company B had at the beginning has been changed to a new structure which can be

classified as machine bureaucracy structure according to Mintzberg (1983). Under this structure, formal communication is favored at all levels and decision making tends to be done under the hierarchical system (Mintzberg, 1983). Work processes are standardized which the work content are specified and clarified in order to facilitate the coordination that became more complex.

Organization growth has led to major changes within the firm. In order to serve a big amount of order and to deliver products in time a need for better production process evolved. Today the company uses more machine and software technology to manage production. In 1999, the company brought in ISO 9002 to enhance production processes in order to compete with other companies in the same industry. ISO 9002 is a quality management system that has emphasis on quality assurance in production, installation and services (www.iso.org).

We brought in ISO-systems to compete with other companies in the same industry. Everybody in the company needs to understand this system. It is the responsibility of the personnel chief that needs to make everybody understand and be able to work under this system. (*Founder, Company B*)

At present, the company does not have an HR manager; instead they have established a position called “the personnel chief” who has responsibility in some areas of managing employees. The company decided to appoint a personnel chief in 1999, which was 26 years after foundation. Actually the founder said that they did have a clerk in managing employees since few years after foundation. But at that time, the clerk just had an administrative duty with a responsibility in managing documents and check whether employees came to work in time.

The personnel chief has broader responsibilities than the clerk. The personnel chief has an important role in recruiting and planning training programs for individual employees. Earlier, it was the founder who searched and selected people, but at present, the personnel chief has responsibility in searching people who have the required qualifications and further to plan the training that increase skills. The personnel chief also participates in the company meeting.

4.3 Company C

Company C produces innovative products that can protect corrosion. The company started in Gothenburg, Sweden in 2010 and is newly formed based on acquisition of a bankrupt company. The founder was a former investor in the property of that bankrupt company, so when their business went bankrupt, he took a part of the business and started Company C. The founder also took over the old employees. About 90 percent, or 13 employees, came from the bankrupt company. Today, two years after the foundation, the company has 15 employees. The management team consists of three persons and the rest of the staffs can be regarded as blue collar workers who work on the production process site. According Mintzberg (1983), Company C can be regarded as a simple organization where coordination is held simply and decision making is mainly in the hand of the founder.

The founder of the company does not expect that the company will further grow. He states that:

We will keep running our business at this level. If we grow, but we still talk about only 1-2 people only, not that many will be added to the company. My vision is not to become big.

We prefer to keep a model with good profitability. So if we are growing to 14-15 it's not about growing it is about how to maintain our profitability. (*Founder, Company C*)

Therefore, the company focuses on the business and employees at present only. Company C has an administrator with responsibility in human resource as well. The administrator also works together with the production manager. They are mainly in charge of HRM need for employees, they look after employees and they manage the monetary part. The company is also certified according to ISO 9001 and ISO 14001 according to management. ISO 90001 is a quality management system where an organization needs to provide quality products and enhance customer satisfaction through the effective application of the system, and ISO 14001 addresses environmental management where an organization needs to minimize harmful effect on the environment caused by the activities (www.iso.org). The founder stated that:

In our management system, there is special part that covers HR. (*Founder, Company C*)

These three persons, the founder, the administrator and the production manager work together with HR-practices and HRM. The founder stated that

We have decided to work in a management group where all major decision is discussed. (*Founder, Company C*)

The administrator takes care of the salary, certain part of marketing and maintaining the company's website. The production manager plans the production and also manages workers in the production process. He also has the key role of maintaining productivity and decides the work shift for the workers.

4.4 Company D

Company D has its business area in engineering. They provide heat exchanger design for plants. They also offer design and engineering services and project management. They serve a wide range of industries such as energy sector, sugar industry, bio-mass and bio fuel production and nuclear waste treatment. The technology was developed in Gothenburg in the mid of the 70s and the company started in 1979. At present, the company has the head office in Gothenburg, Sweden. They also have expanded their business abroad with offices in for instance Germany and India. They have also established a network of sales and marketing agents around the world. The company has 12 employees in Sweden and 9 employees for production in Germany. The company has tried to develop a flexible organization, flat with a less hierarchal structure. The CEO said that:

With a small organization like this, at that time we didn't have any human resource. (*CEO, Company D*)

In 1996, the company became concerned with human resource. In the last few years, the company has focused very much on human perspective as the CEO stated that:

In the last few years we were focusing on this because as the engineering company, so people are important to the company. So we need to make sure that we get the right people to company. And they will work longer at the company as longest as possible. They can

develop here, they learn here then they can contribute. And we don't have anything else to producing, it is people who make everything here, so we have a lot of focusing on HR. (CEO, Company D)

The company has grown and expanded abroad. In addition with more concerns in human resource, the company decided to hire an HR person in 2010. The CEO states that they would like to have

More like structuring, more functional organization I would say. We want to improve the organization and functionality. It can be like stability to employ participation and decision making and the future of the company. (CEO, Company D)

Within Company D there is a move from a simple structure to professional bureaucracy when the company is growing and expanding abroad in order to construct a system that facilitate coordination when works are increased and number of employees is added (c.f. Mintzberg, 1983). Outputs and performance has been standardized under this structure. In order to maintain standardization in outputs and performance, human capital became taken into account. In this case, with a more structural organization, HRM also becomes more formalized in the company in order to achieve the aim of maintaining the standardization of outputs and performance. The HR person takes care of HRM in the offices located abroad since the company would like have more effective HRM and employ the right person to the organization. From the hand of founders and top management who takes care of HRM in the part, the responsibility is now given to the HR person.

Chapter 5: Analytical Themes

The section consists of two major analytical themes, HRM in the Start-up Phase and the Path Breaking. The first theme covers how the companies in this study managed HRM practices in the early years whilst the second theme concerns the point where companies break their path as well as HRM after path breaking. The cases in the study identify various variables both internal and external factors that the companies face in both different and similar situations which lead to different or similar HRM practices. The influence of those situations also identifies why and at which point the company realizes and acknowledges that an HR person is needed.

5.1 HRM in the Start-up Phase

This section presents the various ways that the companies studied handle HR practices in the early years of formation. The sub-themes cover a wide range of activities such as recruiting, development and training and attraction and retention.

5.1.1 Recruiting through Networks

At the early phase, the four companies in the study did not find it hard to find employees. They relied on their networks. Leung et. al (2006) also argue that in the start-up phase, small firms rather employ people from their social networks and when they grow in size they rely more on business networks that they have built during the time of operation. However, in this study, the

four companies investigated relied on different networks, which depending on how the companies were founded. Company A's founders, as they were freshly graduated students, used their social network from the university.

At the early days, the three founders recruited people by the network from Lund University. It was very successful at the beginning... Since they went to school together so they know how good they are. (*CEO, Company A*)

Company D has developed their business in cooperation with a university and they found their contact network there. The network that Company D used are thus more business oriented since the network comes from the cooperation of technology development. In addition, they also used recruitment agencies even in the start-up phase.

We found people through the contact that we had, and also the recruitment agencies. (*CEO, Company D*)

On the other hand, the founder of Company B relied heavily on business network built from the previous firm.

I searched people by myself with support of the Factory Manager at that time. I have network at the company I worked before. /.../ They were engineers or managers who have excellent skills and competences. /.../ And at the time of constructing the factory, I had opportunity to contact people who worked with the construction company to join the company as engineers or mechanics. I also found some workers from the network of farmers who provided sugarcane as for the raw material. (*Founder, Company B*)

Since Company C took over a bankrupt firm and the founder used to be the owner of the company's property, they also kept the old employees when they started the new company. Thus, they did not have the need for recruiting staff.

We took over the old employees /.../ It is important that the people have the right knowledge of the business. some of the employees have been with the old company for years I mean we have one who been more than 30 years so I think the average it's probably at least between 6-7 with the company. (*Founder, Company C*)

How firms are founded seems to have influence on how they will recruit people in the start-up phase. The companies in the presented cases hold forth that not only social networks, but also other networks are used to find suitable employees. All the four companies said that they were satisfied with the people that they recruited from their actual network at that time. The statements above present that they could have most right people from having people who they already knew or who have been working in the same area of business before.

Leung et. al., 2006 stated that the start-up firms lack of organizational legitimacy and lack of various resources. These situations influence small firms to use the most convenient method in finding employees. Recruiting people through network seems to be their solution. Windolf categorized firms using the same channel when recruiting people as "muddling through" (Windolf quoted in Boxall and Purcell, 2008, pp.178). Muddling through strategy can create negative consequences to those who employ. Firms in the study recruited people from the same channel in the start-up phase and it led to a narrow way in finding a person who fits with some specific functions or positions.

Company A recruited people from the University network. As the university is technical oriented, some competence in other fields are not available.

We were in the center of technology, where it was much technical focused. There was much lack of marketing and sales so it was hard to find people with good skill in marketing and sales area. *(CEO, Company A)*

Company B is located in Kanchanaburin, a province in Thailand. Schools and universities in Thailand at that time are more available in Bangkok not in small towns. In addition, people with high education seems also would like to work in a big city. As a result, Company B found it hard to find employees with right education in some fields.

At that time in Thailand, not many people have high education, it was difficult to find people with right education, so I recruited people by work experience. *(Founder, Company B)*

This point could present the difference of societal context that in Thailand, educated people mostly study and work in big cities. This may result in difficulty in finding employees if firms are located in the province. This may be different from Sweden where people have standard in education and educated people may not settle down only in big cities.

5.1.2 Small but Formal Training

Rutherford, Buller and McMullen (2003) have shown that the high-growth firms confront challenges with development and training of employees. The explanation for this is that when the firm grows in size, communication between employers and employees probably become more distant and managers themselves cannot train everyone. However, the present show that the firms in start-up phase also provided employees with formal training and courses even before they start growing. So, from this perspective, it can be argued that small firms do not rely only on informal training and development in the early phase. This may depend on how entrepreneurs perceived the importance of human capital.

At the beginning, we trained people just like on the job training, later, we have had career development, incentives, courses, training and special education. We provided some necessary training so that the individual can grow with the company. *(CEO, Company A)*

Company A provided courses, training and special education to the employees. The reason for that is to support everybody to grow with the company. Courses, programs, incentives can lead employees to commit the organization when they realize that they can develop within the organization.

Short term consequence of those practices and strategies is about stabilizing. People may be unhappy, frustrated because they are in a death rock, but those programs, incentives can make them decide to stay in the company. It is the way to keep good people to stay in the company. Long term consequence is that you have employee with more skill and are better qualified. Later, they can also take on larger responsibility. *(CEO, Company A)*

Company B also provided formal training at the early phase. The founder of Company B tells that the workshop has been offered to new graduated people so that they can learn from the real working situation. He also tells that the company can be regarded as a small school and at present many employees who worked with them before have joined some famous companies in Thailand.

Company C, a newly formed company with 15 employees at present, also provides formal training. The founder states that:

We off set the day with employees and if we don't have the competence ourselves then we buy the competence when someone comes here. (*Founder, Company C*)

The formal training that firms in the study provide can imply the strategy of attraction and retention. Small firms cannot offer financial incentives due to resource shortage. This may lead them to offer learning opportunities and psychological rewards instead. This type of reward can also lead to further developed performance. This can be reason why they offer formal training even when they are in the formative years.

5.1.3 Attraction and Retention

Regarding attraction and retention, Heneman et.al (2000) argued that small firms are more likely to employ a total rewards perspective than larger firms. This can be a source of competitive advantage since it may be difficult to imitate by others (c.f. Barney, 1986). According to the companies in the study, most of them found it difficult to invest heavily on the financial perspective since they could not gain much revenue. Company B found it difficult to attract skilled people to work with them because the company is located in a small town. In this case, they provide some benefits with facility for the employees. This is a special situation that forced them invest more on the benefits.

Our company is located in the province so it was difficult to attract people to work here, they prefer to work in Bangkok or big cities. /.../ So we thought about offering facility. We provided houses for them. Those at high position will get nicer house with swimming pool. /.../ We always have incentives for employees since at the start. If employees can produce and get more sugar yield, then they will get extra bonus. (*Founder, Company B*)

On the other hand, the other companies put their emphasis on psychological rewards, learning and opportunities. This is because even if they are growing, the business is not so stable that they can offer more than basic salary, but instead they increase more learning opportunity and a good working environment. Opportunity in participation is also important for them. They promote participation and involvement for employees. All the interviewees perceive this as the advantage of small firms.

We had entrepreneurial environment. They called it entrepreneurial pizza culture, where people brought in pizza in the evening, played in the band and had a good time with each other. /.../ There is very little rewards or out to the box incentives. People have basic

salary. The company has bonus schemes. But as the company never be really profitable, so people have been working in the company for basic salary. However, there have been maybe awards or diploma for extraordinary things. But from the financial point, it has been very little here. /.../ Having right people at the right place. We make sure that people have enough challenge to find it is worthwhile to stay in the company. For people with high ambition, we will make sure that they can develop within the company because it is expensive to hire new people if you lose good people. (CEO, Company A)

As presented in the quotation, the CEO of Company A describes that they provide less financial rewards. To compensate from what they cannot offer as large stable organizations, this may be the reason why small firms need to create work environment that employees can find it attractive and worthwhile to stay with the firms. “The entrepreneurial pizza” is one of theme that Company A call themselves. They create a friendly working environment. In addition, they also support employees by giving employees opportunities to develop themselves within the company. This can also be seen in Company C where employees can be ensured that they can develop within the company.

We don't work with bonus system. They got basic salary for now. We were discussing maybe profit sharing. It's easier to share when you have money. /.../ Well I think the most important part is to keep them informed about the new development , we try to educate with education scheme which is set every year when we do budget work you know. /.../ We try to be good with them, arrange the small things. We have on Friday we have breakfast for everyone, we have kick offs, go out and drink with employees. For some holidays and x'mas we give them some gifts, small things, at least that they feel that we are concerned and they get also, we pay for, give them, some money for sports like weight lifting. We support that, because if they have good shapes it can get rid of pain. We do small things that were not done in the past. /.../ It is to keep people motivated, which is very important. (CEO, Company C)

Company C does not have bonus system either. Employees work with the company for basic salary. Instead, to retain them to stay longer in the company, they provide their employees with necessary education in order to develop their employees. In addition, the company sees small things as important matter. There are some small things that may be difficult to find in large organizations. It is a strategy to keep people motivated which in turn lead to commitment in organization. Company D also put emphasis on working environment.

It's to give people right working environment, free them to work, and to explore the possibility, learn new things, the salary is one bit but the other part, you can implement like the flexible working time, flexible on the working period. /.../ And also we provide quite stimulating environment. We try to develop an organization which is flexible, flat with the structure, less hierarchy stuffs like that. And of course provide some benefits including medical benefits, bonus system things like that, but the most important is the right environment, they are satisfied with what they are doing. They find it stimulating with what they are doing all the time. You can find the new challenge all the time. And I think we do provide that quite a lot. (CEO, Company D)

Company D provides employees with flexible working time. They provide stimulating environment that employees can learn new things and find it challenge to work in the organization.

5.2 Path Breaking

The major theme, Path Breaking, covers three sub themes which are growing, distance of relationship and formalization. Each sub theme describes how the complexity of coordination in organizations can influence the decision in employing HR persons.

5.2.1 Growing

Path breaking in this study points to the situation when founders and managers delegate power in managing employees to an appointed HR person. There are various factors and reasons that underline when the firms in the study decided to employ HR persons. Three companies stated that growing is one of the reasons why they need HR specialists. Company A had an HR specialist when there were about 100 employees, 5-6 years after formation. Company B had an HR specialist when they had about 150 employees, 26 years after formation. Company D had an HR specialist when they had 11 employees, 30 years after foundation. Company C does not have an HR specialist since they think that they are still small. Boxall and Purcell (2008) argued that managing people in small firms are only under the hand of one person which is the founder and HR specialists are employed when the firm grows. They also argued that only firms which have grown beyond about 150-200 employees employ HR persons. However, this study shows that firms with less than 150 employees also employ HR persons. Since the study is a qualitative one, it can present the situation that influences firms to employ HR persons. So at this point, it depends on at which point the company regards themselves as growing firms. They may have fewer employees, but if they regard themselves as growing then they may consider hiring an HR specialist, which this may also reflect perspectives on importance of HRM of founders.

Growth leads organizations to structure themselves in other forms. Number of employees that increases creates the complexity which the decision is difficult to be held only by founders like it happened at the formative years.

It is a bit difficult to make everyone to the same direction and to agree on things. (*HR Manager, Company A*).

Organizations where decisions can be made by everybody can create difficulty of coordination. Company has employed an HR manager in order to facilitate the coordination between employees and employers to come to agreement.

The growth beyond establishment phase into the mature context does bring about problems that require a different style of management. The challenge of size and increasing in workforce complexity mean that HR policies and practices need to become more comprehensive and formalized. At this point, reliance on the implicit philosophies and informal practices of small entrepreneurial firms become much less realistic (Boxall and Purcell, 2008). Moreover, when the company is growing and expanding, they have not much time to focus on HRM. The company D

stated that this causes problem to recruitment since this is very important process and they need time when they are looking for new people.

We have made some recruitment mistake earlier; I would say that because we didn't have time to go to all the background and everything. We made 1 or 2 recruitment and we had to fire those people, it was quite complicated case. They were not performing they did have those competences within they have in their CVs. It's better to take time and get the right people. *(CEO, Company D)*

From the case of Company D, it presents that they need someone who has responsible in recruiting people. When the company is growing and expanding, they have no time to look carefully in the application process. As a result, a person is required to handle this matter. At the same time, Company C can present why they do not have an HR person yet.

The HR person does the salary, certain part of marketing, maintaining our website, the production manager manage all the guys on the floor. We have decided to work in a management group where all major decision is discussed. I think to have an HR; you need to be probably more than 50 people. When you are small, it's on the shoulder of production manager and the CEO. We have to have a lot of hats on. One day as an HR, one day you are the cleaner. You may have organization system which covers HR. It could be one man or one woman with many hats. /.../ My vision is not to become rather big business; we prefer to keep model with good profitability. *(Founder, Company C)*

The founder stated that they do not think that the company will grow more in the future and they would like to stabilize this stage of viability. They just focus now at the present business plan. Therefore, managing people at present is handled by an economic administration, the production manager and the founder. Company C has 15 employees which more than Company D who has 12 employees; however, Company D has decided to have a specific HR person since they can foresee the future growth and now they are also expanding abroad and there are problems stated earlier which influence them to employ HR specialist. This is how Company D breaks the path of dependency.

5.2.2 The Relationship becomes Farer

Growing is the common reason in deciding to have HR specialists. Within the growing stage, it creates some complex situations that influence the decision in hiring specialists. Organizations may break away from the path when unforeseen events occur, such as shocks, catastrophes or crises (Arthur referred in Sydow et.al., 2009, pp. 701). The companies in the thesis study did not have any crisis or shock, however, there were some problems when organization became bigger and more people were added. This is the move from simple structure toward some other structures where the division of labor is not that loose as the simple and the decision cannot be made only in the hand of CEO (Mintzberg, 1983).

Two companies state that, time management is one of the problem. Top management people like them do not have time to do everything, and then they need someone to coordinate and take care of employees when there are problems as Boxall and Purcell (2008) argued that growth and

workforce complexity can generate a tension to step into the bureaucratization and it threatens the intimacy and challenge of earlier times.

The company took 15 years after the starting point to get the profit. We have done workforce reduction in four times which are 2003, 2004, 2006 and 2010. It is very challenging when fire and hire people at the same time /.../ that is management of people. That's where the HR manager has played very important role, because top management people like him do not have enough time to sit down with all the employees with situation like that. And very often also people blame the top management if they fire people that we are the bad guy then it is normally good to have people that is more neutral that can sit on their side of the table and help them to get on with their lives, work with external consultants and help them to get on the right track somewhere else. So that is very important role. *(CEO, Company A)*

This is the example of the Company A where an HR person is needed to be hired. When number of employees is increased, the relationship of employers and employees become farer, hence, the firm need someone to be in touch with employees when there are problems. Especially in the case of this company, they have done workforce reduction and this has been a big problem for them. They need someone to help coordinate this matter, to assist the employees closely. When the number of employees is many, then the top management people do not have time to take care of everyone. Then they delegate this power to an HR person.

In addition, to have someone to get in touch with employees is to create trust in the organization. The company A case presents that when the company was in a difficult time, people may lose trust, become incurred and that they need to do something to make people believe in the management. So as stated earlier, the company A needed someone to handle with this matter when workforce reduction had to be taken.

You need to take leadership if you want to achieve something or you want to go that one direction, you need to make sure that not only products but also skills and qualifications and people that you need to go there and the culture so the culture can be enthusiasm positive thinking and be added value that make you stand out as a company from competition. In this case in combination with, before, lots of young people worked here in the company now they have family, at the same time you want to maintain the productivity, the enthusiasm, the dynamics, and in combination when the company has been losing money for more than ten years, a lot of people they got frustrated and they got nervous about their job. They saw that we fired a lot of people that created the insecurity and also distrust and lack of confidence in management. It is one of things we need to change to make sure that people started to believe in the company's future and to build a culture so that is to focus on the positive thing and eliminate weak and negative. *(CEO, Company A)*

Growing and expanding also create distance between employers and employees in Company D.

I had to look after the company. I had to look after the business, sales everything. When I was not at the organization, for travel for like two weeks, there was a lot of pressure. /.../ They didn't have a chance to express the opinions. That was big minus; we should clean

the frustration of people. They have no chance to talk when they are not happy, because I was not available and there was no HR position. (*CEO, Company D*)

The statement shows that communication between employees and employers become farer. In this case, employees find it hard to talk with someone when they need assistance or when they need to express their opinion about what is going on in the company. The case of Company D, the company is now expanding abroad, and that people on the top do not have much time. When they left the company, there is no one who takes care of employees. The CEO sees this as disadvantage since it creates frustration and this may cause the employees not to be committed to the company; as a result, they think that an HR person is needed.

5.2.3 Formalization

As argued by Blau (1970, 1972), division of labor is increased when firms grow in size and expand their business. Mintzberg (1983) states that a person working alone needs less mechanism. When another person added, they work in small group where coordination takes place informally. When the group adds more people and becomes larger, informal coordination seems to be more difficult. He continues argue that when more works are involved, the simple coordination tends to move toward standardization. The typical problems at the stage of growth, when the sales continue increasing, are stabilizing production and product reliability, matching demand increased, maintaining cash flow and formalizing the organizational structure (Dodge & Robin, 1992). When the firm grows and sales continue increase, organizational structure can be formalized to facilitate the coordination so that processes can run smoothly.

This can be seen in the Company D. The Company is also expanding to Germany and India. As a result, they need a more structural and functional organization that can facilitate the coordination. This also relates to Kotey and Salade (2004)'s study. They investigated the extent to which HR practices become formal as firms grow in size. With the support of the life cycle theory, the result shows a move from simple structures with highly centralized and informal systems to functional structures with specialized functions and greater standardization and formalization of activities. More managers are also required to fill the gaps in the owner manager's expertise and to take responsibility for daily operation of the firm as the owner-manager takes on more strategic roles.

I think we have been in a growing phase and I wanted to improve the system and policy and the output, thinks and perspectives so people have more insights in what we are doing and what they are doing and getting the relationship to work better, so you need someone to coordinate these things. I cannot go all the time so they can talk to our HR person. More like structuring, more functional organization I would say. (*CEO, Company D*)

Company D can be the example of the moving from simple structure toward a more functional firm as Mintberg (1983) categorizes it as the professional bureaucracy where the organization manage the coordinating mechanism that allows for both standardization and decentralization at the same time.

Moreover, during the time of organization development, there may be some changes in the organization. Small firms face different environmental variables both internal and external

Dodge and Robin (1992). Company B stated that they decided to employ an HR specialist at the first point because of emerging of IT as external factor. In addition, they have been in a high competitive market, and they realize the need of implement ISO system (9002), which requires a person who can coordinate with the effective work organization under this system.

We hired her because there was an emerging of IT at that time. We brought in computer and pay roll system so we need people who have education with this area. We hire the personnel chief with HR education. She has an important role in recruiting and training...yes, we were also growing./.../ Since we brought in ISO system, everybody in the company needs to understand this system. It is the responsibility of the personnel chief that needs to make everybody understand and be able to work under this system. (*Founder, Company B*)

Kazanjian (1988) suggested that the growing firms require some changes and adaptation because new employees, systems, functions and customers are added. Therefore, Company B may need to need someone who can take care of the change when the new system is added to the organization. The case of Company B can present that the company is formalizing their structure. The documentation style becomes much more sophisticated in HR area. In this case, people with specific education are also required to handle specific functions in the organization. Moreover, some organization system such as ISO in the case can also imply the way that organization is formalizing itself. Under the organization that become structuring itself, person with specific skill area is required. At the same time, the company D also realized what they lacked in the past.

I know when we started the company, long time ago, there is no employee appraisal system, but it become in place now. Nobody has given any feedback. And that's problem. So we employ appraisal system. So every year in January, so we talk about last year and plan for the future, we will see for the next two years, if we need any training. If they need more competences and if there are ideas, they want to tell me something what they don't like so it's the formal appraisal every year. That's the part of the HR person's work. (*CEO, Company D*)

The company D has also presented, the company are in need to formalize HR system in order to improve their management practices. Earlier, there is no appraisal system and it becomes problem because they could not know which competence they could improve and should plan for the future need. A specific HR person is hired to improve HR system.

In addition, when organizations standardize their work process, formalization of behavior also takes place (Mintzberg, 1983). Each person has their own duties and responsibilities to carry out. For example, formalization of position where specifications are attached to the job and formalization of work flow where specifications are attached to the work for an effective work process. Formalization of behavior causes everybody to perform task that they are assigned.

Because the company is the technology one so the speed is very fast and everybody just works and works and does not have much time so I needs to follow up them all the time. (*HR Manager, Company A*)

Chapter 6: Discussion and Conclusion

In this chapter, discussion and conclusion will be presented. The aim of this research is to investigate HRM practices during the formative years and what factors that influence firms in the study to decide to employ a specific HR person. Answers to the research questions will be included here. In addition, this chapter will also discuss the conclusion based on theoretical framework explained in the chapter 2 and suggestions for further research on the subject will be presented at the end.

6.1 Managing Human Capital in the Start-up Phase

Small and medium firms in the study faced different situations in the formative days. Three firms were newly established and one took over another firm. People management has been relevant since the point where firms started seeking employees to add to the organization. Recruitment was the first challenge that they had. Firms in study relied heavily on networks when recruiting employees but the type of network they used was similar or different depending on how the firms were founded. This perspective reflects that it is not always that new small firms seek new employees through social networks as studied by Leung et. al. (2006).

In addition, training and development are perceived as importance strategies to develop their employees since before they stepped into the stage of growing. Rutherford, Buller and McMullen (2004) argue that firms start to pay attention on development and training when they grow. They give the reason that when firms grow in size, difficulty in communication between employers and employees occurs and managers themselves cannot train every single employee. This is why they purpose that formal development and training takes place mostly at the stage of growth. However, the result from this study shows that small firms provide formal education, courses and workshops before they grow. The assumption that small firms provide only informal training due to the lack of financial resource may need to be reconsidered. Firms in the study has presented that all the entrepreneurs and top management people acknowledge and realize that training and development is crucial as it can bring the excellent performance to the organization. As a result, formal courses, workshop and education are provided to their employees even when they are still small.

That these educational setting were provided since the start-up phase also imply psychological rewards practice employed by small firms. Due to the instability of revenue in small firms, financial rewards seem to be less emphasized. Even if they promote a bonus system, some companies in the study could not implement it due to instability in the profits. As a result, small firms may provide employees with compensations and benefits. They give the employees the opportunities to develop themselves within the firms. Sharing ideas and opinions and increasing participation is one strategy that they could employ since small firms' environment can support this and it may be hard to implement in large organizations. In addition, small things such as gifts, certificates and money for sports are also regarded as rewards that small companies provide. These small things are to show their concern. All of these can create loyalty among employees even if the firms lack financial resource. This result seems to relate to the argument of Barney (1986) that smaller firms are more likely to view compensation from a total rewards perspectives than larger firms in order to remain competitive advantage that is difficult to be imitated by others.

6.2 Consequences from Early Personnel Policies

The practices and strategies that the firms in this study employed in the start-up phase can create both negative and positive consequences to employers. The firms relied on network for recruitment at the start-up due to convenience, but the most important reason is that it can be assured that choosing people from network would provide them the right people with right skill and competence. However, it is not always true since the same channel could not provide all the skills that the company needs as suggested by Windolf (Windolf referred in Boxall and Purcell, 2008, pp.178) that this type of firms are categorized as muddling through firms.

In addition, if the organizations step into the stage of growth and works, tasks and responsibilities of top management are increased, this can create problem of time management. Recruitment is a process that can take some times to look carefully. Chance in choosing a wrong people may happen if there is no devotion of time, hence a person who can take care of HRM specifically may need to be employed. Formal training, including courses, workshop, programs that small firms provided leads to motivation and commitment in organization. Employees can develop themselves within the organizations and do not feel that they are in a death rock. Employees can increase knowledge and skill and the organizations can get a better performance.

6.3 Path Breaking/ Hiring an HR Person

Mintzberg (1978) points out that strategic behavior is path dependence, in which the own history of the strategic choice and process can limit strategic decision making in the future. This relates to young and small firms that they had their path when founders or CEOs handle HRM at the formative years due to convenience and resource shortage. Organizations may break away from the path when unforeseen events occur, such as shocks, catastrophes or crises (Arthur referred in Sydow et.al., 2009, pp. 701). To break the path, people concerned in decision making should restore a choice of action by inserting of at least one alternative course of action (Sydow et.al., 2009). The firms in this study did not confront any serious shocks or crises; however, they also had some HRM problems that influence them to restore another choice that was superior than the existed one. That choice was to employ a specific HR person who took responsibility in managing their human resources.

From this study, path breaking- the point when firms considered hiring HR persons – came along with growing. During the stage of growing, things have occurred in the firms. New system and new employees were brought in. Organizations moved from a simple structure and structured themselves as other forms - machine bureaucracy or professional bureaucracy. As a result, growing creates complexity and tension in management including HRM when they structure themselves as another form. Problems in HRM practices including recruitment, retention and workforce reduction when firms stepped into the stage of growing influenced firms in this study to consider employing a specific HR person. These people influenced founders and/or CEOs to realize that it might not be the best strategies to conduct HRM by themselves and a person with specific HRM skill and education should be considered.

Moreover, another considered point in this study is that different types of employees – blue collars or white collars – may influence decision in hiring an HR person. From the study, Company B, which has the main employees who can be regarded as blue collar workers, hired an HR person when they had 150 employees. This is the highest number of employees at the time employing an HR person in this study. Having blue collar workers as main employees may

reflect how founders/CEOs perceive the importance of HRM and the time that they acknowledge the need of hiring an HR person.

6.4 Outcomes of Employing an HR Person

The firms in this study had several reasons why they needed an HR person. To handle complex situation when firms have been growing and expanding, a person with specific responsibility in HRM was appointed. According to firms in this thesis study, having HR persons seems to help solve HRM problems that they had earlier. HR persons could help facilitate coordination in organizations when structure got more complex. With their specific knowledge skills and competences, this led to more effective HRM in organizations. As stated by Mintzberg (1983) that when firms grow in size, structure becomes more complex which causes difficulty in coordination between functions. Hiring an HR person is to formalize behavior, duties and responsibilities in organizations. To employ a specific HR person, it could help the firms in this study to coordinate HRM function. An HR person facilitates difficulty in communication when organizational structure becomes complex. A person with formalized behavior and specific function area could also perform the assign tasks that need specific skills and competences.

6.5 Conclusion

The figure 2 below illustrates the result from this study. At the stage of formation, firms organize themselves as a simple structure. HRM practices are conducted informally and centrally by founders and/or CEOs. They rely on muddling through strategy when they face the condition of resource shortage. Employees are found from the same channel which results in the lack of some right employees. To retain the employees, firms apply both financial and psychological rewards. However, formal development and training is taken in to account and practices since at this stage due to founders and/or CEOs realize the importance of their human capital. When they step into the stage of growth, they transit themselves to another complex organizational structure (machinery and/or professional bureaucracy). At this stage, HRM problems become relevant since organizational structure has been formalized, coordination and management has become complex and it creates distance between employers and employees. Founders and/or CEOs thus restore the choice of hiring a specific HR person in order to handle HRM problems that occur when organizational structure gets complex. The path dependency of managing employees only by founders and/or CEOs has been broken and HRM that was handled earlier only by founders and/CEOs have been decentralized and delegated to a specific HR person.

This study could provide some information of how HRM may be handled when firms at the early stage of organizational life cycle. Small and large well established organizations are under different conditions which may require different HRM practices and strategies. Since most literatures pay attention to large organizations, this study is useful for small firms who can gain general concept of how HRM practices maybe conducted.

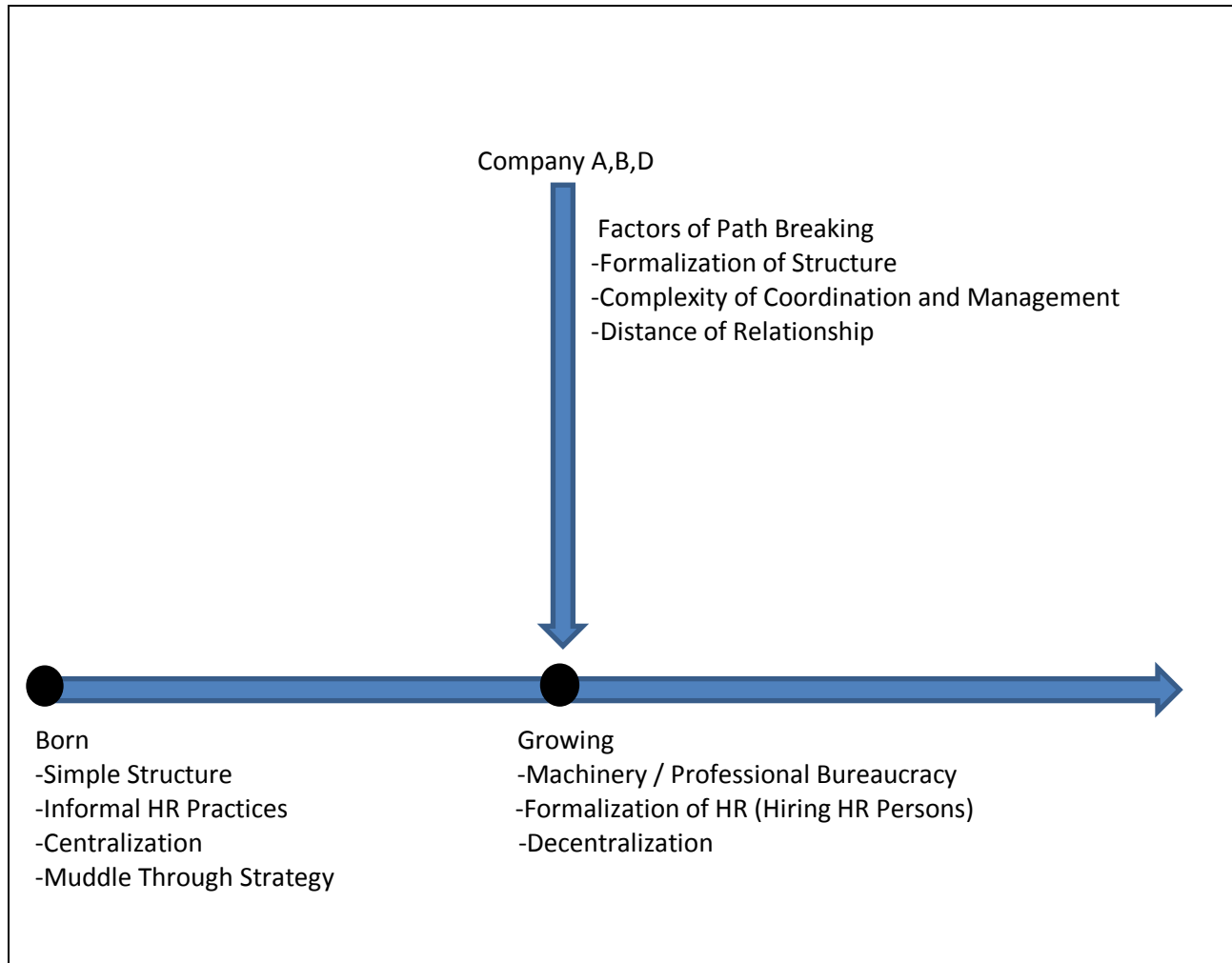


Figure 2: Development of HRM in SMEs

6.6 Suggestion for Further Researches

This study is based on qualitative data where details of each company are given attention. Quantitative research may be conducted in the future to generalize breaking point, when and why firms decide to have a specific HR person. From this study there is the big difference in number of employees when firms employed HR persons. Further research may add more variables for example, perspective of entrepreneurs or management team, age of the company and countries where the firms come from, for instance. In addition, the firms in the study, even they are small; they have provided formal training, courses or workshop. Further research may conduct study why small firms implement formal training even they need to trade this off with the budget when they are not instable in profits. Further research may find the factors for this case. Moreover, firms in this thesis study are categorized as SMEs, further research may be conducted in large well established organizations. The investigation of path breaking where HR persons were

employed should be a good example of how this decision can lead to success of organizations at present.

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Appendix

Interview Questions

Founders/CEO of Firms where HR Persons Exist

What is the business about? When was the company founded? And when did you get employed and at which position?

At the early years of formation, how did you experience in managing people?

Did you find something particularly hard or problematic – difficult?

How could you attract people to work with you at the early years of foundation?

Which channel did you seek applicants?

What were your criteria in selecting people?

What were your principles or strategies in remaining those employed people?

From practices and strategies that you employed to attract and select the applicants and to retain the employees, what could be seen as short-term and long-term consequence?

When the company started to grow and you might notice the change in business need and value, is there also any change in HRM practices and strategies (comparing to the early years of formation)?

At which point that you delegate power in managing people to HR specialist? Why did you decide to hire HR specialist? What were problems or factors concerned?

What are outcomes of having HR specialists? What are benefits that you get by having HR specialist?

HR Manager

Since you have been hired, how do you experience in managing people?

What could be situational conditions that cause those problems occur?

Founders/ Entrepreneurs of Firms at the Formative stage

How do you experience in managing people?

How could you attract people to work with you?

Which channel do you seek applicants?

What are your criteria in selecting people?

What are your principles or strategies in remaining those employed people?

From practices and strategies that you employ to attract and select the applicants and to retain the employees, what can be seen as short-term and long-term consequence?

Your company will probably grow in the future, what is your perspective in managing people when your company grows and more people added? Have you thought or planned about this yet?

Which factors will you consider hiring HR specialists in the future?

And what results do you expect when you having them?