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MASTER'S THESIS

THE DIFFERENCE OF HUMAN RESOURCES MANAGEMENT BETWEEN BIGGER AND SMALLER FIRMS

Ljubljana, May 2018   JAKOB DÖLLER

AUTHORSHIP STATEMENT

The undersigned Jakob Döller, a student at the University of Ljubljana, Faculty of Economics, (hereafter: FELU), author of this written final work of studies with the title The Difference of Human Resources Management between Bigger and Smaller Firms, prepared under supervision of Assistant Prof. Matej Ćerne, Ph.D.

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TABLE OF CONTENTS

LIST OF FIGURES

LIST OF TABLES

INTRODUCTION

Whereas the term Human Resources Management (hereinafter: HRM), as the process of bringing together different people in order to achieve a common purpose or organization's objectives, is clearly defined in theory, HRM practices notably differ from organization to organization. Especially the differences in-between big corporations and small and medium sized enterprises (hereinafter: SMEs) and startups are significant and far-reaching. While HRM in big organizations is characterized by being a structured, defined process, startups and SMEs often lack the necessary resources and experience to make use of expensive HRM practices. Examples are that startups and SMEs cannot compete with bigger corporations when it comes to glamorous salary packages, HRM professionals and formalized training programs (Dal Zotto & Gustafsson, 2008). Although monetary incentives offered by startups cannot compete with big corporations, there are other factors like the impact employees can make that drag away the talents from corporations (Chambers, Foulon, Handfield-Jones, Hankin, & Michaels, 1998, p.46).

Although there has been a growing literature on HRM and small firms in recent years, there is still a lack of research when it comes to assessing and evaluating the differences of organizational HRM of big corporations and SMEs and startups. Especially the fact that holistic, comparative approaches in the field are very scarce, makes this research so interesting and important. Therefore I have decided to conduct research with the purpose to identify the unique characteristics of HRM of startups and SMEs to deepen and widen the existing knowledge.

The interest in the field arose throughout my first personal startup experiences. Since I had the opportunity to gather insights in both, the corporate-environment as well as the startup-environment, I realized that corporate enterprises have a significantly different approach towards HRM than startups. Nevertheless, I could not clearly isolate more than the already known characteristics that make startups different. Therefore, the main goal of this thesis is to conduct research and further elaborate the differences that separate the HRM practices in startups and big corporations.

The results of the research will not only allow to broaden the body of common knowledge, but give first hand insights to founders in startups as well as HR managers in big corporations. The additional insights will thereby help entrepreneurs with the implementation of strategic aspects of HRM. The corporate environment can learn from the flexibility of startups which will help to retain employees in the long run. Thereby startups can learn and adapt methods from big corporations and vice versa (Dal Zotto & Gustafsson, 2008).

The thesis will be split up in 5 chapters, starting with the chapter about traditional Human Resources Management. The traditional Human Resources Management chapter describes the practices used in big corporations, and provides a framework of HRM that will be used

in further chapters for comparisons with the approaches of SMEs and startups in the field of HRM. The following chapter elaborates the specifics of HRM in SMEs and startups and already discusses the differences to big corporations. Given the shortage of literature of HRM in small companies, the third chapter will be based on empirical research.

The third chapter will be focusing on the empirical research necessary to thoroughly compare the differences, but also assess the similarities of HRM in big organizations and smaller ones. It will be consisting out of the analysis of semi-structures interviews that give insight into the specific practices of startups and SMEs of HRM. The qualitative analysis will allow to code multiple variables in order to identify patterns, similarities and differences in the HRM, which will be assessed in the discussion.

Chapter 4 will be the discussion, which allows to compare the two established models, on the one hand the theoretical model of HRM in big corporations, on the other hand the model resulting out of the empirical research about HRM in startups. The empirical part will be structured similarly to the theoretical part, making sure that the same aspects of HRM can be seen from different angles. Chapter 5 will conclude the findings and summarize the most important aspects.

1 TRADITIONAL HUMAN RESOURCES MANAGEMENT

1.1 Defining HRM

The word "human" itself, within the term Human Resources Management (hereinafter: HRM), already implies that HRM is linked to people. Therefore, HRM can be seen as the process of bringing together different people in order to achieve a common purpose, or organization's objectives (BPP Learning Media, 2013, p.12). Human Resources Management covers a very broad range of an organization's tasks. Whether it is meeting the needs of the strategic management department by designing jobs adequately, assessing the competition of a company, both mentioned activities fall under the responsibility of the HRM department. In order to fulfill these tasks, the right people are needed. These people need to be kept on track by trainings, motivation sessions and evaluation their performance. In order to ensure retaining them, compensation policies also have to be thought of (Snell & Bohlander, 2013, p. 4).

Noe, Hollenbeck, Gerhart, and Wright (2016, p.3) define HRM very similarly, as "the policies, practices, and systems that influence employees' behavior, attitudes, and performance." These practices cover the fields of Human Resources planning, recruiting, staffing, training and development, performance management, compensation as well as employee relations and many more (Noe et al., 2016, p.3). The term HRM was born in the mid 1980's and ever since used instead of the term personnel management, which is a term that is limited to a smaller amount of managerial aspects and lacks strategic aspects (Legge, 1995, p.62).

Figure 1 illustrates the range of activities covered by HRM and shows how many different managerial aspects have to be considered by the HRM managers (Snell & Bohlander, 2013, p. 6).

Figure 1. The Human Resources Framework
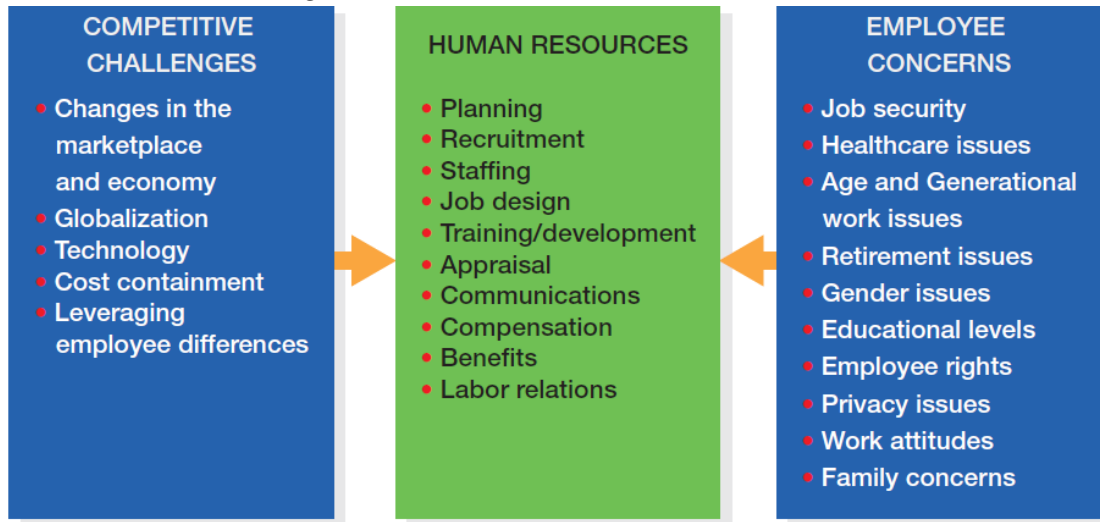
Source: S. Snell & G. Bohlander, *Managing Human Resources*, 2013, p.6.

1.2 Human Capital

Whether a company is successful or not is often depending on the management of Human Capital. The term Human Capital is characterized by the skills, knowledge and capabilities of members of an organization that have economic value to an organization. Although these aspects are often not easy to quantify they have significant influence on the performance of a company (Snell & Bohlander, 2013, p. 4; Schultz, 1961, p.1).

This means that in order to be successful, a company is in need of certain people with a certain skillset, as well as training and experience. With this knowledge in mind we can conclude that employees are not interchangeable and cannot be easily replaced. The Human Resources department within an organization is in charge of choosing the right people as well as influencing their working style. Therefore the human resources (hereinafter: HR) department is strongly influencing the performance of the organization. Figure 2 is explaining this relationship in detail (Noe et al., 2016, p. 4; Delaney & Huselid, 1996, p. 949).

Figure 2. Impact of HRM on organizational performance
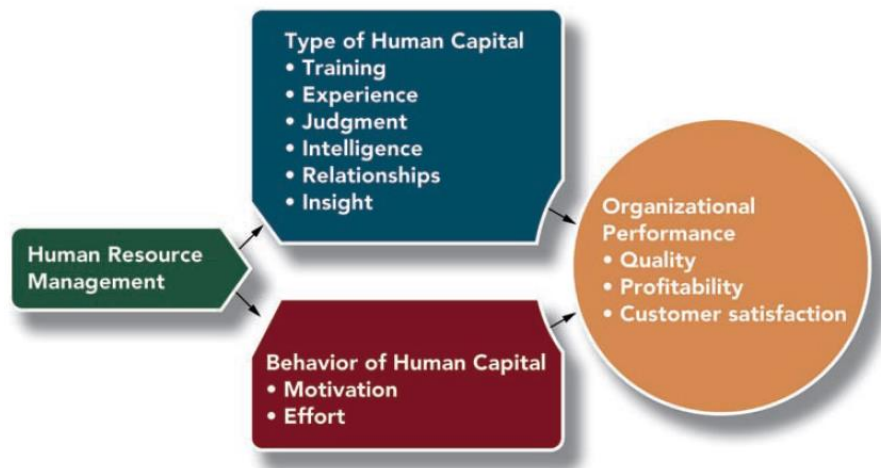
Source: Noe et al., *Fundamentals of human resource management*, 2016, p. 4.

1.3 Responsibilities of HRM departments

Like previously already mentioned, there are several aspects HR departments are responsible for. For every 100 employees a company has, they have – on average – about 1 to 2 HR staff persons. To get a general overview, the responsibilities of an HRM department can be split up in three areas (Noe et al., 2016, p. 5):

1. Administrative tasks and transactions: This ranges from hiring employees to answering questions related to benefits.
2. Business partner services: in order to attract, keep and develop people, an organization needs support from effective HR systems. Therefore it is necessary for the HR staff to understand the business needs of an organization.
3. Strategic partner: creating a competitive advantage by contributing to a company's strategy by being fully aware of the human resources needs.

Within the last decades, the strategic roles of HRM became more and more important, especially with regards to gaining a competitive advantage and driving the company's performance (Barney & Wright, 1998; Becker & Gerhart, 1996). Another option to determine the responsibilities of HRM departments is to identify the specific activities an HRM department performs. There are various activities an HRM department is exercising, the most important ones will be discussed within the next subchapters.

1.4 Job design and job analysis

When talking about job design, we talk about required tasks of a job as well as the way these tasks are performed (Foss, Minbaeva, Pedersen, & Reinholt, 2009, p.873) Throughout the last year a general shift from rather simple tasks towards complex task which require a

sophisticated skillset was visible. This change to broadly defined jobs happened due to the increasing importance of innovation and quality. (Noe et al., 2016, p.7)

How a job is designed strongly influences the jobholder, and can either be motivating or demotivating or even be isolating (Parker, 2014, p.661). The job design influences several aspects like freedom of action or authority, commitment to the product or services offered by the organization, as well as influences on the employee productivity. Very famous techniques in the field of job design are work simplification, job enlargement, work groups, job enrichment and Teams. These can be explained as follows (Milkovich & Boudreau, 1997, p. 69):

- Work simplification: creation of safe and simple jobs that don't pose a mental challenge and therefore can be boring
- Job enlargement: Organizational flexibility can be improved as well as waiting time between different tasks but may reduce the support for the staff and the work might be less simplified
- Work groups: social needs of employers are more important but technical guidance can be less.
- Job enrichment: By engaging the employee, satisfaction as well as production can be improved. This technique is quite costly and sometimes requires additional employees.
- Teams: Employees have more control over their work and feel empowered. The teams need to be carefully structured and the relationships in between teams have to be managed.

On the other hand, job analysis deals with the process of gathering information as well as data. The data needed is depending on the function. In order to tailor a training for employees, specific information on the qualifications required to perform the job are essential. In general, the job analysis data allows to assess how good job candidates match with the job position. This also gives applicants the opportunity to evaluate whether the job vacancy is right for them (O'Meara & Petzall, 2013, p. 65).

The most commonly used characteristics for a job description are job content, qualifications and behavior necessary to perform the job (Bertelsen, 2012, p.6). A conventional method of collecting this job data is the usage of a questionnaire to interview both supervisors and job incumbents. This collected data is usually turned into a job description sheet. The job description sheet still can be modified by the supervisor or job incumbent, in order to increase the acceptance of the resulting applicants. (Milkovich & Boudreau, 1997, p. 81)

Such job descriptions typically are structured in a way that they contain the following three sections (Milkovich & Boudreau, 1997, p. 84):

1 Identification: can include the job title, number of incumbents, work site, etc. These aspects have the sole purpose of identifying a job and making sure it can't be mistaken for a similar job.

2   Definition: describes the purpose of a job, why it exists and how it is aligned to other jobs and the organization.

3   Description: this section describes the major duties of the job as well as the work performed. This section can also contain the required experience and skillset to perform the job.

1.5 Recruiting and Selection Process

Recruitment itself is the search process for potential job candidates with the right qualities in a sufficient number that allows the organization to select the most appropriate people to fit their job needs. The Selection process serves the purpose of collecting information that allows to decide whom to employ (Dowling, Welch & Engle, 2004, p. 83). Especially since there has been a trend towards globalizing industries recruitment and attraction strategies are critical since there is a shortage of top talent (Boxall & Purcell, 2011, p. 176).

1.5.1 Recruitment

Generally, the recruitment process is influenced by three different aspects: personnel policies, recruitment sources as well as the characteristics of the recruiter him or herself. The following Figure 3 shows the three different areas and the influence of the resulting personnel choice. The more commonalities the vacancy characteristics and the applicant characteristics have, the more likely is it to be chosen as an applicant. (Noe et al., 2016, p. 146)

Figure 3. Three aspects of recruiting
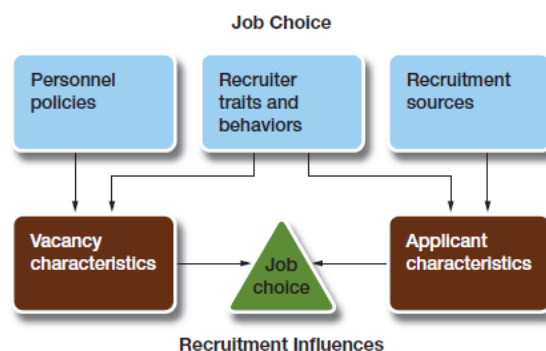
Source: Noe et al., *Fundamentals of human resource management*, 2016, p. 146.

6

1.5.2 Personnel Policies

The personnel policies specify how a certain organization is dealing with filling a job vacancy. The most relevant personnel policies for recruiting are (Noe et al., 2016, p.147):

- Internal vs. external recruiting: Internal recruiting within an organization means that the job vacancy will be filled with someone who already works for the company. Respectively external recruiting is dealing with applicants from outside the company (Chan, 1996, p.555).
- Payment strategies: Several industries are struggling to find the right fit for a job and therefore follow the ´lead – the – market – strategy´ to pay. These companies pay their employees more than the market average (Noe et al., 2016, p.148).
- Employment at will policies: Depending on the local legislation, employers can set policies about the conditions in an employment relationship. The employment at will policy allows both the employee as well as the employer to end the employment at any time. Another option is a due process policy, which specifies the steps an employee can take to appeal the employer's decision to end an employment (Morriss, 1994, p.684; Noe et al., 2016, p.148).
- Image advertising: A lot of companies are keen to be seen as a good place to work for in general. The advertising with the goal of generating a generally favorable impression of an organization is therefore called image advertising. Especially within highly competitive industries it is very important to have a good image since it allows applicants to identify themselves with the company (Noe et al., 2016, p.148; Pomering & Johnson, 2009, p.420)

1.5.3 Recruitment Sources

Another aspect that strongly influences the recruitment strategy of an organization is the sources it uses to look out for, as well as to reach out to new applicants. The communication channels an organization pics to attract new potential employees also determines the size of the labor market an organization targets. Every source of recruits is linked to specific advantages as well as disadvantages (Noe et al., 2016, p.148).

1.5.3.1 Internal Sources

Choosing internal candidates comes with a lot of benefits for an organization. These candidates are readily available and their performance has already been assessed, therefor the uncertainty linked to it can be kept at a minimum. For certain organization this also means lower cost, since advertisement is not needed. The internal ways of identifying job candidates are job postings and performance appraisals.

A job posting is an easy, yet efficient and quick way of internal recruiting. It often is a notice on a bulletin board or on the company's intranet. Performance Appraisals allow to identify talented employees who are often good candidates for promotion (Snell & Bohlander, 2013). The internal search also allows more realistic expectations of the future job of the applicant (Noe et al., 2016, p. 148).

1.5.3.2 External Sources

In many situations there is no potential internal employee pool to draw from in order to fill job openings. In addition, bringing new people into the organization can have a positive influence on the organizations' culture as well as it might affect the innovation and creativity process in a positive way. Solely relying on internal recruiting can pose the risk of establishing a homogeneous culture which leads to members who all think alike (Noe et al., 2016, p. 149). Therefore it is often necessary and also crucial to bring a job opening to candidates who currently are not working for the organization (Breaugh, 2008, p.103). Figure 4 shows the external recruiting sources and how commonly the different sources are used.

Figure 4. External recruiting Sources
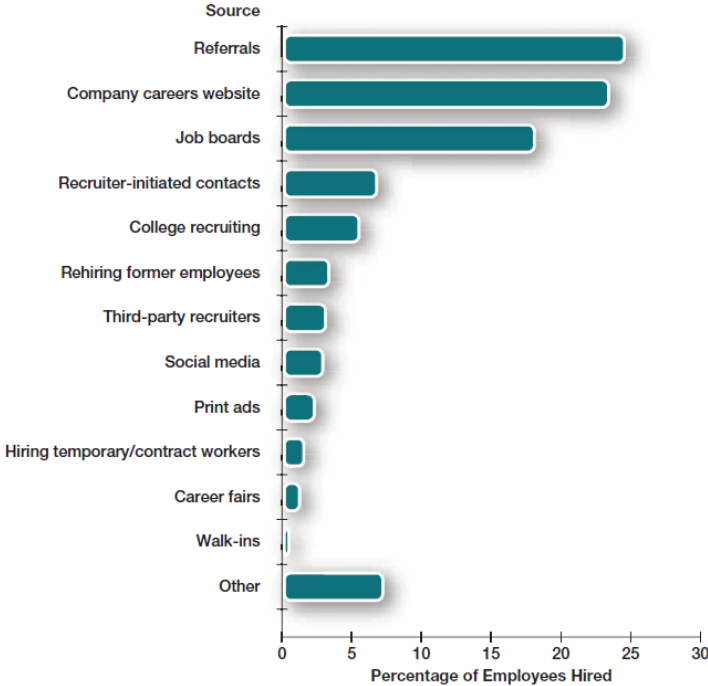
Source: Noe et al., *Fundamentals of human resource management*, 2016, p. 150.

Whereas Referrals, Company careers websites and job-boards together account for more than two thirds of the employees hired, all the remaining sources are used in very little cases. Therefore, in this paper, the main sources will be further discussed in detail (Noe et al., 2016).

1.5.3.2.1 Referrals

A referral is an application based on the fact that someone in the organization asked the applicant to do so or recommended the applicant. It is the most common recruiting source, which might also be linked to being very convenient and cheap. A lot of employers also offer several financial incentives for referring applicants. One downside of referrals is that the organization is not fed with people who have different point of views, since there is a strong tendency that people like to refer applicants who are like themselves. In companies with a high percentage of referrals there is a tendency towards nepotism, which also can be a negative influence (Noe et al., 2016, p. 150; Breaugh & Starke, 2000, p.412).

1.5.3.2.2 Electronic Recruiting

Second in the list of most commonly used recruiting sources are company careers websites which are part of the bigger category electronic recruiting. Electronic recruiting includes paid advertisements at career services as well as postings on company websites. Since job board ads often lead to a flood of applications and webpage postings generate too little traffic, industry specific websites are often a reliable source of quality applications. These so called "niche boards" also allow smaller, less well-known companies to access a qualified pool of applicants (Noe et al., 2016, p. 151).

1.5.3.2.3 Educational Institutions

A lot of hires from educational institutions are formally educated very well, but lacking significant practical long-term experiences. The most commonly educational institutions which are used as sources of employees are high schools for blue collar jobs, community colleges for technical jobs and colleges and universities for managerial positions. It is very common for bigger organizations to establish long term relationships with colleges and universities and then hire employees based on recommendations of the teaching staff. This can be a constraint since such collaborations cannot be covering a large amount of universities, since they are time consuming too maintain as well to set up. Additionally to establishing a close relationship with instructors, internships and special trainee programs for students can be beneficial for both sides, the recruiting company as well as the students, since it allows to get first insights into the field of work as well as assess the capabilities of the trainee (Snell & Bohlander, 2013, p. 194; Sinha & Thaly, 2013, p.147).

1.5.3.2.4 Public Employment Agencies

Public Employment Agencies help unemployed individuals find jobs. If individuals are receiving unemployment compensation, they are required to register themselves at a public

agency to find a job again. Employers can register these job vacancies with their local employment agency. The agency then tries to find suitable employees with the matching skillset. It is important to mention that public agencies are free of charge to employers, in contrast to private employment agencies (Noe et al., 2016, p. 154).

In the United States this public agency is called U.S. Employment Service (hereinafter: USES). Especially smaller companies are more often taking use of this particular service provided. Especially unskilled, clerical laborers as well as production workers and technicians are placed by USES (Milkovich & Boudreau, 1997, p. 204). In the European Union public employment services often are the main career guidance services, in particular for adults (Sultana & Watts, 2006, p.30).

1.5.3.2.5 Private Employment Agencies

Private Employment Agencies provide similar services like public agencies, nevertheless they strongly focus on white-collar jobs. Job seekers can sign up with a private agency which will then try to find a match for the job seeker. In contrast to public agencies, private agencies are charging the employers for their services. This makes private agencies more costly, but in most cases also a more suitable recruitment source. (Noe et al., 2016, p. 154; International Labour Office, 2007, p.10)

A special form of a private agency is an Executive Search Firm. These firms are often used to find managers, executives and professionals in general. These companies are often referred to as "Headhunters", since they almost only recruit employed people (Faulconbridge, Beaverstock, Hall & Hewitson, 2009, p.802). Executives often are stuck in the situation that they cannot openly disclose that they are searching for a new employment since this could lead to complications with their current employer. Therefore, Executive Search Firms are keeping the ongoing recruitment processes confidential. (Noe et al., 2016, p.154)

1.5.4 The Selection Process

The personnel selection is the process of deciding whom to allow to join the organization and to fill current or projected openings. The selection process is directly following the recruitment process. Although the selection is varying from organization to organization, it often follows a general structure pictured in Figure 5.

Figure 5. Steps in the selection process
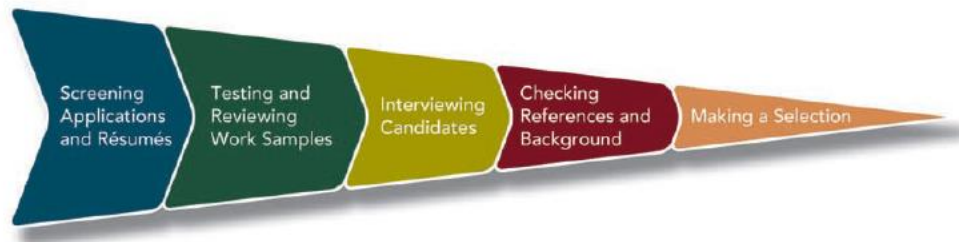
Source: Noe et al., *Fundamentals of human resource management*, 2016, p. 168.

The selection process generally starts with a Human Resources professional assessing the applications and Résumés of all the recruited applicants and sorts out those candidates who don't have to basic requirements. Those candidates who pass this first screening process are further tested and if applicable, their work samples have to be reviewed. Furthermore, the best candidates tested move on to the next step, the interviews (Noe et al., 2016, p. 168). These interviews have the purpose to select the best candidates. The interviews are often conducted with HR professionals, supervisors and team members. Those who successfully pass the interviews will go through a screening of their references and background. Based on the gathered information, the final selection decision is made (Mukherjee, 2012, p.113).

Given that applications can be sent very easily online nowadays and unemployment rates have been growing throughout the last years, the HR department is often confronted with several hundreds of applicants. In order to cope with the flood of applications, programs that sort out applicants, based on keywords that should be included in their résumés that indicate whether people match the basic skills required for the job. This method is criticized due to the fact that creative and high performers could be sorted out for not matching keywords, although they are highly qualified (Noe et al., 2016, p. 168; Chapman & Webster, 2003, p.114).

To be aware of the effectiveness of the selection tools applied within an organization, several criteria allow to measure the success of the selection process (Noe et al., 2016, p.170):

- Reliability: assesses the independence of a measurement from random errors. If the same person goes through the selection process several times, the results should always be consistent.
- Validity: explains how well the performance of a measure correlates with what the measure is supposed to assess
- Ability to generalize: Can the information gathered also be used in different context? E.g.: In different organizations, jobs, with different people, etc.
- Practical value: is the value generated higher than the costs needed for the assessment?
- Legal standards: All applied methods and criteria must obey the legal settings within the country. Especially discrimination is currently a big issue when it comes to the selection.

1.6 Employee Training and Development

Figure 6. Strategic model of training
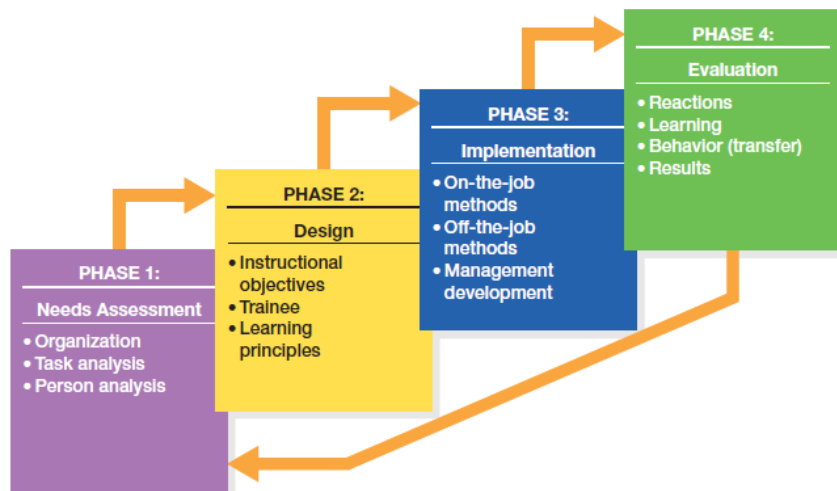
Source: G. Bohlander, S. Snell, *Managing Human Resources*, 2013, p.294.

Trainings can be defined as efforts of organizations to allow their employees to learn. This can be an improvement of skills, knowledge, behavior as well as abilities. Especially fast changing environments, like the technological changes, make trainings a very important and often crucial part of organizations. Given the importance of trainings nowadays, it is essential to provide a so called instructional design in order to meet the organizations' goals in a systematically developed way. The instructional design is consisting of several steps that facilitate the organizations' goals, starting with an assessment of the training needs and ending with an evaluation of the training results (Noe et al., 2016, p. 201).

Figure 6 shows the whole strategic model and respectively also all the involved processes which characterize a successful training method. The companies' needs assessment consists out of three steps, the organization-, task-, and person analysis. The organization analysis serves the purpose to examine the environment as well as well as the resources and the strategies in order to choose the right training. The task analysis focuses on the activities performed by employees and thereby identifies additional competencies that are needed in order for them to be successful. The person analysis then elaborates which person in particular needs additional training (Noe et al., 2016, p.201).

Empirical results from Molina & Ortega (2003, p.550) also show that employee training can be an essential component that determines the success of a firm.

The Design of the Employee Training starts by assessing the instructional objectives, which clarify the desired outcome of a training program. The second step is to assess the trainee readiness and the motivation of those who are supposed to receive the training. The last step of the Design focuses on the learning principles which serve the trainees in the best way. Each and every employee has different ways to incorporate knowledge, therefore the knowledge transfer should be adapted to these personal needs (Snell & Bohlander, 2013, p.

294). Human Resources Training and Development is a crucial part of the new skills needed within the emerging knowledge-based economy. Generally, Human Resources Trainings need to be adapted to the individual needs of employees, to achieve a positive outcome (Winterton, 2007, p. 339).

Phase 3 deals with the implementation of the Training program itself, which can be done with various different training methods. The most commonly used ones are on-the-job (hereinafter: OJT) training, which allows trainees to experience trainings under normal working conditions. The on-the-job training is often done by mangers or senior managers to maintain a good relationship with their employees as well as to improve it. OJT is also considered the most important way of acquiring skills at work by the majority of employees (Georgellis & Lange, 2007, p.970). In contrast to OJTs, off-the-job trainings mostly happen at different locations and also might be conducted by external personnel. Further commonly used training delivery methods are classroom instructions, blended learning, virtual classroom/webcasts, scenario simulations, social networking, etc. (Snell & Bohlander, 2013, p. 294)

In order to assess the impact of the training, it is necessary to evaluate it. This can happen based several criteria. Bohlander & Snell (2013, p. 295) mention four criteria which can be used for the evaluation:

1. Reactions: capturing and utilizing the participants' reactions can be a very useful way of getting insights into the content and techniques considered useful by the participants.
2. Learning: determining the impact of the training by assessing the trainees' skills and knowledge before and after the training is crucial for the evaluation.
3. Behavior: some skills acquired throughout a training might not be used during the job. The transfer of training assesses how well employees apply what they have learned.
4. Results : The Return on Investment (hereinafter: ROI) analyses how much benefits a company gets out of trainings in comparison to how much costs the trainings are associated with.

1.7 Performance Management

Performance Management itself is the process that tries to affect and improve the performance of individuals in order to reach the overall goal of improving the organizations performance. This systematic process has the purpose of setting up a shared understanding of the goals to be achieved and further developing and managing people in a way that increases the chances of reaching this goal (Armstrong, 2006, p. 495). In other words, the sum of all the individual contributions from employees have to align with the organizational strategy and goals (Mathis & Jackson, 2008, p. 326).

1.7.1 Measuring employee performance

There are several different methods used and developed by organizations to assess the employee performance. This can range from comparing employees' performances, rating individuals according to established performance standards, to measuring the result of a job or working group (Noe et. al, 2016, p. 311).

Although the performance measurement methods can be varying a lot, the most commonly used methods include:

- Quantity of output;
- Quality of output;
- Timelines of output;
- Presence at work

To assess how employees are performing, different types of information can be used. Trait-based information tries to identify trait characteristics of employees. It is often seen as too vague and concise and therefore not used on a common basis for performance-based HR decisions (Tett & Burnett, 2003, p.500). Behavior-based information is captures the behaviors that lead to success. Results-based information focuses on the accomplishments made by employees. If these accomplishments can be measured easily, the results-based approach is a solid method. Nevertheless, other parts of the job that are important as well but can't be measured might be left out (Groen, Wouters & Wilderom, 2017, p.51; Mathis & Jackson, 2008, p. 329).

In order to be aware of what a satisfying performance is, performance standards clearly state the expected performance. It is important to formulate these benchmarks as measurable, realistic, and clearly understandable to benefit the organization and the employee. A Performance standard can be non-numerical as well as numerical, familiar performance standards are sales quotas or the production output. Non-numerical performance standards are hard to measure, but it is still feasible. To get a holistic picture of the performance of an employee, performance appraisals are used (Mathis & Jackson, 2008, p. 329; U.S. Office Of Personnel Management, n.d.-a).

1.7.2 Performance appraisals

Performance appraisals serve the purpose of evaluating an employees' performance based on the requirements for the job and further on show the employee where he/she has to improve. This evaluation is done biannually or annually, usually by a manager. It is important to mention that performance appraisals are just a part of the performance management (Snell & Bohlander, 2013, p. 344; Mavor & Broderick, 1991, p.2). The performance appraisal is different than the performance management, since it is done in a formal assessment. Performance appraisal recently have been criticized a lot, since they are considered a top-down, bureaucratic system (Armstrong, 2006, p. 500). This setting might

influence the way the appraiser judges, and might bias the assessment (Heywood, Jirjahn & Struewing, 2017, p.205; Choon & Embi, 2012, p.189). It might happen that the appraiser values the recent failure the employee made stronger than the success the employee had in the past (Fisher & Sempik, 2009, p. 212).

Performance appraisals can be either used for administrative purposes or for developmental purposes. The most impactful administrative uses for managers as well as for employees are: Determining pay adjustments, making job placement decisions on promotions, transfers, and demotions as well as choosing employee disciplinary actions including termination of employment.

The developmental uses of appraisals are an important source of information and feedback. They can be crucial for identifying weaknesses, potentials, strengths and training needs (Apak, S. Gümüş, Öner & H. Gümüş, 2016, p.113). The managers take the role of a coach, evaluating the performance and assessing where improvements have to be done and how the situation can be improved (Mathis & Jackson, 2008, p. 333). The frequency of such appraisals usually ranges from once every 2 years to twice a year (Fisher & Sempik, 2009, p. 216).

1.7.3 Conduction of the appraisal

In order to conduct appraisals, it is necessary to be familiar with the performance of individuals. Raters therefor can be (Mathis & Jackson, 2008, p.338):

- Supervisors: A very common way to conduct appraisals is to put the immediate supervisor in charge. It is usually based on the assumption that supervisors are the best pick to assess the performance of their direct subordinates.
- Peers/Team: Evaluating the performance by having employee and team-members rate each other is especially useful if the supervisor is not able to observe each team member's work.
- Themselves: the applicability of self-ratings is quite limited. Self-ratings can be used to determine strengths and weaknesses as well as to set goals for improvements.
- Outsiders like vendors, customers and suppliers: Especially for sales and service jobs input from customers help to determine customer satisfaction.

1.7.3.1 360° Feedback

The 360° Feedback of performance can be applied to individuals as well as groups by collecting data from multiple stakeholders. The range of feedback used for the performance assessment can be extended to various stakeholders like Peers, internal customers, direct reports and Managers as well as self-assessments. Research shows that the most common use of the 360° Feedback is to support learning and development (Armstrong, p.522; Sikes, Jestes, LeClair-Smith & Yates, 2015, p.66). The most common way to conduct 360° feedbacks is through questionnaires that let other people assess certain dimensions or

competences of essential matter to the subject's job (Fisher & Sempik, 2009, p.207). The perks of such feedbacks are that the perspective of how the subject is perceived gets broadened, the feedback for senior managers gets more reliable, new insights through the encouragement of more open feedback, focus on critical performance aspects, identifying key development areas for the individual and many more. Problems that might occur are no frank or honest feedback, stress through feedback, feedback is not tied to consequences, too much bureaucracy (Armstrong, 2006, p. 528; Carson, 2006, p.395)

1.7.4 Tools for performance management

There is a variety of methods used for performance management. Within big corporations it is common to combine several methods.

1.7.4.1 Category scale methods

It is the simplest method and is requiring the manager to assess the employee's performance on a form designed in a specific way and divided by categories. This can include checklists, which make use of statements or words from which the rates have to check some that fit the employee the most. Rating scales are another very common method used and can even be incorporated within the checklist (Mathis & Jackson, 2008, p.342).

Two commonly used rating scales are the graphic rating scale and the behavioral rating scale. The Graphic Rating scale allows the rater to indicate to which extend the employee possesses a certain characteristic. The scale should allow the rater to additionally write comments associated to the behavioral characteristic assessed. (Snell & Bohlander, 2013, p.364)

Like the name already indicates, behavioral rating scales focus on an employee's behavior at work. A behaviorally anchored rating scale (hereinafter: BARS) anchors the specific examples of employee job behavior and measures them against a scale of performance levels. It is essential for the creation of a BARS to specify crucial job dimensions, which are the most important performance aspects in a job description. Afterwards, desirable and undesirable behaviors are assigned to job dimensions. These behaviors are assigned a number, to give the rater an idea of how good or bad behaviors are considered on the scale (Mathis & Jackson, 2008, p. 344).

1.7.4.2 Comparative Methods

Comparative Methods require a direct comparison of the employees' performance against each other. Two comparative techniques are ranking and forced distribution, which will be further explained.

The simple ranking method requires the rater to rank their employees from best to worst performing. Although this is common practice, the simple ranking method misses out on the

reasoning why employees are ranked in a certain order and is therefore sometimes considered unfair (Noe et al., 2016, p. 304).

Forced distribution has a certain set of categories which refer to the performance of employees. A certain amount of employees is assigned each category (Noe et al., 2016 p. 305). An example could be a five point scale with 10% of the employees rated as "unsatisfactory", 20% as "below expectations", 40% as "meets expectations", 20% as "above expectations" and 10% as "outstanding". This method works best if the employees really differ as much in their performance. Moreover, it keeps managers from ranking all his employees high to avoid conflicts (Noe et al., 2016, p. 305).

1.7.4.3 Management by Objectives

Management by Objective (MBO) determines the mutual performance goals of the manager and an individual. These goals are aligned with the overall organizational goals. Since MBO is a process, it can be split up in the following steps (Mathis & Jackson, 2008, p. 347; Thomson, 1998, p.1):

1. Job review and agreement: The supervisor and the employee together agree on the same makeup of the job. This is based on the job description and the key job activities.
2. Development of performance standards: Employee and supervisor agree on performance standards and also specify what a satisfactory achievement looks like.
3. Setting of objectives: Again, the supervisor and the employee agree on realistic objectives.
4. Continuing performance discussion: The established objectives are used for a continuous performance discussion of the supervisor and the employee.

The usage of MBO is proven to affect the organization's performance and productivity in a positive way. The productivity was affected in the most positive way when the commitment to MBO from the top management was very high (Noe et al., 2016, p. 312; Rodgers & Hunter, 1991, p.1).

1.7.5 Appraisal Feedback/Evaluation

Once the performance has been assessed, it must be communicated to the employee. This part of the performance management is probably one of the most uncomfortable one for the supervisors and the employees. Therefor it is very important to make the feedback process smooth and effective. Although it is common practice to conduct appraisal feedbacks on an annual basis, it is strongly recommended to give feedback more frequently to not surprise the employee and make sure that the feedback does not differ too much from his/her expectations. Furthermore it is important to prepare the feedback session very well. The manager must be familiar with the context, and the feedback session should take place at a neutral place. There are several ways to finally conduct the feedback session, the "problem-solving" approach is the most productive one. Manager and employee together try to solve

performance problems (Noe et al., 2016, p. 319; Mavor & Broderick, 1991). Research also shows that performance appraisals often are not communicated effectively from managers, especially if the appraisal is very negative. This can be linked to the fact that the employee and manager often don't have the same perception of a certain situation (Schaerer, Kern, Berger, Medvec, & Swaab, 2018, p.1).

1.8 Compensation

1.8.1 Total Compensation

Total rewards include all different types of rewards, no matter whether intrinsic, extrinsic, indirect or direct. This includes base pay, contingent pay, employee benefits, and non-financial rewards (Armstrong, 2006, p. 628). All the rewards are meant to attract, motivate and retain employees (Mathis & Jackson, 2008, p. 360). Figure 7 illustrates the mentioned components of the total compensation.

Figure 7. Compensation Components
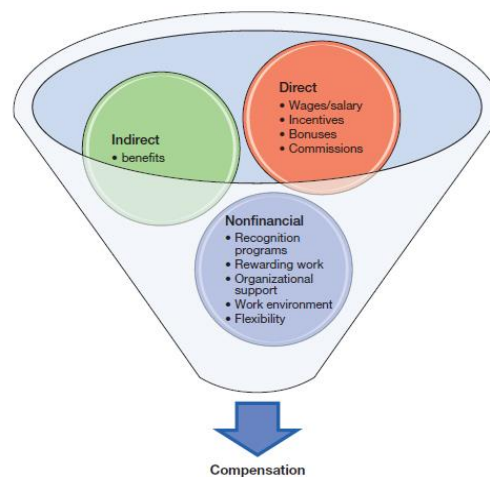
Source: G. Bohlander, S. Snell, *Managing Human Resources*, 2013, p.395.

Total compensation comes with several benefits (Armstrong, 2006, p. 632). It results in a deeper and longer lasting impact on the motivation and commitment of people. Additionally, individual needs that can bind people to the organization are often met. Furthermore, talented people can be attracted as well as retained through relational rewards.

1.8.2 Types of compensation

The different existing types of compensation are (Mathis & Jackson, 2008, p.360):

- Base pay: is the fixed salary or wage that an employee receives. It is important to differentiate between salary and wage. Salaries are paid for a fixed period not

depending on the number of hours worked. Wages are payments that are directly paid accordingly to the amount of time worked

- Variable pay: a form of compensation that is linked to the performance of the organization, the team or an individual.
- Benefits: an indirect award for employees for organizational membership. This can be: health insurance, vacation pay, retirement pension, etc…

A recently emerging question is which components of the compensation package create value for the organization. Therefore organizations try to link their organizational goals to the compensation structure. This linkage also helps managers to align the wage and benefit policies with the intended purpose. The following goals can be part of a common strategic compensation policy (Snell & Bohlander, 2013, p. 398):

- rewarding employees' past performance
- remain competitive in the labor market
- maintain salary equity among employees
- meshing employees' future performance with organizational goals
- controlling the compensation budget
- attracting new employees
- reducing unnecessary turnover

1.8.3 Pay for Performance

The pay for performance standard or also called pay for performance philosophy ties compensation changes to performance changes. Employees with higher performance therefore perform better. Although the trend strives toward a greater use of the pay for performance standard, only a small amount of organizations follow this standard (Mathis & Jackson, 2008, p.362; Frey & Osterloh, 2000, p.64)

In recent years, one of the main drivers for performance related rewards was the increased pressure through competition. By compensating employees with performance related rewards, employers make sure that the fixed costs are reduced and payouts are only made if the situation allows it (Harris, 2009, p. 231).

1.8.4 Incentive plans

Incentive plans, also called variable pay programs consist of bonuses, incentives or recognition for good work. There are several different incentives that can be split up in the categories individual, group, and organizational incentives. Variable pay programs have become very popular in the last couple of years since it minimizes the overhead costs of organizations and thereby eliminates unnecessary risk. In order to be successful, an incentive plan has the meet certain requirements. The incentive plan should be designed in an inclusive way, allowing the involvement of employees. Additionally, the incentive payouts should be

understandable and linked to performance (Snell & Bohlander, 2013, p. 441; Dulebohn & Martocchio, 1998, p.469).

1.8.4.1 Individual Incentive Plans

There is a high number of different individual incentive plans according to Noe et al. (2013, p. 398):

- Piecework rates: A piecework rate is a wage mainly used for production workers which is based on the pieces produced. Whereas a straight piece rate results in the same wage per piece no matter how many pieces have been produces, a differential piece rate is an incentive pay that rises with the amount of pieces produced. Research suggests that piecework rates result in an increase in productivity (Paarsch & Shearer, 2000, p.59)
- Merit pay: A merit pay links the performance appraisal results to the pay increases (Heneman & Werner, 2004, p.3).
- Sales commissions: Sales commissions are a pay that is calculated on a certain percentage of sales. Commissions can either be paid additionally to a base salary, or the salary is consisting out of commissions only (Samaro, 2005, p.442).
- Standard hour plans: Standard plans pay workers additionally for extra work done. A standard time for completing a task is defined by the organization. If the task is completed in less than thee given standard time, the worker still gets the same amount of money (Noe et al., 2013, p. 398).
- Individual bonuses: individual bonuses reward the individual performance and are not part of the base pay. Bonuses have to be re-earned during every performance period and are usually given at the end of the year (Fotsch & Case, 2015).

1.8.4.2 Group incentive plans

Snell and Bohlander (2013, p.436) point out different group incentive plans, on the one hand team compensation, on the other hand gainsharing plans. Whereas team incentive plans are incentive bonus payments for all team members if the set standards are met or exceeded, gainsharing relates to sharing profits and/or productivity greater than expected with employees (U.S. Office Of Personnel Management, n.d.-b).

1.8.4.3 Organization incentive plans

Common practices how organizations measure their performance is by assessing their profits and their stock prices. Therefore it is obvious that organizational incentives include profit sharing and employee stock plans (Snell & Bohlander, 2013, p. 456)

In the case of Profit sharing, some of the profits of the organization are distributed to the employees. Reasons for profit sharing are to attract or retain employees, improve the quality of services or products or to positively influence the employee morale (Freeman, Blasi & Kruse, 2010, p.4).

Stock option plans allows employees to purchase a certain amount of shares at a fixed price for a limited period of time. Given that the market price of the stocks might be higher than the exercise price employees are provided with, employees are often keen to buy the shares (Longnecker & Van Gordon, 2008, p.8).

1.8.5 Rewards & Recognition

The previously mentioned pay for performance strategy also includes incentive awards and employee recognition. In order to appreciate productivity gains, special contributions or achievements, awards are used. These awards can be merchandise, personalized gifts, theater or sports tickets, vacations, dining out, gift certificates or gift cards, and personalized clothing. It is crucial to show employees appreciation to let them know they are valued (Snell & Bohlander, 2013, p. 447).

1.8.6 Executive Pay

Executive compensations are consisting out of a number of elements. Considering that executives have a lot of power within an organization, and assuming that incentives influence an organization positively, decisions influencing the incentives for executives should affect the organizations performance (Noe et al., 2016, p. 414). The following aspects are components of executive pay packages (Snell & Bohlander, 2013, p. 460):

1.8.6.1 Base Salaries

The salaries executives receive are differing strongly by the type of job, size of organization, the industry and further aspects. Whereas the base salary of executives in non-for profits might account for 90% of the total compensation, fortune 500 Chief executive officers (hereinafter: CEOs) often only receive 30% of their compensation in the form of a base salary (Mathis & Jackson, 2008, p.409).

1.8.6.2 Benefits

The benefits offered to executives range from health insurance, life insurance and retirement plans to vacations. In contrast to benefits offered to other employee groups, the benefits for executives are likely to be broader in coverage (Snell & Bohlander, 2013, p.462).

1.8.6.3 Perks

Perks or also called perquisites are nonmonetary rewards received by executives and reflect the executives' importance to the organization. Nevertheless, the public opinion about perks is often very negative. Perks, like a private jet for a CEO, might be considered a waste of spending (Snell & Bohlander, 2013, p.462).

1.8.6.4 Long Term and Short Term Incentives

Both long term and short term incentives are performance-based incentives trying to tie the executive compensation to the success of the organization. Nevertheless, it is controversial which incentives lead to long term effects of the organization and which ones lead to short term effects. A typical long term incentive is a stock option plan, although the influence on the long term success of an organization through stock incentives is questionable (Mathis & Jackson, 2008, p. 409).

1.8.6.5 Ethical Issues

Especially with stocks as incentives, there are many ethic issues arising. One aspect that is questionable when stocks are used as incentives is the question, whether or not executives tend to inflate the stock prices to gain a lot themselves. Another aspect that sometimes occurs is insider trading. Executives have the best insights into their organizations, and therefore also more knowledge over others. An executive who knows about internal processes that might affect the price of the stock could use this for his personal gains (Noe et al., 2016, p. 416).

2 SPECIFICS OF HRM IN SMES AND STARTUPS

2.1 The differences within HRM in large and small companies

The characteristics of HRM in SMEs and startups are differing a lot and in many aspects. A crucial factor is that small companies often are restricted due to their size and age, and therefore lack certain resources. Their counterparts, established large corporations often make use of expensive HRM practices and also don't lack HRM experience.

2.1.1 Recruitment

Given that SMEs are lacking financial resources, the Recruitment is one of the most challenging parts of HRM for them, whereas in emerging firms the additional lack of experience also plays a role. Additionally, emerging firms also often don't have trained HRM professionals to take over the recruiting (Dal Zotto & Gustafsson, 2008, p. 92). SMEs and startups are smaller in size, this allows the CEO to overlook the recruitment process and shape it. It is also linked to the fact that startup CEOs consider talent their competitive advantage and want to evaluate the possible candidates themselves (Schifeling, n.d.). Further differences to established organizations can be the absence of Job descriptions as well as stock-based compensation (Dal Zotto & Gustafsson, 2008, p. 92).

Core employees of SMEs are often recruited through networks. During the start-up phase, these networks include both, social and business networks. When the firm transitions to the growth phase, also the recruitment shifts to the business network. Also the characteristics of

the employees hired change with the ventures phase. At the beginning, usually generalists, who are motivated and willing to contribute a lot, are hired. Later on in the firms' lifecycle, seasoned professionals are hired (Dal Zotto & Gustafsson, 2008, p. 93).

2.1.2 Compensation

Appropriate compensation is crucial for the SMEs and startups success. It is crucial to create a sense of ownership to retain the talent in the company. The rewards are usually bonuses, with both, profit and stock-sharing options. Entrepreneurial firms mostly provide multi-dimensional rewards. Usually there is no formal compensation policy in place, instead the compensation is based on personal needs and the resource constraints the company is facing as well as the skillset and experience of the future employee (Dal Zotto & Gustafsson, 2008, p. 93). Equity is the best compensation equalizer for the cash shortages startups are facing, it is crucial to determine how much equity can be allocated to a new employee. Factors influencing this decision making process are potential venture capitalists willing to invest or the planned growth of the company. Venture capitalists are often only willing to inject cash if they will get a fair share of equity in return. If the company is planned to grow slowly, than stock options might not be the right solution, since they want to resist acquisition offers and maintain private ownership (Tibbetts & Donovan, p.4, 1989). Smaller companies cannot compete with large organizations when it comes to pay rates. This means that there can be greater emphasis on intrinsic awards within smaller organizations (Mayson & Barrett, p.450, 2006). Although monetary incentives offered by startups cannot compete with big corporations, there are other factors like the impact employees can make that drag away the talents from corporations (Chambers et al., p.46, 1998).

2.1.3 Training and development

In contrast to large established corporations, smaller companies usually don't have formalized training programs due to the related cost and the loss of working time. Some small companies argue that employees get little or no benefits from trainings (Mayson & Barrett, p.449, 2006). Whereas training and learning exist in small firms, it mostly is not structured. Fast growing firms put more emphasis on the training and development of their trainees, since multi-tasking and role transitions are important aspects. (Dal Zotto & Gustafsson, 2008, p. 95). The cost aspects led many startups to providing online training and development methods for their employees, which can be customized. This saves money and time and also fits the attitude of millennials better, since their expectations towards trainings are far away from the corporate training methods. (Haugh, 2015)

2.2 Aspects of HRM as performance drivers of entrepreneurs and new ventures

HRM practices can significantly contribute to the corporate performance of an organization. Especially the aspects innovation, labor productivity and financial performance are

influenced in a positive way. Nevertheless, a typical restriction startups and SMEs are facing is the cash flow limitations (Dal Zotto & Gustafsson, 2008, p. 159). Both Dal Zotto and Gustafsson (2008) and Sels , De Winne, Delmotte, Maes, Faems, and Forrier, (2006) came to the conclusion that the financial performance is influenced in a very positive manner by HRM practices, allowing to further invest in HRM practices.

2.3 The role of HRM in SMEs and startups

2.3.1 Determinants of the formalization of HRM practices with small firms

Generally speaking, larger firms have more formalized HRM practices in place. Family businesses also do have less formalized HRM practices as well as businesses without a business plan. Whereas larger firms might profit from a more formalized approach, smaller firms see more benefits from informal structures. Large firms might experience improved efficiency through a standardized recruiting process. Small firms can create jobs that are focusing on the unique experience, knowledge, skills, and interests of new hires. This requires HRM practices that are more flexible (De Kok, Uhlaner, & Thurik 2003, p.22).

Further research suggests that formal and informal HRM practices can co-exists within a small firm. Whereas an informal recruitment process makes sure the new hire is a ´fit´ to the culture, a formal performance management process allows more objective decisions. The key question for small sized companies therefore should not be whether certain rules do or do not exist within a company, but rather whether the types of rules and the potential outcomes in terms of attitudes and behaviors (Dal Zotto & Gustafsson, 2008, p.134).

2.3.2 HRM Strategies for startup businesses

Considering that most startup companies are structured in a way that allows them to be lean and flexible, the HR strategy of startups should follow similar patterns. The most commonly covered areas of the strategies are:

- Hiring;
- keeping the focus of the team;
- high-performance organization and team spirit;
- results driven with unique reward and recognition elements

The recruitment process of startups has to be established in a very robust way, considering that startups are growing at a fast pace and constantly hire new people. ("Best HRM Strategies for Start-Up Businesses," n.d.) Additionally, the recruitment process should be structured in a way that attracts talents, tracks open vacancies and fills them quickly. ("Key HR Processes for the Start-Up Business," n.d.)

After the hire has been made, new employees have to be introduced to the company's practices as soon as possible to show results. Training as well as a coach can help to speed up this process. In order to get results, and not lose the focus of the main activities, HR can design the internal procedures in a way that keep the team motivated and the goal in sight. Celebrating milestones and distributing small awards to those who contribute the most as an option to keep up the work moral. The compensation strategy of a startup should be designed in a way that doesn't demotivate new joiners and can be standardized. Generally speaking, it is crucial to keep the HR strategy as simple as possible to fit the needs of the startup. ("5 HR Strategies for SMEs and Startups," 2015)

2.4 The role of diversity among employees in a startup

A startups success is also bound to the attitude of the team that's leading it. Therefore, it is crucial to have a team that is not willing to quit and work hard to make success happen. The fast paced startup environment and high growth rates require the team members of startups to be synergistic. Additionally to synergy, diversity of the team also is a crucial determinant of future success. The following roles are diverse, critical and crucial for startups:

The visionary and dreamer: Usually, this role is performed by the core founder of a company, who has a strong vision in mind and tries to capture the hearts and minds of people in- and outside an organization. Whereas the vision created might seem fictional in the beginning, it often turns into reality within successful startups after some years. Visionaries also try to remind the organization of its purpose.

The customer champion: The person that is solely focusing on the customers' satisfaction, integration user feedback and trying to improve them.

The innovation architect: Every startup needs a tech-savvy person to bring together the technological parts required for the product or service. This person is also responsible for maintaining or creating a competitive advantage based on technological developments.

The rainmaker: Besides the mentioned roles in a startup, it is also crucial to have a team member that checks whether the product is viable and takes care of the numbers. Especially for representing the organization in front of the investors is it important to have a capable person from the business field (Ismael, 2014).

2.5 The role of Human capital in startups

The research of BarNir (2012) shows that there is a positive correlation between human capital and the decision to found a technologically innovative venture. Especially the education and the employment breadth are influencing the founding decision positively. This correlation can also be linked to the fact that technologically innovative new ventures (TINV) require a great knowledge of the field as well as the ability to identify appropriate

technology and apply it. The Human capital often takes the role of a facilitator for these activities. (BarNir, 2012, p. 13)

More generally speaking, Human Capital seems to influence several performance measures of startups. In their research, Bosma, Van Praag, Thurik, and De Wit (2004) found out that previous experience in the field of the new venture of the business owner significantly increases the firm's survival time and a higher level of education leads to the generation of more employment. (Bosma et al., 2004, p.10)

Further research has found, that the knowledge resources of high-tech startups are closely linked to the skills and knowledge of their founders, which are again depended on the founder's human capital. Considering that entrepreneurial judgement is idiosyncratic and non-contractible a new business opportunity is best exploited by starting a new venture. The exploitation of new opportunities is usually tied to the integration of content specific, complementary knowledge, which is usually dispersed among several people. If this knowledge is part of the founding team's members, efficient coordination of it is more likely. The firm's initial knowledge therefor is closely linked to the founding members' human capital. (Colombo & Piva, 2008, p.41)

Further research from Shrader and Siegel (2007, p.1) examines the role of human capital in the growth and development of new technology-based ventures. Their study comes to the conclusion that the fit between strategy and team experience is a crucial determinant of the long-term performance of high-tech entrepreneurial ventures. Especially small teams technical expertise is a main determinant for success. (Shrader & Siegel, 2007, p.893). Further findings of the study indicate that entrepreneurs with traditional corporate backgrounds tend to act more conservatively with regards to new venture strategy. (Sharder & Siegel, 2007, p.903)

2.6 The influence of human resources on the entrepreneurial success

Peris Bonet, Rueda Armengot and Ángel Galindo Martín (2011) conducted a study with the aim to identify factors tied to Human Resources Management that influence entrepreneurial success. The paper comes to the conclusion that the most influential factors of success, with respect to the characteristics of the entrepreneur, are self-confidence and initiative followed by dynamism and leadership. (Peris Bonet et al., 2011, p.75).

Research from the Pearson-organization fit also suggests that the more similarities the entrepreneurs' personal characteristics have with the requirements of being an entrepreneur, like the transformation of discoveries into marketable items, the higher the success rate will be. (Markman & Baron, p.1, 2003)

2.7 The linkage between human resources development and the development of incubators

Human resources development (hereinafter: HRD) is a crucial part within business incubators, as well as the incubation process itself. Tseng (2011, p.38) identified seven key components of HRD practices development in the process of incubation:

1. establish a working group;
2. assess small business support network;
3. analyze level of entrepreneurial activity;
4. analyze the local market economy;
5. identify financing resources for tenants;
6. plan for start-up;
7. evaluate and redefine goals

Further findings of the study are six crucial roles that HRD plays in business incubator centers (Tseng, 2011, p.38):

1. act as a catalyst in promoting the emergence of enterprises;
2. reduce the failure rate of new business startups;
3. generate a multiplier effect in the SME sector;
4. serve as pilot demonstration centers;
5. promote entrepreneurship development and technological innovation;
6. Inspire the nation's productive endeavors through an increasing number of enterprises

The study also provides recommendations for practice. It is important to continuously improve and develop the HRD process in order to cope with the ongoing changes of uncertain environments. It is also important to track incubates and graduates and let them help startups that currently are in the phase of incubation (Tseng, 2011, p.38)

3 EMPIRICAL RESEARCH

3.1 Data and Methodology

The limited amount of research within the field of HRM in startups and SMEs is the reason why primary data had to be collected, in order to establish a framework covering similar aspects like the model established based on an in-depth literature review. The data collected is of qualitative, exploratory nature, gathered by using an inductive approach. Additionally, the existing body of knowledge in the field of HRM in startups and SMEs was used to get first insights and plan the interview guidelines. The interview guidelines can be found in the appendix, and cover several aspects of the HRM field.

The first step of the qualitative data analysis done within this thesis is based on the theoretical framework of Jones (1985), allowing to begin with categories that are based on general

comprehension of the data, in this case categories, that are similar to the established model of the theoretical framework established in the theoretical part (Dey, 2003). The second step, coding the qualitative data, is based on Glaser & Strauss' (1967) grounded theory approach. Coding is an analytic process that allows to capture reoccurring patterns that furthermore have been assigned the defined categories.

In contrast to focusing on verifying existing classic theories, grounded theory generates new theories based on the data collected (Cassell & Symon, 2004). This is crucial to understanding and discovering the underlying concepts to the research-area one tries to understand (Lacey & Luff, 2001). The combination of these two approaches offers a flexible compromise in between a holistic as well as a detailed understanding of the qualitative data (Dey, 2003).

Given the limited amount of existing literature, in-depth semi structured interviews were conducted to collect the needed data for a comparison of the traditional approach towards HRM in big corporations in contrast to the approach used in SMEs and startups. Semi-structured interviews are useful for examining a specific issue, like in our case the different approaches towards HRM (Cassell & Symon, 2004).

Whereas the categories have been pre-set in accordance to the semi-structured interview, the codes are descriptive, emergent codes (Miles, Huberman, & Salanda, 2013). The categories provided direction within the data, whereas the codes allowed a more detailed assessment. Thereby it was possible to compare both, the differences and similarities between HRM in big corporations and SMEs and startups, as well as the different approaches towards HRM within the startup community itself (Stuckey, 2015; Renner & Taylor-Powell, 2003).

The Interviews were analyzed both in a qualitative and a quantitative way, guaranteeing meaningful and holistic research findings (Bryman & Burgess, 2002). The linkage between the qualitative analysis and the quantitative one was done according to the first level of the qualitative-quantitative linkage according to Miles et al. (2013), which is also called 'quantitizing' level, where qualitative data is counted or converted into magnitudes of ranks or scales. The findings and conclusions of the research where then reflected in assertions and propositions (Miles et al., 2013).

The interview guide was based on the literature review of the traditional human resources management, and thereby did not only allow us to get in-depth insights into the HRM aspects of startups but also to compare HRM aspects of the different organizations. The aspects it covered include Human Capital, Job Design and Crafting, Recruitment and Selection, Employee Training and Development and Compensation. All question have been open ended, additional quantitative information about the number of employees was gathered. In total, there have been interviews conducted with 14 different companies from 4 different countries. The detailed structure and questions contained in the interviews can be seen in Appendix C.

The interviews have always been conducted with key employees of the company, guaranteeing that the necessary expertise in the field is given. The key informants had the specialized knowledge to answer the questions contained in the questionnaire, but also to give holistic insights into the corporations' structures and cultures. Table 1 shows the participating companies, as well as the companies industry and the role of the interviewee. Additionally, the number of employees as well as the position of the interviewees and origin of the company can be seen. The majority of the startups is from Slovenia, and has less than 10 employees.

After the conduction of the qualitative data analysis, the theoretical and the empirical model have been compared. Figure 8 is showing the applied research model, which is based on the establishment of two models of HRM. The empirical research allows the establishment of a model of HRM in startups, whereas the theoretical model of HRM in big corporations is based on a holistic literature research.

Figure 8. Research Model
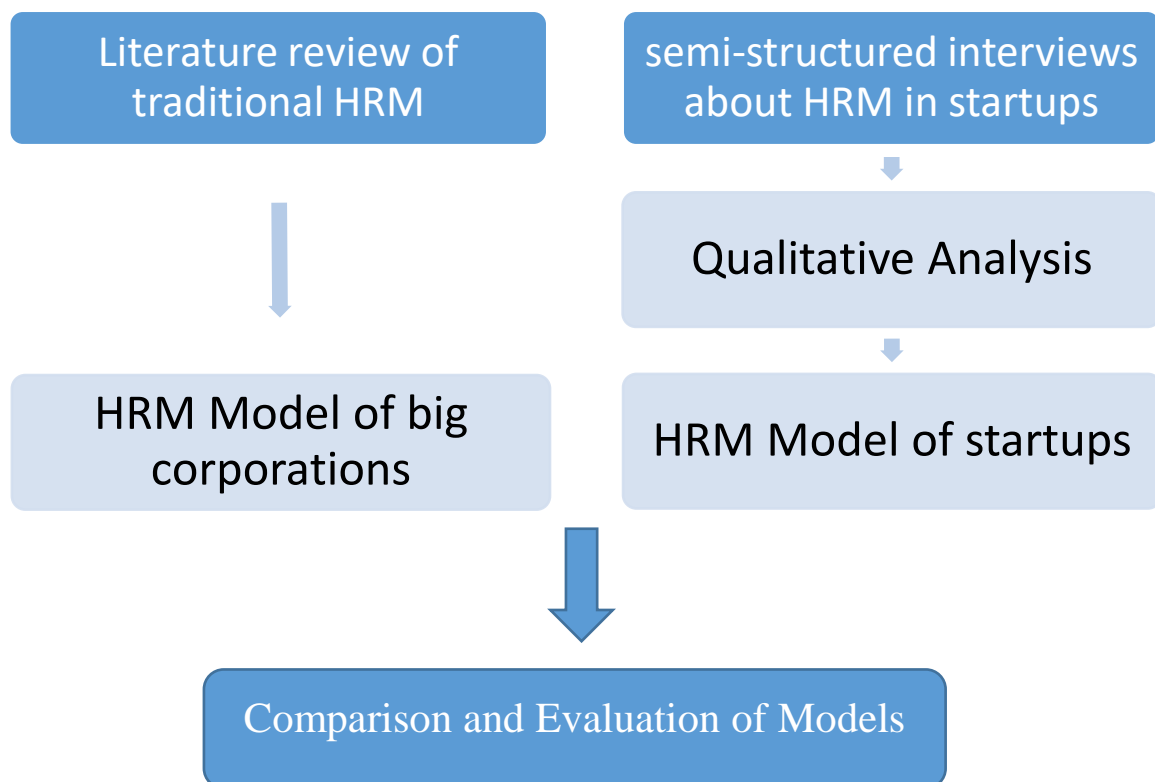
Table 1. Interviewed companies; including additional information

Company	Company's purpose	Interviewee	Position	No. of Employees	Country
Solopex	IoT solutions for industrial companies	Alexander Engels	CEO	<10	Slovenia
Byrd	flexible shipping and sending solutions	Alexander Leichter	CEO	>30	Austria/ Germany
Meller	Fashion brand for Sunglasses and Watches	Christian Erthel	Co-founder	~40	Spain
Promokode	online advertisement of special offers	Damir Mehanovic	CEO	<10	Slovenia
Foora	tracking software for driving schools	David Arnez	CEO	<10	Slovenia
OptiBar	platform for communication between bars and suppliers	Dean Habus	Co-founder	<10	Slovenia
Toronto Business Academy	summer school education in entrepreneurship	Jan Habat	Co-founder	<10	Canada/ Slovenia
Pinlab	project management software/platform	Jasna Rihter	COO	<10	Slovenia
Tecla	assistive devices	Mauricio Meza	CEO	<10	Canada
CodeBrainer	eLearning platform for coding	Miha Cirman	CEO	<10	Slovenia
Smart Marketing (anonymized name)	Marketing agency	Hannah Milo (anonymized name)	Marketing employee	<10	Slovenia
Smart Optometry	Tool for eye examinations	Zan Menart	CEO	<10	Slovenia
Symvaro	Digital solutions for water and waste-management	Rudolf Ball	CEO	~15	Austria
Dlabs	Design and consulting company for digital products/services	Tamara Valencic	Strategic Advisor	>100	Slovenia/ UK

All the interviews have been video recorded, and did last for around 30 minutes each. The transcription method used is non-verbatim. In order to structure and organize as well as code the data, QDA miner Lite hast been used. The data analysis is based on the concept discussed in Miles et al. (2013), and is split in three steps: data reduction, data display, and conclusion drawing. As already previously discussed, the categories have been created according to the themes that have been asked throughout the interviews. The codes emerged throughout the coding phases, and are describing the observed patterns.

The following Table 2 shows the resulting categories and codes that have been generated throughout the analysis. In total there are 71 different codes, which have been assigned to 8 different categories. This led to a total count of all codes of 391 times.

Table 2. Categories and codes including quantitized information

Category	Code	Count	Cases	Cases in %
personal perception of HRM	companies' success depends on its' people	5	5	35,70
	HRM is one of the most important aspects of an organization	6	6	42,90
	HRM as a strategic tool	1	1	7,10
	importance of coordinated HRM process	1	1	7,10
	HRM means managing people	2	2	14,30
	scarcity of skilled labour	2	2	14,30
Capital constraints of startups	personnel outsourcing	1	1	7,10
influence of HC on the founding decision	fed up of corporate environment	1	1	7,10
	no influence of existing HC	4	4	28,60
	positive influence of existing HC	10	10	71,40
job design and crafting	freedom is depending on the profession	3	3	21,40
	high level of flexibility at work	6	6	42,90
	high level of freedom at work	6	6	42,90
	information sharing as key component of working process	1	1	7,10
	no classic hierarchical structures	2	2	14,30
	not a lot of freedom at work	2	2	14,30

(table continues)

Category	Code	Count	Cases	Cases in %
job design and crafting	people management is not so time consuming	4	4	28,60
	people management is time consuming	11	10	71,40
	organization environment affects productivity of employees	3	2	14,30
	task driven organisation	9	9	64,30
	too much freedom at work	2	2	14,30
	work not location or time bound	5	5	35,70
	cooperation with the faculty	1	1	7,10
recruitment process	existing personal and business network as key recruitment resource	10	9	64,30
	hiring policy changed from generalists to specialists	2	2	14,30
	hiring generalists	3	3	21,40
	hiring policy stayed the same	2	2	14,30
	hiring specialists	6	6	42,90
	influence from the VCs	2	2	14,30
	internal HRM professionals	2	2	14,30
recruitment process	No influence from VCs	8	8	57,10
	no internal HRM professionals	12	12	85,70
	no professional recruitment support from outside	13	13	92,90
	online resources for recruitment	8	8	57,10
	professional recruitment support from outside	1	1	7,10
	final decision done by key employees	7	7	50,00
selection process	final selection based on the seniority of the position	1	1	7,10
	formal selection process	5	5	35,70
	importance of cultural fit	19	14	100,00
	only call and then meeting for selection	2	2	14,30
	resume screening and then interviewing	5	5	35,70

Category	Code	Count	Cases	Cases in %
selection process	whole team makes the final selection decision	6	6	42,90
	informal selection process	9	9	64,30
	working project as selection criteria	6	4	28,60
	additional HR insights through incubation	2	2	14,30
employee development and training	educational influence	7	7	50,00
	everyone is a coach in his field of expertise	10	8	57,10
	experts from outside	1	1	7,10
	feedback as evaluation	6	6	42,90
	formal assessment of the need of trainings	1	1	7,10
	impact of individual contribution is visible	13	13	92,90
	job rotation	5	5	35,70
	KPIs used	8	7	50,00
	lessons learned session	1	1	7,10
	literature usage	2	2	14,30
	Mentorship	11	9	64,30
	no additional HRM insights through incubation process	5	5	35,70
	no educational influence	4	4	28,60
	no formal assessment of the need of trainings	13	13	92,90
	no KPIs used	4	4	28,60
	online courses	9	8	57,10
	positive impact through synergy	14	12	85,70
	short term goalsetting	11	11	78,60
	skillset development	9	8	57,10
	success of training shows during work	2	2	14,30
	work evaluation	8	7	50,00
	compensation based on comissions	1	1	7,10

Category	Code	Count	Cases	Cases in %
compensation regulations	establishment of compensation with shares	7	7	50,00
	fixed income	12	12	85,70
	individual agreements	1	1	7,10
	management team has share options	7	7	50,00
	391			

3.2 Personal Perception of HRM

Similarly to the structure of the questionnaire and the resulting categories and codes, the qualitative analysis will be conducted category wise.

The personal perception of HRM is, generally speaking, very positive. The following table 3 reflects a sentiment analysis conducted with the Aylien API in RapidMiner. All the participants' answers to the category personal perception of HRM have been used, to analyze the sentiment. Whereas it is astonishing how positive the HRM topic is seen, there are also significant differences in people's sentiments.

The polarity confidence is an interval ranging from 0 to 1, and respectively also from a negative perception to a positive one. The most positive attitude towards HRM can be seen from Hannah Milo, with a polarity confidence value of 0,955. Although the other respondents also have a positive sentiment value, comparing different statements gives a lot of additional insights.

This attitude also can be subjectively assessed by comparing the two interviewees' statements when asked about their perception of HRM:

"It is one of the most important things about a business. The way and the environment people are working in a firm affects how productive they are. If they feel that they are appreciated and accepted it affects the overall outcome of a project."(Hannah Milo)

"HRM is mostly about communications, engagement, strategy, supporting the company." (Tamara Valencic)

Whereas the first answer is rather focused on the organizational environment, the second answer sees HRM as a strategic tool. This perceptual difference could also be influenced by the company sizes of the interview partners. Whereas Hannah Milo works in an organizational environment with less than 10 employees, Tamara Valencic has more than 100 coworkers. Another statement that underlines the mentioned aspect comes from Zan Menart.

Table 3. Sentiment analysis

Interviewee	Company	polarity	polarity_confidence
Hannah Milo (anonymized name)	Smart Marketing (anonymized name)	positive	0,955
Rudolf Ball	Symvaro	positive	0,894
Alexander Engels	Solopex	positive	0,887
David Arnez	Foora	positive	0,848
Dean Habus	OptiBar	positive	0,845
Damir Mehanovic	Promokode.si	positive	0,752
Miha Cirman	CodeBrainer	positive	0,669
Tamara Valencic	Dlabs	positive	0,658
Jasna Rihter	Pinlab	positive	0,567
Mauricio Meza	Tecla	positive	0,537
Zan Menart	Smart Optometry	positive	0,526
Alexander Leichter	Byrd	positive	0,488
Christian Erthel	Meller	positive	0,441
Jan Habat	Toronto Business Academy	positive	0,431
	Average polarity_confidence		**0,679**

"Different than it is taught in the faculty. You don't really do HR so systematically due to the lack of personnel and time!" (Zan Menart)

The lack of personnel, time, as well as capital constraints are key characteristics of startups. (Dal Zotto & Gustafsson, 2008). These aspects might lead to a less strategically oriented

organizational HRM within smaller startups, and the development and implementation of strategic and systematic aspects within startups are gaining importance with the company size.

A general trend that can be seen in the analysis of the first category is the importance attributed to the topic HRM as well as to employees in a company. More than 42% of the respondents think that HRM is one of the most important aspects of an organization and more than 35% of the interview partners state that the companies' success depends on its' people. This positive attitude is supported by the sentiment analysis. Thus, the following proposition:

Proposition 1: Human Resources Management is seen as a crucial part of organizations, whereas the perception and implications associated with HRM change with the size of the organization from a people-centered point of view towards a strategic one.

Although the sentiment analysis seems to give additional insights, it has to be considered with caution, given that different sentiment analysis tools sometimes lead to completely different solutions. ("A Comparison of Three Sentiment Analysis APIs," 2015)

3.3 Positive influence of Human Capital on the founding decision

The decision to found a company is strongly influenced by the previously gained Human Capital. More than 71% of the interviewed entrepreneurs state that the fact that they already had gained Human Capital in the field positively influenced them to found a company. Some of the interviewed persons have had more than 10 years of working experience in the field when they made their decision to found a company. Jasna from Pinlab for example answered the question, whether human capital (hereinafter: HC) influenced her decision to found a company in a positive way. With the following answer:

"Yes definitely, I was working in the field of project management for more than 17 years and that's why I did found the company." (Jasna Rihter)

Miha Cirman from CodeBrainer, a coding eLearning platform, also already gathered substantial knowledge within the industry before founding his startup. He said, for him it was the next step:

"I was always doing mentoring before, the startup was the next step."(Miha Cirman)

Research suggests that especially in the field of technologically innovative ventures there is a positive correlation between human capital and the founding decision, which is particularly influenced by education and the employment breadth (BarNir, 2012). This finding can be supported by the influence of HC towards the founding decision of Alexander Engels from Solopex. Solopex is a startup that does internet of things (hereinafter: IoT) solutions for industrial corporations with the help of advanced knowledge updates in the field of

mathematics, optimization models, and informatics and communication technologies. He and his cofounder both gained a vast amount of HC in the field while doing their PhDs and have been positively influenced thereby.

"The startup approach also allows to work in very innovative fields that are also very practical. The incentive was to be able to approach projects in a very unique way that is not predefined." (Alexander Engels)

Founders who didn't gain knowledge within the field before starting a company have been influenced by the desire to solve a problem, or had an idea they wanted to pursue further.

"Basically not. We had money and an idea. Everything had to be outsourced. No, and I am scared about that, if the developers would leave the company, I am screwed." (David Arnez)

"No, rather not. I had an issue as a customer, and found a solution for it. But I didn't have any knowledge in logistic before founding the company." (Alexander Leichter)

Considering that both founders didn't gain substantial knowledge in their field, and especially taking the statement from David Arnez into consideration, a lack of HC can also turn into a threat of an organization.

These insights lead to the next proposition:

Proposition 2: Possessing Human Capital is positively influencing the decision to found a new venture. A lack of Human Capital can turn into an existential threat for a startup.

3.4 Job Design and Crafting

One of the emerging aspects within the category Job Design and Crafting is the high level of freedom or flexibility. More than 85% of the interviewees state that there is either a high level of flexibility or freedom at work. The following example is from Christian Erthel, a cofounder and former head of marketing at Meller:

"I had a lot of freedom with regards to how the marketing aspects were approached. The working hours were flexible, but no one was allowed to start later than 10:30." (Christian Erthel)

When asked about freedom and flexibility at work, many respondents also often made references to the working hours. The job design of startups is often structured in a way that allows working hours to be adapted to personal preferences of employees.

"Yes, totally flexible working hours, this is the thing which is important for such kind of employees. If you would like to have great employees in a startup, great means hardworking, multifunctioning, so you need to have flexible working hours and much more. You need to

leave them the freedom of work live, they come and go whenever they want and can work form everywhere, but in fact they need to do the job." (Tamara Valencic)

Further comments also pointed out the flat organizational structures in startups that clearly differ from the traditional hierarchical structures seen in many big corporations.

"Yes, we have really frank interactions with each other. Each voice counts, we have a really flat organizational structure, no power distance and we really live these principles. We are a trial and error company, we really learn a lot from failure." (Rudolf Ball)

Although freedom and flexibility are values associated with the startup culture, some interview partners made it clear, that there can also be too much freedom at work.

"A lot of freedom, due to the size of the company. Sometimes it is frustrating that there is so much freedom." (Hannah Milo)

"Yes, employees have too much freedom at the moment. They don't work on Fridays, and often nobody has showed up in the office till 10 o'clock. It's a difficult perception, but right now there have to be some restrictions implemented." (David Arnez)

On the other hand, some of the interviewed persons said that there is not a lot of freedom or flexibility in their startups. This also can be linked to the different perception of the term freedom itself. The interview partners were never given a definition of the term freedom at work on purpose. Due to the fact that nobody has been provided with a definition, the answer did not only allow to get information on the level of freedom within startups, but also indirectly showed the personal perception of the term freedom. The following statement is an example thereof:

"Employees don't have a lot of freedom. I like to have control of everything, but don't restrict people in the way they do their work. People are working on their goals, the company is very task driven." (Jasna Rihter)

Although employees are allowed to choose their own way of doing the work, Jasna states that employees don't have a lot of freedom at work in her startup.

Another influence why freedom at work might not be given, is because with regards to working hours for example, freedom can be limited due to the profession.

"The freedom is depending on the profession within the start up. Whereas employees who manage the daily duties as well as things that occur during the business hours have a more regular job, programmers and IT people are more flexible." (Mauricio Meza)

Another aspect that is very clearly stated in both literature and the interviews is that startups are often very result-driven, high performance organizations ("Best HRM Strategies for Start-Up Businesses," n.d). This is reflected by more than 64% of the interviewees who make references to being a very task driven organization:

"Very flexible when it comes to working hours. If people find conferences in their field and it is in the budget then it can also be done. People don't need to be at the office the whole time, as long as the work gets done. If you show team members that they are responsible they make sure that the deadlines are met. Everybody knows what to do, as long as these things are done, high flexibility is given." (Zan Menart)

Additionally to the fact that organizations in the startup industry seem to be very task driven, some interview partners also stated that as long as the tasks are fulfilled or the goals are met, work does not need to be bound to a certain place or time.

"Very task driven company. It is not so much interesting when and where the work is done, it is rather important that it is done in time. Maximal flexibility is given." (Alexander Engels)

"Yes, a lot of freedom. The company culture is based on trust. The company has a strong focus towards the output, and not spending as much as possible time in the company. Employees are allowed to leave earlier or to work from home as long as the output is alright. Additionally the entrepreneurial mindset is crucial for the people and the company. There are flexible working hours with core hours of work. The working hours also strongly depend on the role of the employee." (Alexander Leichter)

"We don't have 9-5 jobs, we are having goals and are task driven. So the workplace and the time people are working are not as relevant, as long as the job gets done." (Dean Habus)

Another theme that is occurring in many interviews is the one of the time consumption of people management. More than 71% of the respondents state that people management is time consuming. The following statements underline the time consumption:

"A lot of time is used to manage people. Everybody manages everyone, there are no classic hierarchical structures in a startup. Everybody manages what he does where the others are involved. Information sharing is a key component of the working process and needs to be done in order to keep everybody on the same information level, and this process just takes time and efforts." (Alexander Engels)

"The more the company grows, the more time somebody has to be with the team and manage it. The more people you have, the more potential for conflict there is. Good interpersonal skills are an advantage in order to keep the time needed or managing people at a minimum." (Dean Habus)

"Yes because there is no middle management. Lot of agile meetings, without middle management, and they are managing performance, and not engagement." (Tamara Valencic)

The reason why some employers consider people management less time consuming is also linked to how structured their management is. Additionally to Alexander Engels, who already points out that the people management takes a lot of time due to a lack of structure, the following statements also make references to the same problem:

"Manager needs to know all the details of the big picture and also needs to know how to allocate the work to people, than it does not take too much time. If you don't know the whole picture and you don't delegate the right work to the right people, then you will have a lot of work. Starting the project will take a lot of time, in the meantime when the project is running you will just be controlling the people, and when you close the project you will have a lot of work again." (Jasna Rihter)

"It is not that time-consuming, as long as you have all the job assignments structured and the whole onboarding of the team-member is done quite well." (Zan Menart)

Many aspects of the category Job Design and Management that have been discussed within this chapter are not as structured as within traditional big corporations. Characteristics of agile processes are cooperative work, a cyclic, iterative approach on all levels, short planning and development phases as well as a balance in-between structure and flexibility. Given these characteristics, many of the startups interviewed also follow the agile way of working (Sherehiy, Karwowski, & Layer, 2007).

The following proposition is the result of the analysis of the category Job design and crafting:

Proposition 3: Freedom and flexibility at work, a task driven work as well as time consuming people management are fairly common in startups and are indicators for a general orientation towards an agile way of working.

3.5 Recruitment Process

When it comes to the resources used for the recruitment process, more than 64% of the startups indicated that they use their personal and business network as key recruitment sources to find new hires. This ranges from friends of friends, to persons met at networking events, to former coworkers, to colleagues from university, etc. Zan Menart from Smart Optometry points out their usual approach:

"When we know what we looking for we usually ask around, friends or someone that we have been working with. Usually we choose someone who has some project experience anywhere from NGOs or wherever." (Zan Menart)

Alexander Engels from Solopex strongly relies on his former contacts from his PhD studies. He also found his cofounder through this network, and uses it for new hires. Especially for Solopex new hires can be a challenging aspect, considering the knowhow necessary to create personalized IoT solutions.

"Former colleagues from universities and throughout the corporation and the existing network. Also new people from the outside. New people from the outside are given tasks and the outcome than influences the hiring decision." (Alexander Engels)

The commonly used methods for recruitment shown in this research also correspond with the information from the literature research. Dal Zotto & Gustafsson (2008) emphasize that core employees in startups are often recruited through networks which include both, social and business networks. When startups grow substantially, the recruitment shifts towards the business network. The growth and the resulting shift in the recruitment sources will be further discussed later on (Dal Zotto & Gustafsson, 2008).

Another emerging theme of the interviews is the usage of online resources for the recruitment process. More than half of the startups use online sources for their recruitment process. Especially Facebook groups are used to post job offers. Some startups also cooperate with faculties of universities to find suitable personnel. These sources sometimes are also used due to capital constraints. Fresh graduates as well as new hires with little working experience often suit the needs of startups and often don't have money as their main incentive. The following interviews point out the usage of Facebook and the faculty as resources:

"We are spreading the word that we are looking for people, and post it through the faculty job page as well as on Facebook." (Dean Habus)

"Friends of friends. We are working with social media, there are a lot of fb groups we can use from universities. This is not at the last stage yet." (Rudolf Ball)

Whereas Dal Zotto and Gustaffson (2008) also point out that the recruitment process shifts from hiring generalists, in the early stage of a startups, to specialists in later stages, a big amount of the interviewed startups said that they are hiring specialists from the beginning on. Nevertheless, there are several arguments justifying the differences between the literature and the research findings. The first argument is that some startups are working in fields that require a lot of expertise from the very early stage on. Both founders from Solopex for example have PhDs in their field of expertise and also need the knowledge gained throughout their studies frequently. Therefore it has been a challenge for Solopex to find additional employees with the necessary capabilities. Furthermore, the majority of the interviewed startups has less than 10 employees, and did not grow enough in order to experience the mentioned change towards specialists and therefore has a biased perception. Moreover, throughout the interviews, the term specialist has not been predetermined nor predefined, meaning that the interviewed persons have been influenced by their own perception of the term. The following statements are examples of hiring specialists in the early stage:

"In order to achieve such levels of focus in the field it is necessary to have people with a big skillset. These people with that level of education and skillset are hard to find. For very specific projects, some tasks are often outsourced." (Alexander Engels)

"Form the start we were looking for specialists." (Jasna Rihter)

"Actually everybody in the firm is doing IT, only one girl is a designer, so everybody is a specialist of them. But on the other hand when we searched for a designer, we wanted to find a generalist." (Dean Habus)

Furthermore, startups which have been experiencing a change towards specialists are those with more employees. This fact supports the previous argument, that the perception of some interviewees might be biased.

"Yes, definitely. The further the company grows, the more specific the requirements for new hires get." (Alexander Leichter)

With an astonishing majority of almost 93%, almost all the participating startups, except one, did not have any professional recruitment support from outside the organization. The only exception is the startup Byrd, which uses headhunters to fill positions of high importance in their company. Another interesting aspect is that Byrd is furthermore also the only company which is influenced by their VC in their personnel decisions, given that the VC is a personnel consultancy firm. Even Tamara Valencic from DLabs does not rely on external support, although DLabs has more than 100 employees:

"The whole process is done in-house, the technical competences are very important, also testing competencies is done in house. Each company has its own requirements. And what is also very important is the cultural fit. I don't believe in headhunting, people who really want to work in the startup community are elsewhere and don't buy the headhunters' offers." (Tamara Valencic)

At 85%, almost as many startups also don't have internal HRM professionals. Again, this can be partially attributed to the size of the interviewed companies. The only startups with HRM professionals are Byrd and DLabs, both organizations already have substantially more employees in contrast to the other startups interviewed.

Many of the described aspect correspond with the literature review. Generally speaking, the recruitment process changes while startups are in phases of growth. (Dal Zotto & Gustafsson, 2008) Thus, the following propositions:

Proposition 4: Personal and business networks as well as online sources are very commonly used as recruitment resources in the startup environment and early startups usually renounce the usage of internal as well as external HRM professionals.

Proposition 5: Startups in growth phases often experience changes in the recruitment process at the same time, which may include internal and external HRM professionals.

3.6 Selection Process

The empirical research suggests that the selection process is structured differently, depending on the startup, as well as on the position to be filled. Whereas early stage startups

do tend to have a rather informal selection process, mature startups structure their selection process in a more formalized way, sometimes even as formal as big corporations do. Figure 9 shows a broad model of how the interviewed startups structure their selection processes. The left process of Figure 9 can rather be found in early stage startups, whereas the right process is according to the description of the later stage startups.

To better understand the informal as well as formal selection decisions of startups, the processes will be discussed in detail, and startup-specific differences are further elaborated. First, the startups with a rather informal selection process are discussed. Table 4 shows the two different clusters of the startups.

Table 4. Categorization of the selection process in startups

informal selection process	formal selection process
Solopex	Byrd
Promokode.si	Meller
Foora	Pinlab
OptiBar	Symvaro GmbH
Toronto Business Academy	Dlabs
Tecla	
CodeBrainer	
Smart Marketing (anonymized name)	
Smart Optometry	

3.6.1 Informal Selection

The least structured and least formal selection process is the one of Promokode.si, done by the CEO himself, Damir Mehanovic. Damir only conducts a phone call with the applicant, and if the outcome of the call is positive, a more detailed face-to-face interview will take place. Damirs' reasoning behind this process is, that he can directly see whether a person is comfortable with doing sales calls, which is one of the main activities his hires have to do. He explained it as follows:

"First step of the application process is a call. People are calling me, so I can already see whether they are capable of doing sales calls. No CVs are requested, people also explain what they have been doing, and where they gathered experience so far via the phone.

"If the applicant passes the first step, a face-to-face meeting is conducted. The meeting is similar to the phone call, but more into the details. So the character of the person can be seen." (Damir Mehanovic)

After the face-to-face interview, Damir himself does the selection decision.

A similarly pragmatic approach can be found when evaluating the selectin process of Solopex. First of all, Alexander Engels assesses the profile of the candidate. Given that Alexander and his cofounder both started their careers in academia, a lot of candidates are referred to Solopex through his academic network. This also allows them to have insights in the research topics covered so far by the candidate, and also includes some word of mouth information. After this step, the candidate will be given a task of a project, and based on the outcome, the whole team of Solopex will then make a selection.

Also Miha Cirman from CodeBrainer is similarly structuring the selection process. He has a questionnaire prepared for new hires, and together with a work project uses it for the selection decision:

"Usually have a Questionnaire. Challenge people with a kind of a project. Results of project will also strongly influence the decisions. It does not depend on the skill of the person in the beginning, but also on how resourceful people are solving these projects. It is important that people are creative and have ways to explore things." (Miha Cirman)

The remaining startups, fitting into the informal selection process cluster, structure their selection process in a similar manner. Usually a CV has to be sent, and if the candidate fulfills the criteria necessary, she/he will be invited to an informal interview, which is often done while having a coffee together. If the position to be filled is a Technical/Programming job than this means that work samples have to be reviewed and/or work projects have to be done. In seldom cases a new hire might be hired on probation.

3.6.2 Formal Selection

Startups having a more structured approach, therefore including more steps in the selection process, have been assigned the cluster formal selection process. Figure 9, showing the different steps in the formal selection, points out the differences.

The most formalized selection process of the interviewees was described by Tamara Valencic from DLabs. The selection process at DLabs starts with the screening of the applications and the resumes, and continues as described.

"First there are general first questions which we send over email, or do a phone screening interview. Then it comes to the first personal/ or skype interview which is already technical part plus culture fit. When the candidate passes this stage than it comes to the test day, the

Figure 9. Informal and formal selection process in startups

informal selection process	formal selection process
Getting to know the applicant (sometimes resume screening)	Screening Applications and Resumes
IF necessary reviewing work samples	IF necessary reviewing work samples
Interviewing/"Going for a coffee"	Interviewing
Making a Selection	in-house testing
	probation period/ trial days
	Making a Selection

test day is usually in the office. Not because of doing the task, but also because you need to check whether the person has social skills and the cultural fit is given, and asks the right questions and joins team activities. After that there is usually another interview.

"The selection process is already pretty formal, because we are hiring 20-30 people a year, and it cannot just be having a beer. We have an HR tool and a recruitment tool." (Tamara Valencic)

What's characteristic for the selection process of DLabs is the in-house testing. No other startups interviewed had an in-house testing like DLabs. The other startups with a more formal way of selecting, structured their selection process similar. Usually it starts with a screening step, evaluating the CV and the rest of the provided materials. The next step would consist out of several interview rounds, allowing to further assess the candidate. If the candidate passes this stage, he/she would move on to work for the startup. In this cluster, the final selection decision is mainly done by key-employees who are well acquainted with the necessary knowledge to make a decision. If the position is of technical nature, another selection step, e.g., a review or testing of the necessary coding knowledge, is added. In certain cases, the new hire is on a probation period for the first couple of weeks, before the final selection decision. A good example of the discussed approach can be found in Meller:

"First step was to send the CV, second one to have a skype call/interview. The person who passed those 2 steps had an interview in person. The personal interview contained several questions regarding marketing skills and also logical questions. I had a box that was hard to open, and I was always checking whether people would try to open it for a while, or just give in. That was a way of figuring out how persistent a person is. This was a way to find motivated and logically thinking people. After a 3 week probation time, the whole team met and we discussed the feeling we had about the new employee, if one person didn't agree, the new employee couldn't stay." (Christian Erthel)

Another very insightful aspect is that almost only startups which went through a phase of growth have a rather formal selection process, and startups with a smaller amount of employees don't structure their selection process as much.

3.6.3 General Aspects

Whereas there are several differences in the selection steps, one communality which is very important to all the startups is the cultural 'fit' of new hires. 100% of the startups interviewed evaluate the cultural fit of the new hire. The following statements point out the importance:

"Cultural fit is an absolute must. Somebody who is not living the startup philosophy will never fit into the company." (Alexander Engels)

"Cultural fit is absolutely essential. There are certain core values, if the person does not have one of them, or does not fit to the culture, and hurts the core values, then the person has to leave again." (Alexander Leichter)

"The most important thing is that the team clicks. The person joining the team has to feel good joining the team, and the team has to feel good about the person. Feelings about the person are discussed with other team members, and if everyone thinks he/she is needed, then I make a decision." (Zan Menart)

The empirical research results also correspond with the literature research. Literature suggests that smaller startups have more flexible, and less structured HRM processes. (De Kok et al., 2003).

Therefore, the following propositions:

Proposition 6: Smaller startups tend to have a more informal way of selecting new personnel, whereas bigger startups conduct a more structured, formalized way of selections.

Proposition 7: The cultural fit of a new hire is essential to startups, and therefore also an important selection criteria.

Proposition 8: The selection process slightly varies depending on the position to be filled. Technical openings include a more throughout assessment of the skillset of the applicant.

3.6.4 Employee Development and Training

Whereas big corporations have their own formal training programs, the employee development and training in startups in our interviews was structured in a very flexible way. Except one startup, DLabs, all companies had no formal assessment of the need of trainings. Additionally, most of the startups had different approaches towards gaining new, necessary knowledge. The following methods have been described by the interviewees:

- Literature usage;
- Online courses;
- Learning on the job;
- Training through co-workers;
- Training with experts;
- Workshops;
- Conferences

Whereas literature usage is hardly common, it is essential in certain cases. Only two of the interviewed startups stated that literature is used, whereas for Solopex it is a crucial source of knowledge. Given the complexity of the tasks at Solopex, the common knowledge from internet sources usually is not specific enough. Therefore academic literature is used. Alexander Engels describes his approach as follows:

"If needed sometimes an online class is taken, but also literature is used. Most of the times online classes are not specific enough for the needed purpose. Common knowledge from the internet is not specific enough. Also tools for data intelligence are not suitable since they cannot provide specific/complex enough services." (Alexander Engels)

The next method, which is very commonly used, is online courses. More than half of the startups interviewed said, that they are using online courses. BrainCoder, which is a startup that is producing online videos that teach how to code, even agrees if employees take courses from competitors, to gain additional knowledge.

"People are also taking online courses from competitors, its welcome if you learn and can transfer the knowledge." (Miha Cirman)

Learning on the job is also very common in startups. Especially considering that some of the founding members had to learn certain skills from scratch. Especially the founders from Toronto Business Academy were able to gain a lot of knowledge through their work.

Training through co-workers was mentioned as a common practice from several startups. David Arnez from Foora, said that everybody is learning from everyone in the firm. Also Miha Cirman, Jasna Rihter and Christian Erthel point out the importance of learning by doing. The startups agreed that, in comparison to workshops or courses, teaching from coworkers comes with the perk of being able to progress faster within the targeted field.

Only a few startups stated that they have been getting help from experts. Maurizio Mesa was able to get additional insight from experts through the network he established, and also through the network he was provided with in his incubator.

Workshops as a tool are rather used by startups that have been growing already, and are bigger in size. Tamara Valencic from DLabs as well as Rudolf Ball from Symvaro both organize workshops from time to time. Some startups also see a lot of benefits from attending conferences, like Smart Optometry.

3.6.5 Employee Performance

When it comes to employee performance, similarly to the training and development aspects, startups approach the topic rather in an unstructured way, or just measure necessary key components. A quote from Zan Menart points out the reasoning behind:

"The sales guy has a very simple KPI. But generally for the developing team there are deadlines, and of they are achieved, then everything is alright. But there is no big system behind it. Simplifying whatever can be simplified." (Zan Menart)

Following methods are used from the interviewed startups:

- KPIs;
- Goalsetting;
- Deadlines;
- Feedback;
- Work evaluation;
- Follow-ups;

Around half of the startups interviewed said that they use KPIs for their performance measurement. Although a lot of startups interviewed said that they don't use KPIs, it was clearly visible that there are other measurements in place to track the performance. One very commonly used method was goalsetting. In particular, a lot of startups are setting short-term goals that are on a weekly, sometimes also monthly basis. An example for weekly goals is Solopex and Foora and Toronto Business Academy:

"Lessons learned session on the go are done. In the beginning of the week goals are set, and in the end of the week an evaluation of the goals is done. Was every goal reached? No KPIs are created, since a lot of projects and the programming aspects are depending on various different aspects, and time is not a good unit to track performance." (Alexander Engels)

"Sometimes things which seem easy are really hard, and the other way round. We are measuring whether all the weekly goals have been accomplished. In order to make things happen there is a weekly plan made with the developers, according to their capabilities and the workload." (David Arnez)

"Each Monday there is a team meeting, to check what was done last week and what should have been done last year. And then the goals for the next week are set. Give each other feedback whether or not tasks were performed correctly."(Jan Habat)

Jan Habat explains the practice within Toronto Business Academy, and also points out that the weekly meetings are not only used to set goals, but also to give feedback and discuss the work the has been done. This approach also correlates with the principle of agile work, like discussed earlier. Most of the startups of the empirical research have similar approaches towards the employment performance measurement. The exceptions are again made by the fast growing, bigger startups like DLabs.

Proposition 9: In startups, performance measurement and tracking is done in a very pragmatic way and tends to focus on the near future.

3.6.6 Mentorship

More than 64% of the startups stated, that there is a form of mentorship happening in their organization. This might be the CEO him/herself being a mentor or a coach, other employees mentoring each other, or external mentors. A lot of those mentoring said that it is crucial to showcase the path they have been going, including all the ups and downs, in order to make people profit from the lessons they learned. The following statements show the different approaches towards mentorship:

"Second step is to work with people who already have been down that path and experienced it what it means. We also have something like a dinner and invite professionals to tell about their experience." (Rudolf Ball)

"In practical terms yes, there is mentoring, but it is more like a mentoring of each other."(Zan Menart)

3.6.7 Career Management and development of employees for future success

Career Management is again an aspect of HRM that is handled in different ways, depending on the size of the startup, or better to say an organization in general, based on the insights through the interviews. Whereas smaller startups are usually lacking behind what concerns career management, bigger startups are using methods that are not as common in big organizations. Rudolf Ball from Symvaro for example implemented the so called CANVAS role model, a modified version of the CANVAS business model. Whereas the business model CANVAS is a tool to test and visualize the meaningfulness of a startup idea, the CANVAS role model is used for the definition and the assignment of roles within a team. (Jungwirth, 2017)

Similarly to career management, formalized or more structured processes to develop employees for future success can only be found in bigger and fast growing startups. A

common method for the development is job rotation. Whereas the small startups interviewed often had no clear job descriptions and employees had to cover more business sectors, bigger startups have been implementing several aspects of employee developments. Job rotations are seem to be a very common way of employee development for future success:

"Yes job rotations because people are way more talented in other areas. Role-CANVAS automatically helps the employees also to see where they could go and which areas they might prefer." (Rudolf Ball)

Also Alexander Leichter from Byrd points out that job rotations will be happening within his firm:

"Yes, there are a lot of people who want to change their fields, so job rotations will happen. From customer support to HR, from sales to BI." (Alexander Leichter)

3.7 Other Aspects

3.7.1 Impact of employees

Of all the interviewed startups, more than 92% said that the individual impact of the employee can be clearly seen. Jasna Rihter points out the biggest difference to big corporations:

"People see how they can make an impact. In a big company it is hard to see how things are changed by you, even the middle management cannot make an impact." (Jasna Rihter)

3.7.2 Synergy of employees

Earlier, the aspect 'cultural fit' was already mentioned as one of the most important ones to the startups. Given that the startups are very keen to get the best matching employees with regards to the cultural fit, it seems logical that startups are prone to establish well-functioning teams with a positive synergy in-between the team members. Therefor the synergy can also positively affect the performance:

"The synergy, and also younger employees, are helping and allowing the see some things from a different point of view. More diversity would be a good thing, as long as the skillset still matched the needs of the company." (Alexander Engels)

The key aspects discussed of the employee development and trainings strongly correlate with the results from the literature research. As the literature research already pointed out, small startups usually don't have formalized trainings due to the associated costs. Fast growing startups on the other hand, put a stronger focus on trainings and development. (Mason &

Barrett, 2006; Dal Zotto & Gustafsson, 2008). The capital restrictions led many startups to providing online courses for employees. (Haugh, 2015).

These findings of the literature research also match with the findings of the interviewed startups. The fastest growing startup interviewed, and also the biggest one, has a very structured approach towards trainings and developments. DLabs has more than 100 employees, and grew for around 30 people last year. The growth has the following training and development methods as a result:

"Gathering the needs for expert conferences is gathered from team leads, and now there are also chapters on competences introduced. Otherwise the training strategy is set company wide, combining internal academy, onboarding academy and later on also some soft skills and presentation. It is important that internal knowledge sharing is done by people form the company." (Tamara Valencic)

Proposition 10: Smaller startups tend to have an informal and low-cost approach towards training and development, whereas big, fast growing startups usually have a more formalized and structured training and development program in place.

Proposition 11: Mentoring, the individual impact of an employee and the synergy of the employees are of very high importance to startups.

3.8 Compensation

Compensation is one of the aspects where startups are at a disadvantage. In comparison to big corporations, the pay rates offered by startups are most of the time significantly lower. (Mason & Barrett, 2006). As a result, startups try to find other ways to attract and retain new personnel (Chambers et al., 1998).

Within the interviewed startups, more than 85% of the startups compensate their employees with a fixed income. Additionally, in half of the startups, the management team is holding shares. Nevertheless, most of the startups don't compensate their employees with shares, and/or a mixed compensation model with a fixed income and shares as a bonus. Despite not compensating employees with shares, half of the interviewed startups are in terms of establishing a compensation model that includes shares.

When asked about shares as a way of compensation, many interviewees said that for the startup industry, compensation with shares is essential:

"Crucial aspect because people go to startups since they believe in a company, therefore they need to be compensated with shares."(Alexander Engels)

David Arnez points out what could be a reason for several smaller startups not to have stake option plans:

"The employees are compensated with salaries at the moment.

There is a plan to make an employee stake option plan. But the theory is different from the practice. As long as the company is small, the stake is not going to melt, we have to wait for some time and till the expansion.

People would be more motivated if they could get some shares, but currently the company is too small to think about dividing the equity in this phase." (David Arnez)

4 DISCUSSION

4.1 Theoretical Contributions

The most important theoretical contribution of this thesis is the better understanding of HRM in startups in comparison to big corporations based on the empirical and theoretical research. A lot of additional knowledge was gained throughout the qualitative analysis of the empirical part, and especially throughout the comparison of the empirical model with the theoretical one. It is crucial to mention that additional knowledge was gained throughout the comparison of the two models. This allows to get additional insights, and helps startups as well as big corporations to learn from each other. The comparison shows that startups tend to adapt approaches of big corporations throughout phases of extensive growth, or when already at a mature stage. On the other hand big corporations are struggling to attract new personnel because the corporate culture is becoming a less ideal working environment for many people. This allows both cultures, the startup- and the corporate culture, to learn from each other (Dal Zotto & Gustafsson, 2008).

Additionally, the research is structured in a holistic manner, covering various different topics of HRM, allowing to see interactions with other aspects of the organizational context. There are strong indicators for example, that affect other aspects like the financial performance.

4.2 Comparison of the theoretical and empirical model

4.2.1 Defining HRM

Within the interviewed startups, there is the general consent that HRM is a crucial part of every organization. Additionally, HRM has been perceived very positively. Whereas small startups have a people-centered point of view, bigger startups have a rather strategic one with regards to HRM.

In big corporations HRM also plays a big role in implementing business strategies. The HRM itself was born in the 1980s, and ever since was used instead of the term personnel management, due to the lack of strategic components in personnel management (Legge,

1995). A study from Martell and Carroll (1995), interviewing 115 subsidiaries of Fortune 500 companies, points out the importance of the strategic component of HRM. A majority of the interviewed companies had strategic planning systems with HRM executives involved in the planning process as strategic partners (Martell & Carroll, 1995).

4.2.2 Job Design and Creation

When it comes to the job design and crafting in startups, one key aspect is the high level of flexibility and freedom at work. Some of the interviewed startups even stated that the level of freedom is too much. Additionally, the startups are characterized by flat organizational structures and are very task driven. Often, it is not important where or when the work gets done. Startups consider people management a very time consuming matter, this might be due to a lack in structure and the agile way of working.

The definition of job design by Foss et al. (2009) as the required tasks of a job and the way these tasks are performed, already differs from the approach startups have. The job design in big corporations is structured, and has clear job descriptions. In comparison to startups, these descriptions also include the work site and working hours. (Milkovich & Boudreau, 1997). This clearly sets the structured corporate approach towards the job design apart from the agile, flexible approach of startups.

4.2.3 Recruitment

The majority of the startups participating in the interviews indicated that they use their personal and business network as a key recruitment source. Additionally, online sources are frequently used to find new hires. Especially Facebook groups and job boards of universities are commonly used. These sources are also made use of, since they are free to use and startups often are characterized by capital constraints. Almost all startups interviewed did not rely on any professional recruitment support from the outside, nor on employed internal HRM professionals. Only one startup has professional recruitment support from outside, and no more than 15% of the startups have employed HRM professionals.

This stands in strong contrast to common practices in big corporations. Big corporations have the advantage that job vacancies sometimes can be filled internally, allowing to choose people with a proven performance record and thereby keep the uncertainty level at a minimum. (Snell & Bohlander, 2013). In the case that the positions cannot be filled internally, external recruitment sources have to be used. Similarly to the startups interviewed, referrals are the most commonly used sources for new hires. Additionally, big corporations often have their own company career webpage, and post their job vacancies on job boards. This approach is often too costly for startups (Noe et al., 2007).

4.2.4 Selection Process

Startups are generally known for having very informal selection processes. Nevertheless, the empirical research conducted shows that this is not always the case. Within the interviewed startups the range of how formal the selection process is structured is very broad. Especially the growth the startup has already been experience determines the selection process approach. Whereas younger, smaller startups tend to have informal selection processes, bigger, mature startups are characterized by a structured selection process. The formality of the selection process ranges from only one interview through a phone call to a multi stage selection process including work samples, and in-house test day and work on probation. If persons are recommended through the business are personal network of startups, in many cases there is already an additional selection step included, considering that the recommending person is enjoying trust of the recruiter. A characteristic difference of the structure of the selection process can be seen when differentiating between technical and especially IT-related jobs, and non-technical ones. The selection process for technical job vacancies includes a step which evaluates the technical skillset of the new hire based on practical examples or tests.

Whereas the selection process in startups differs from firm to firm, the selection process in big organizations often follows a general, structured approach. Throughout the analysis of the empirical research it was visible that more mature and bigger startups tend to have a similar selection process like big corporations (Noe et al., 2007). Figure 10 shows the selection process resulting from the empirical research and compares it to the selection process in big corporations described by Noe et al. (2007). It's clearly visible that the formal selection process of startups includes more steps than the selection process of startups.

Figure 10. Informal and formal selection process in startups in comparison to big corporations

informal selection process in startups	formal selection process in startups	selection process of big corporations
↓	↓	↓
Getting to know the applicant (sometimes resume screening)	Screening Applications and Resumes	Screening applications and resumes
↓	↓	↓
IF necessary reviewing work samples	IF necessary reviewing work samples	Testing and reviewing work samples
↓	↓	↓
Interviewing/"Going for a coffee"	Interviewing	Interviewing candidates
↓	↓	↓
Making a Selection	in-house testing	Checking references and background
	↓	↓
	probation period/ trial days	Making a selection
	↓	
	Making a Selection	

Nevertheless, it has to be mentioned that several startups with a formal selection process have in-house tests, neither do they always have probation periods.

Therefore, the selection process mostly is not as detailed as the one in big corporations. In certain cases (e.g. new developed by DLabs) the selection process of startups can be longer and includes more details in startups.

4.2.5 Employee Development and Training

As in many other fields of HRM, startups have a very flexible approach towards employee development and training. In most of the startups interviewed, there has not been any formal assessment of the needs of trainings. In most of the startups, the need for trainings is not formally assessed. Very common training-methods used are online courses. In many startups employees are also learning on the job, and thereby gaining a lot of knowledge.

Big, established corporations have a systematically developed way to train and develop employees. It significantly differs from the approach of startups, and often starts with a

formal needs assessment for trainings. Further steps of the strategic model of training include the design, implementation and evaluation of the trainings. Most of the startups interviewed did not have any model for trainings. (Snell & Bohlander, 2013; Noe et al., 2007)

4.2.6 Performance Management

Performance management in startups is often designed in a way that it only measures key components, or like Zan Menart says:

"Simplify whatever can be simplified" (Zan Menart)

Commonly used methods to track the performance in startups are KPIs, Goalsetting, Deadlines, Feedback, Work evaluation and Follow-ups. Startups have a very pragmatic approach towards performance management, and tend to focus on the near future. Examples for short term measurements very frequently used are short term goals.

Although the employee performance in startups is often not assessed as detailed as in big corporations, employees in startups are able to see their personal impact very clearly. This sets startups apart from big organizations.

On the other hand, big corporations have several different methods as well as tools to control employee performance, including Category scales methods, comparative methods and management by objectives. An example used to track the performance in big corporations, that can hardly be found in startups is presence at work. As already heard earlier, the work of startups is often not time or location bound, as long as the results match the expectations. The methods used in big corporations often are time consuming as well as expensive. This is another reason why startups tend to have an informal approach towards performance management, given that a lot of startups are tackling capital constraints (Mathis & Jackson, 2008; Thomson, 1998).

4.2.7 Compensation

When it comes to compensation, startups cannot compete with the pay rates offered by big corporations. Although the pay rates of startups are often significantly lower than those of big corporations, startups are finding other ways to attract and retain new talent. Often, the corporate culture does not match with the expectations, and therefore people choose the startup life over the corporate culture (Mason & Barrett, 2006; Chambers et al., 1998).

Another incentive for new hires of startups are a compensation that also includes shares. Given that a lot of the startups interviewed have been rather small in size, not many did compensate their employees in shares. Nevertheless, a lot of the interviewed startups have been in terms of establishing a compensation model that includes shares, to further incentivize and retain personnel.

4.3 Practical implications

Corporate enterprises have a significantly different approach towards HRM than startups. Nevertheless, it is hard to clearly isolate more than the already known characteristics that make startups different. Therefore, this thesis elaborates the differences that separate the HRM practices in startups and big corporations.

The results of the research do not only allow to broaden the body of common knowledge, but give first hand insights to founders in startups as well as HR managers in big corporations. The additional insights help entrepreneurs with the implementation of strategic aspects of HRM. The corporate environment can learn from the flexibility of startups which will help to retain employees in the long run. Startups can learn and adapt methods from big corporations and vice versa.

The research also elaborates the role of HRM in an organizational context. Additionally it was crucial to see, whether there are factors that are influencing HRM in startups and push them towards a more structured model of HRM. The research suggests that the more a startup grows, the more the need for a structured approach towards HRM can be seen. Insights like these allow corporations to adapt their HRM in a way that leads to the desired outcome according to new research information.

Not only do the suggestions for changes in the companies provide help, but also showcase the real path of startups. The first-hand information provides a direction for many young entrepreneurs.

4.4 Limitations and future research suggestions

Although the thesis is built on a holistic approach, including several different startups from different industries, it is mainly focusing on the western culture. It would be interesting to see whether there is a shift in common practices when other startups from other cultures are involved.

The biggest startup interviewed had around 100 employees. Although this can be considered as a big startup, especially for the European startup industry, it does not come close to the size of Unicorns. It would be interesting to see whether the startups HRM is further shifting towards the one of big corporations or not. Additionally it could be insightful to see which HRM aspects remain similar to smaller startups, and which tend to be more similar to the corporate culture.

It is also important to mention that the sentiment analysis conducted with the Aylien API usually is done with a bigger dataset, allowing to train the model and generate indicators for the sentiment accuracy, based on historic data. Given that there is no historic data in our case, accuracy of the analysis cannot be determined.

CONCLUSION

The assessment of differences and communalities of startups and big corporations within the field of HRM brought a lot of new, valuable insights. Whereas some of the gained insights are very activity specific, others can be related to the whole field of HRM.

Approaches that are fairly common in startups are a very flexible, agile way of working. Also the high level of freedom given to people, whether this concerns working hours orthe design and structure of tasks, can be seen in several startups. If there is one thing that unites all the interviewed startups, then it is the fact that all of them are very task driven. Dean Habus points out very well where a startup has its focus:

"We don't have 9-5 jobs, we are having goals and are task driven. So the workplace and the time people are working are not as relevant, as long as the job gets done." (Dean Habus)

Startups tend to have flat organizational structures and sometimes have capital constraints which also leads to the startup-specific culture, as well as approach of HRM aspects.

Many HRM aspects in startups are adapted to target an audience that doesn't see itself as a part of the corporate culture. Startups often search for new hires within their personal and business network, or use online sources like Facebook groups. Startups also try to manage many tasks themselves that are usually outsourced or taken care of by experts. Only one of the interviewed startups hired external HRM experts.

Another factor that influences and changes the approach of startups is the size of the startup itself. Whereas bigger startups had a more structured approach towards HRM, smaller startups did not. A good example is the selection process, smaller startups tend to shorten their selection process and also rely on feedback of their personal and business network a lot. Larger startups tend to have a selection process consisting out of several steps, smaller ones often don't even require the candidate to send a CV.

All the mentioned aspects lead to an informal structure of HRM activities that clearly differs from the approach big corporations have. Examples are shorter selection processes, employee development and training without needs assessment and a simplified performance management. Whereas the mentioned aspects can be found in the majority of startups interviewed, there are several aspects of startups that are company-specific.

Overall, it is visible that the bigger a startup gets, the more similarities it shows to the corporate culture. Nevertheless, there will be always significant HRM differences in between startups and big corporations that are not affected by size nor other influencing factors.

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APPENDIXES

TABLE OF APPENDIXES

Appendix A: Povzetek

Naloga ovrednoti in oceni tako razlike kot podobnosti med ravnanje s človeškimi viri (RČV) v velikih in v manjših podjetjih. Zaradi omejenega obsega literature na področju RČV v manjših organizacijah je bilo za pridobivanje dodatnih vpogledov uporabljeno empirično raziskovanje. Kot temelj raziskovanja je bil najprej opravljen poglobljen pregled literature za vzpostavitev okvirja RČV. Ta okvir je nato bil primerjan z modelom, ki temelji na podlagi primarnih, kvalitativnih podatkih, pridobljenih s polstrukturiranimi intervjuji.

Analiza kvalitativnih podatkov je bila izvedena v dveh korakih. Prvi korak v analizi kvalitativnih podatkov je osnovan na podlagi Jonesovega (1985) teoretičnega okvirja, ki predpostavlja identifikacijo kategorij, postavljenih na podlagi splošnega razumevanja podatkov. Gre za kategorije, ki so podobne vzpostavljenemu modelu v teoretičnem okviru. Drugi korak – kodiranje kvalitativnih podatkov – je opravljen na podlagi pristopa gradnje temeljne teorije (angl. *grounded-theory building*) avtorjev Glaser in Strauss (1967), na podlagi česar se lahko ustvarja nova teoretična spoznanja. Kodiranje je analitični proces, s katerim se zajema ponavljajoče vzorce, ki so pripisani definiranim kategorijam.

Kategorije so bile vzpostavljene vnaprej glede na polstrukturirane intervjuje, medtem ko so kode opisne in sproti nastajajoče. Kategorije predstavljajo usmeritev znotraj podatkov, kode pa služijo bolj podrobnemu vrednotenju. S tem je mogoče primerjati tako razlike kot podobnosti med RČV v velikih korporacijah in v malih in srednje velikih ter zagonskih podjetjih, kot tudi različne pristope k RČV znotraj same skupnosti zagonskih podjetij.

Rezultati analize kažejo, da pri RČV obstajajo tako vidiki, ki so v večjih korporacijah in zagonskih podjetjih obravnavani na podoben način, kot tudi vidiki, ki so obravnavani različno. Pristop, ki je precej pogost v zagonskih podjetjih, temelji na prilagodljivem in agilnem načiun dela. Poleg tega je pogosto opažen pristop, ki vključuje visoko raven neodvisnosti za ljudi, naj bo to glede delovnega časa, oblike ali strukture nalog ali drugih vidikov, značilnih za zagonska podjetja. Če obstaja ena stvar, ki združuje vse intervjujane predstavnike zagonskih podjetij, je to dejstvo, da so vsi močno usmerjeni v naloge (angl. *task driven*). To pripelje do zaključka, da imajo startupi načeloma sploščene (angl. *flat*) organizacijske strukture ter da imajo včasih omejitve, povezane s pridobivanjem kapitala, ki prav tako vodijo do kulture, specifične za zagonska podjetja. To velja tudi za njihov pristop k vidikom RČV.

Polega tega je mnogo vidikov RČV v zagonskih podjetjih prilagojenih ciljanju na publiko, ki sebe ne vidi kot del korporativne kulture. Zagonska podjetja pogosto iščejo nove zaposlene znotraj svojih osebnih in poslovnih krogov ali pa uporabljajo spletne vire, kot na primer Facebook skupine. Zagonska podjetja tudi poskušajo sama urejati mnogo nalog, ki se ponavadi oddajajo (*outsource*) ali urejajo s strani izvedencev.

Dodatni faktor, ki spreminja in vpliva na pristope zagonskih podjetij, je velikost teh podjetij samih. Medtem ko imajo večja zagonska podjetja bolj strukturiran pristop k RČV, je v manjših to drugače. Dober primer je izbirni postopek, kjer manjša zagonska podjetja načeloma skrajšajo svoj postopek in se precej zanašajo na povratne informacije iz svojih osebnih in poslovnih krogov. Večja zagonska podjetja imajo načeloma ta postopek sestavljen iz več korakov, manjša pa pogosto ne zahtevajo niti tega, da kandidat pošlje svoj življenjepis.

Vsi omenjeni vidiki vodijo do neformalne strukture RČV dejavnosti, ki se jasno razlikuje od pristopov večjih korporacij. Takšni primeri so krajši izbirni postopki, razvoj in usposabljanje zaposlenih brez ocene potreb in poenostavljeno zagotavljanje uspešnosti. Medtem ko so omenjeni vidiki opažani pri večini intervjuvanih predstavnikih zagonskih podjetij, je še vedno veliko število vidikov, ki so specifični za posamezno podjetje (angl. *company-specific*).

Na splošno je torej opazno, da večje ko postane zagonsko podjetje, več podobnosti s korporativno kulturo kaže. Ne glede na to pa bodo vedno obstajale občutne razlike v RČV med zagonskimi podjetji in velikimi korporacijami, na katere ne vplivajo ne velikost ne drugi vplivajoči faktorji.

Appendix B: List of Abbreviations

BARS - Behaviorally Anchored Rating Scale

CEO – Chief Executive Officer

HC – Human Capital

HR – Human Resources

HRD – Human Resources Development

HRM – Human Resources Management

IoT – Internet of Things

OJT – On-the-Job Training

ROI – Return on Investment

SME – Small and Medium sized Enterprise

USES - United States Employment Services

Appendix C: Interview Guidelines

The following interview guidelines have been used to conduct interviews with startups. The questions are sorted by chapter according to the structure that was already developed. The sub questions are potential further questions that have only been asked if they were applicable. The questions are mainly based on general HRM aspects from the literature review. Additionally, questions which arose throughout the interview have been asked.

Defining HRM: What is HRM?

What does HRM mean for you personally, what's your perception of HRM and which importance is attributed to it within your company?

- Which HRM activities are existing?

Human Capital

How do you manage Human Capital?

- Did the fact that you have HC already influence your decision to found a company in a positive way?
- Assessing the level of self-confidence and the level of education of the interview partner/CEO o draw conclusions on the success of the company.
- Do you help your employees to gain additional Human Capital?

Job Design and Crafting

How do you design jobs?

- Do your employees have a lot of freedom?
- Are the tasks performed rather complex or simple?
- How efficient are you (owner) with managing people?

Recruiting and Selection Process

Recruitment:

How do you usually search for new employees? Personnel Policies + Recruitment Sources (social and/or business networks?)

- Do you hire professionals to support the recruitment process?
- Do you have internal HRM professionals?
- Have VCs that own shares of your company been actively involved in attracting, identifying and suggesting managers for your company?
- Did you change your general hiring policy from generalists in the beginning to specialists in a further developed stage of the company?

Selection:

- How does your selection process look like? (is it rather unformal?, to minimize costs?)
- Which steps does your selection process include? (resume screening, work samples, interviewing candidates, background → social media as a background, references, final decision)
- Is it more important that people "fit" to your company and its culture?
- Do you select the employee as a team, who does the final decision?

Employee Development and Training

- Are you assessing the needs for trainings? (Analysis of Organization, Person, Task)
- In-House or contracted out?
- Which training method? (Instructor led classroom, blended, online, webcast, social network…)
- Evaluating the Training – was it successful?
- Do you measure employee performance? (Performance appraisals?)
- Do you develop employees for future success? (Job rotations, job enlargements, job rotation, transfers promotions)
- Interpersonal relationships? (Coaching, Mentorship)
- Is there any System you use for career management? (Goal Setting, Feedback, Action Planning and Follow-up)
- Do you show your employees the impact they can make, in order to retain them in the company?
- Are the synergy and the diversity of your team influencing the success of the firm?
- How is the education of employees and previous experience in the industry influencing the performance/firm's success?
- Did the incubation/acceleration process further develop your Human resources, if yes then how? (e.g: establish a working group; assess small business support network; analyze level of entrepreneurial activity; analyze the local market economy; identify financing resources for tenants; plan for start-up; evaluate and redefine goals)

Compensation

- Are your employees compensated with money? To which extend, do you also found agreements where the compensation is based on shares? Do you offer long term incentives to retain the workers?

Appendix D: Interview with Alexander Leichter, CEO of Byrd

For further interview transcripts, please contact the author at jakob.doeller@gmail.com!

Defining HRM: What is HRM?

What does HRM mean for you personally, what's your perception of HRM and which importance is attributed to it within your company?

HRM for me means to fill all the open positions that have to be filled. This usually is a fight against the time, a stressful topic. HRM is one of the most important topics that a startup has, since it is crucial to fill open positions with top people, since as a young company you are depending on your employees a lot. Your employees also have to grow with the company, so the quality of the company is strongly depending on them.

- Which HRM activities are existing?

Human Capital

How do you manage Human Capital?

- Did the fact that you have HC already influence your decision to found a company in a positive way?

No, rather not. I had an issue as a customer, and found a solution for it. But I didn't have any knowledge in logistic before founding the company.

- Assessing the level of self-confidence and the level of education of the interview partner/CEO o draw conclusions on the success of the company.
- Do you help your employees to gain additional Human Capital?

Job Design and Crafting

How do you design jobs?

- Do your employees have a lot of freedom?

Yes, a lot of freedom. The company culture is based on trust. The company has a strong focus towards the output, and not spending as much as possible time in the company. Employees are allowed leave earlier or to work from home as long as the output is alright. Additionally the entrepreneurial mindset is crucial for the people and the company. There are flexible working hours with core hours of work. The working hours also strongly depend on the role of the employee.

- Are the tasks performed rather complex or simple?
- How efficient are you (owner) with managing people?

Yes, definitely takes quite some time. At the moment it takes quite some time, therefore an HR manager will be hired soon.

Recruiting and Selection Process

Recruitment:

How do you usually search for new employees? Personnel Policies + Recruitment Sources (social and/or business networks?)

There are a lot of opportunities. For special hires (headhunting), they are working together with HR agencies, other than that they do the job postings themselves.

There are also tools for recommendations within the own network. In the early stage all the HR activities were done by the founders, now there will be a HR manager hired.

- Do you hire professionals to support the recruitment process?

Yes, sometimes. Like already mentioned.

- Do you have internal HRM professionals?

Currently working on hiring a HR professional.

- Have VCs that own shares of your company been actively involved in attracting, identifying and suggesting managers for your company?

The HR agency that is involved in the company is run by a VC. Therefor they have influence.

- Did you change your general hiring policy from generalists in the beginning to specialists in a further developed stage of the company?

Yes, definitely. The further the company grows, the more specific the requirements for new hires get.

Selection:

- How does your selection process look like? (is it rather unformal?, to minimize costs?)

Rather unformal. It is usually easier if the person is recommended by someone already. If not there are 2-3 interview rounds done. But it is also depending on the position.

- Which steps does your selection process include? (resume screening, work samples, interviewing candidates, background → social media as a background, references, final decision)

A part is quite standardized, a part is a fast track version of a usual selection process. The CV has to be send, than the interviews take place, like already mentioned above. If it is a developer for example, then also work samples will have to be provided by him/her.

- Is it more important that people "fit" to your company and its culture?

Absolutely essential. There are certain core values, if the person does not have one of them, or does not fit to the culture, and hurts the core values, then the person has to leave again.

- Do you select the employee as a team, who does the final decision?

Depending on the seniority of the position. If the position has a high seniority, then all the founders are involved in the decision. If the position has a low seniority, then it is also often done by one of the founders.

Employee Development and Training

- Are you assessing the needs for trainings? (Analysis of Organization, Person, Task)

Not at the moment, but it is on our radar.

- In-House or contracted out?
- Which training method? (Instructor led classroom, blended, online, webcast, social network…)

Only a few of the employees, but yes. Different topic were covered, from statistics to logistic processes.

- Evaluating the Training – was it successful?
- Do you measure employee performance? (Performance appraisals?)

Just about to implement OKR like google. Because it is crucial that every employee has his/her personal performance goals.

- Do you develop employees for future success? (Job rotations, job enlargements, job rotation, transfers promotions)

Yes, there are a lot of people who want to change their fields, so job rotations will happen. From customer support to HR, From sales to BI.

- Interpersonal relationships? (Coaching, Mentorship)

Yes of course.

- Is there any System you use for career management? (Goal Setting, Feedback, Action Planning and Follow-up)

Yes there are weekly meetings, but its rather reporting in a general sense. But there are monthly KPIs. And the OKRs are done every quarter.

- Do you show your employees the impact they can make, in order to retain them in the company?

Yes definitely, also with measurements and OKRs. These OKRs are presented individually and then put together to a big picture every half a year. Also KPIs are done wherever possible. From the warehouse to the office.

- Are the synergy and the diversity of your team influencing the success of the firm?

Objectively can't be said, subjectively, yes.

- How is the education of employees and previous experience in the industry influencing the performance/firm's success?

Differs, in the beginning less, now with more specialized roles it get more and more. Now there are also more and more senior positions opened. This has the reason that senior positions usually are filled with people that can manage themselves already. Junior positions have to be trained as well.

- Did the incubation/acceleration process further develop your Human resources, if yes then how? (e.g: establish a working group; assess small business support network; analyze level of entrepreneurial activity; analyze the local market economy; identify financing resources for tenants; plan for start-up; evaluate and redefine goals)

Yes, I2C. Yes, there have been some workshops, but it wasn't essential.

Compensation

- Are your employees compensated with money? To which extend, do you also found agreements where the compensation is based on shares? Do you offer long term incentives to retain the workers?

Every employee is offered shares from the beginning, alongside a fixed income. If people in the beginning don't takes shares it is not an issue, on the long run it might be, because it signals distrust. Generally we hire less people and pay them more. It comes with the perk of having less people and less complexity therefore