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A Review On Effects Of Human Capital On Entrepreneurial Survival

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Abstract:
The aim of this paper is to review the various studies conducted across the world for survival of entrepreneurial firms, with special interest in the role of human capital. Entrepreneurship policies often include programs to encourage entry into self-employment. However, new-firm survival is difficult, with high exit rates during the early stages of the launch of a new enterprise. The findings on the previous labour market situation indicate that workers entering self-employment from non-participation may have a lower probability of enterprise survival. However, previously employed individuals do not seem to have an advantage over those who previously experienced short-term unemployment. The study reviews such linkage of human capital factors like previous experience, education and skills on the survival of entrepreneurial firms.

Keywords: entrepreneurship; human capital; self-employment

Introduction:

An entrepreneurial business venture, normally a newly evolving business, that aspires to fulfil a marketplace need by initiating a feasible business model around a service, platform process or a product, is called a startup company. These are usually companies designed to develop efficaciously and develop a plausible and sustainable business model. Startups usually have frequent rates of failure, but the few successes have gone on to become relatively large and successful firms. Most of the start -ups usually start very small with 3-4 partners and gradually grow into viable businesses showing profitability. Though this can be termed as an inspiring transformation which promises for exciting times ahead, however, it is also the time that certain transitional problems begin to emerge. For a Startup to survive, sustain and progress they have to synergize their structure, people, practices and reward systems to develop capabilities that gives them a competitive edge over competition. Startup India is an initiative of the Government of India which was launched on 15 August 2015. India can be termed as third largest startup ecosystem in the world with YoY growth of a steady annual rise of 12–15% is anticipated. In 2018, there were roughly 50,000 startups in India, and 8,900 to 9,300 of them were technology-based. There were 1300 new tech businesses founded in 2019 alone, which suggests that two to three startups are founded every day. As reported by INC42, there were 38815 active startups at end of 2021.

Literature review:

Entrepreneurs can build unique, valuable human resources through the use of human resources management (HRM) techniques, setting the groundwork for a competitive edge (Hatch & Dyer, 2004). HRM is consistently deemed significant in entrepreneurial organisations as well as mature and established firms (Hayton, 2003;Hornsby & Kuratko, 2003;Marvel, Davis, & Sproul, 2016;Unger, Rauch, Frese, & Rosenbusch, 2011). In entrepreneurial settings, HRM is usually on-the-job, experiential, reactively chosen, unsophisticated, or nonexistent (Hornsby & Kuratko, 1990, 2003; Nolan & Garavan, 2016). Entrepreneurs frequently lack access to fully functional human resource departments; instead, they are initially in charge of overseeing employees' professional growth (Fox, 2013; Katz & Welbourne, 2002). As a result, the work environment and resource limitations in startups separate the potential for HRM procedures from those in established organisations, creating difficulties for entrepreneurs trying to scale up a structured HRM architecture (Hornsby & Kuratko, 2003).

One question comes up as what can be considered as a successful entrepreneurial activity after an opportunity is discovered and exploited. On one side, there are society expectations that place a higher valuation on those entrepreneurs who challenge “the circular flow” that lead to “market disruption” by bringing their innovations to the market. These entrepreneurial firms are motivated to outcompete existing offerings in the environment, or even create new markets where competitors become irrelevant. On the other side, the presence of imitators, or even those who are alerted to profitable opportunities, may not allow these creative entrepreneurial firms to instantly profit and/or destroy existing industries in the short term, as they may find opportunities to operate in the current market conditions by overcoming entry barriers or challenging the industry incumbents (Porter, 1980).

An article by (Dangi, 2020) who is the Group Head, HR at InCred says that HR has to play several positions in start-ups during different phases of the company because it is responsible for recruiting the best fit applicants, fostering a culture of ownership and responsibility, adjusting to the shifting realities of the company, and the needs of employees. For all of this HR will have to be a coach for the young leaders to deliver, for workers struggling to deal with uncertainty, they will also have to serve as the listener and have to become an employee champion in working towards teamwork and team building. And it's not true that anyone from the department of HR or from the history of HR needs to play the role of HR. The role is also played by the founders themselves in early-stage successful entrepreneurial ventures or startups.

The purpose of human resource management is to improve business performance through people management. The organizations need to manage their human resources effectively and efficiently to achieve the desired goals and objectives. The achievement the goals and objectives translate also in better performance.

What is an entrepreneurial firm’s survival?

Entrepreneurial firm’s or Startup’s survival is a phenomenon that seems to be understood by implication or context. It is more often referred to in a grammatical construct when talking about survival in the context of entrepreneurship. The indicators can exclude or include typical business, economic, psychological, and social indicators; include survival beyond a certain timeframe; or simply constitute being in existence (that is, being a registered business entity). Entrepreneurial success may also have a sequential aspect; it is achieved at this point in time and thus can be momentary in nature.

Although past studies have investigated the Human Resources (HR) practices that successful, established firms use (e.g., Becker & Gerhart, 1996; Combs, Liu, Hall, & Ketchen, 2006; Ferguson & Reio Jr, 2010), there is far less understanding of how HR procedures affect the results of new ventures. Additionally, while certain HR activities are required (such as hiring staff), others are voluntary, employee-focused HR practises that businesses can utilise to entice or retain staff. Examples of these practises include flexible work schedules, bonuses, employee stock options, and healthcare programmes (Gavino, Wayne, & Edrogan, 2012; Hayton, 2003). These types of practices have demonstrated value for large and established firms (e.g., Combs et al., 2006); however, the antecedents of firm success in established firms likely differ from the antecedents of survival in new ventures (Short, Ketchen, Palmer, & Hult, 2007). Research has only just started to answer the topic of when and how new businesses employ HR procedures (e.g., Kotha Zheng, & George, 2011; Wright & Haggerty, 2005).

There is a growing interest in new venture survival, or the ability of new ventures to successfully start and maintain their operations. Although scholars have employed a variety of theories to examine how and why firms choose to remain in the market or exit (e.g., Arribas & Vila, 2007; Audretsch, 1995; Barney, 1991; Dencker, Gruber, & Shah, 2009; Wang & Ahmed, 2007), the Resource Based View is the dominating paradigm (RBV; Barney, 1991; Wernerfelt, 1984). The RBV states that valuable, rare, unique, and non-substitutable physical, human, and organisational capital are the source of competitive advantage.In the case of new firms, before competitive advantage can be developed, a firm develop competitive parity, or the capacity to pay market rents, and legitimacy, or the ability of the firm to achieve its objectives from the outside (Lounsbury & Glen, 2001). The value of tangible capital, such as financial resources (e.g., Geroski et al., 2010; Mata & Portugal, 1994), and the capacities of new firms have been the main topics of past RBV research on new firm survival with focus on the founders such as founder knowledge and experience (e.g., Dencker et al., 2009; Hitt, Bierman, Shimizu, & Kochhar, 2001; Kotha & George, 2012). While past RBV research has made contributions to understanding what, when, and how firms' resources affect survival, yet there are still important considerations concerning how businesses may maximise their resources. For instance, less study has been done on the methods and choices used by a firm's resources to maintain competitive parity and ensure survival (Priem & Butler, 2001).

HR practices are designed to direct the effort and persistence of employees' actions by aligning their goals with those of the organization (Appelbaum, Bailey, Berg, & Kalleberg, 2000; Gardner, Wright, and Moynihan, 2011; Huselid, 1995; Subramony, 2009; Wright & Snell, 1991). Ability can be related to founder's capability and motivation can be accomplished through the use of incentives, such as stock options and bonuses, that reward individual performance that furthers organizational goals (Jiang, Lepak, Han, Hong, Kim, & Winkler, 2012; Lepak, Liao, Chung, & Harden, 2006); and by building organizational commitment through the distribution of attractive benefits, such as health care plans and flextime, that build a sense of reciprocity between the organization and the individual (Gerhart, 2007; Whitener, 2001). From a social exchange perspective (Blau, 1964), HR practices that demonstrate the organization's support of their employees, such as motivation, foster employees' commitment to the organization (Kehoe & Wright, 2013; Tsui, Pearce, Porter, & Tripoli, 1997; Whitener, 2001), because these practices create an environment of reciprocity between the individual and the organization that motivates individuals to perform (Eisenberger, Fasolo, & Davis-LaMastro, 1990; Eisenberger, Huntington, Hutchison, & Sowa, 1986; Rousseau & McLean Parks, 1993).

From the RBV perspective, the founders' human capital (i.e., their accumulated knowledge and skill) i.e., capabilities, has lasting effects on a firm's performance (Agarwal, Echambadi, Franco, & Sarkar, 2004; Delmar & Shane, 2006; Evans & Leighton, 1989; Franco & Filson, 2006; Kotha & George, 2012; Mitchell, 1989), sometimes via the implementation of firm practices such as HRM. Past research has indicated that such human capital may be linked to success. Gimeno et al. (1997) found a positive relationship between several forms of experience (i.e., entrepreneurial, management, industry) and firm success, but the relationship between entrepreneurial experience and success was not significant after controlling for other founders' experience. In summary, the limited research available supports a positive relation between founder's human capital and firm's success. In addition to experience, the education of a firm's owners can impact firm survival. Higher levels of educational attainment indicate an absorptive capacity to retain and gather large and complex forms of information (Cohen & Levinthal, 1990; Zahra & George, 2002). The education of the founders indicates a stock of high-quality, well-trained human capital, which can serve as a key resource for a firm (Brüderl, Preisendörfer, & Ziegler, 1992; Cooper et al., 1994; Dencker et al., 2009; Gimeno et al., 1997).

HRM practices contribute to firm's survival when they strategically maximize resources. According to the literature on resource orchestration, firms first acquire resources, then develop processes to effectively leverage those resources (Simon, Hitt, Ireland & Gilbert, 2011).

In the formative years of a firm, HRM practices can serve as a resource that contributes to the survival of the firm (He, 2008; Welbourne & Andrews, 1996). Because most research on pay for performance programs focuses on established firms (e.g., Dierdorff & Surface, 2008), how bonuses and employee stock options relate to new venture outcomes is largely unknown. However, these kinds of compensation are likely to be attractive to new ventures because they allow owners to offer more compensation and share risk with employees (Graham, Murray, & Amuso, 2002). For instance, Hand (2008) found that entrepreneurial companies that provide stock options do so to retain key experts and incentivize preferred behaviors.

HRM practices may also support survival in new firms because the beneficial motivational effects of these practices allow team members to engage in more collaborative work, facilitating the development of exploratory ideas that improve performance (Kehoe & Collins, 2008). The use of bonus and stock option programs can provide incentives for employees to support each other, increase productivity, and reduce turnover, attracting and retaining talent in an organization (Collins & Smith, 2006; Datta, Guthrie, & Wright, 2005; Gelade & Ivery, 2003; Huselid, 1995). Similarly, flexible scheduling or flextime may improve survival through motivational mechanisms including increased perceived organizational support and employee motivation (Jiang, Lepak, Hu, et al., 2012; Muse & Wadsworth, 2012). In short, these practices serve as a tool to achieve effective competitive parity when the benefits of these programs in productivity exceed their costs.

As firms grow and develop, their goals are likely to change (Dew, Read, Sarasvathy, & Wiltbank, 2008; Greve, 2008). These changes can be linked to two stages from the literature on life cycle effects in research orchestration: a viability stage and a growth stage. Because these goals change, the value of different organizational practices change. In the start-up viability stage, firms must stay viable by accumulating resources to acquire legitimacy (Miller & Friesen, 1984; Webb, Tihanyi, Ireland, & Sirmon, 2009). To meet viability goals, a firm's leaders focus on resource structuring behaviors, such as obtaining financing (Jawahar & McLaughlin, 2001). Using formal HRM programs in firms in the viability stage is likely an unnecessary leveraging of resources because the firms' goals are not oriented toward developing the human resources available to the firm but in creating maximum flexibility for the firm, developing economies of scale, and creating inter-firm alliances that allow a firm to meet its initial financial goals (Jawhar & McLaughlin, 2001; Rutherford, Buller, & McMullen, 2003; Zahra, Filatotchev, & Wright, 2009). HRM practices are not likely to contribute to any of these factors; in fact, implementing these practices too early, when they do not confer an advantage to the firm in meeting its viability goals, can leverage resources away from needed activities, reducing a firm's likelihood of survival. Therefore, HRM practices may have negative effects for firms in this stage. As new firms transition out of the viability stage, they must acquire or develop enhanced skills to support and spur growth (Gilbert, McDougall & Audretsch, 2006; Lumpkin & Dess, 2001; Sirmon et al., 2011). Firms that have left the viability stage have entered the growth stage. Large-scale growth requires an entrepreneur or team of entrepreneurs to structure the organization with increasingly formalized procedures and a stronger managerial hierarchy in order to meet their goals and to gain legitimacy (Sirmon et al., 2011). In this stage, employment growth requires formalized training and retention strategies (Rutherford et al., 2003). Although not all firms seek to become high-growth firms nor do all firms exit the viability stage at the same moment, stage models of entrepreneurship imply that the transition from viability to growth stages occur at roughly the same time for firms (Zahra, Sapienza, & Davidsson, 2006).

Conclusion:

HRM practices serve as a valuable tool that allows firms to provide resources to employees that can spur the growth of talent within the firm and retain that talent by offering them opportunities to share in the firm's success.

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