How to...

People issues in start-ups: challenges and solutions

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C ompetitive advantage is a primary success factor in today's highly competitive market (Grant, 1991). Access to resources, resources themselves and even translation of resources to end products have been competitive advantages for businesses. Then came "technology". It transformed the way businesses conducted themselves and consumers created access to availabilities. The only challenge was, all of the above were imitable. Can imitable functions be of any advantage? The answer lies in people, the only inimitable resource of all (reference). Large businesses ensured that people, i.e. employees complement other resources of the firm. Small businesses and, more recently, start-ups are still grappling to find a balance between equipping themselves with all other resources versus staffing their firms with the talent that can give them sustainable competitive advantage.

With investors pumping cash into the start-up businesses coupled with competition to hire the best, start-ups often forget to create a proper human resource (HR) strategy to manage people. Time and time again, we have seen this happen. Start-up founders quote "there is hardly any company that doesn't make a mistake". But, if the cost of the mistake is too high, such as losing customers or competitive

advantage of the firm to the competition, concern for businesses and investors becomes obvious. The same is not the case with people. To begin with, it is difficult to identify what makes people leave an organization for another, and, on top of that, it is even more difficult to understand what measures may be adopted at an organizational level to retain individuals of worth. This paper makes an attempt to identify the root of this problem and suggests possible solutions.

India has seen an upward surge in the number of start-ups and so has been the case in the purge of employees. A select list includes some of the best-known names of the start-up community like TinyOwl, Zomato, Housing, Ola and Spoonjoy. Recently, TinyOwl (November, 2015) faced a serious crisis of lack of trust in the company leadership when a group of employees held the founder hostage in its Pune, India, office. Same has been the case with Housing, where employees lost trust in the company. Some of the common reasons for such occurrences can be highlighted as:

Lack of experience of founders

Technological breakthrough, commercialization and taste of early success make young and just-out-of-college graduates to start a company on their own. A Harvard

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Business Review study recently reported that the average age at founding for billion-dollar start-ups in Silicon Valley is just over 31, and the median is 30[1]. Just-out-of-college or universities, they are those who believe, technology is the driving force behind the company and as long as the product or service is backed by technology, it would drive sustainable revenues. This lack of experience in understanding the business ecosystem which is conceptualized and actualized by people ultimately leads companies into the abyss of loss.

Lack of strategic HR orientation

Large and established firms go for end-to-end talent management which necessarily encompasses HR planning and forecasting, devising recruitment plan, selection of people, setting up of joint performance goals, learning and development, welfare practices, etc. On the other hand, start-ups are usually initiated by friends, batch mates and other like-minded people who are usually driven by technology. The founders, usually lack the managerial expertise of handling people and forget the basics of designing of and adhering to fundamental HR practices in terms of recruiting and retaining people who drive the technology.

Vague hierarchies and fuzzy reporting structures

As mentioned above, start-ups are usually founded by people who are either known to each other or are of a similar background and age group. They also tend to follow a horizontal organizational structure with similar roles and responsibilities for all of the founders. This results in a non-hierarchical mode of operation, which is characterized by open door policy, low power distance and a lack of reporting guidelines.

Unclear growth and scaling plan

The majority of start-ups fail to consider growth and scaling up of people function in parlance to growth in revenues. Right at the planning phase, investors and venture capitalists look for scalability of operations, but little emphasis is given on how people requirement will be met in future. Growth as such is elusive for many of the start-up founders, giving them unscientific projections.

Overestimating market demand

Novelty is a reality of market. Novel solutions and novel channels of realizing those solutions have become the key to success of many start-ups. Starting small or at an experimental level, these start-ups need funds from venture capitalists and private equity partners to grow and operate at scale. Estimation of future demand, backed by the constant pressure to keep costs at a minimum level, often forces start-ups to overestimate the projected demand from the market. This results in unnecessary hiring in the expectation to meet an overestimated market demand. Once in the market, realization comes through and retrenchment is the result.

Although it is true that there exist certain fallacies in managing people or giving the HR function its due importance, the following are a set of recommendations that can help start-ups manage people better through better planning and implementation:

- *Make HR a business partner*: HR in start-ups can make a logical case of becoming an important part in strategy formulation because of the importance of human capital in the capability of the firm. As in case of large firms, where HR has moved out from the conventional staff

function to become a line function (Lawler and Mohrman, 2003), start-ups should, similarly, give more independence to HR function. HR function should be allowed to measure efficiency and place greater focus on planning, organization design and development.

- *To carry out its strategy*: All strategies ranging from operational efficiency to expansion can directly be tied with HR function. HR must be empowered to execute the strategy at the ground level when it comes to making right hiring decisions, attracting top talent and retaining them.

- *Hire experienced HR practitioner at the top level*: Seasoned HR professionals can bring stability to start-ups. Global exposure, ability to manage a large talent pool, experience with heterogeneous mix of employees can add value to the new entrants in the market. In recent times, experienced HR practitioners have also shown keen interest in associating themselves with the start-ups, as it gives them the opportunity to design off-the-rack processes relevant to the culture of the company[2].

- *Identify and recruit the right talent*: Inexperienced hiring team at the top is vulnerable to initial cues of proving efficiency to hire an employee, especially in the early days. This can be minimized by consulting experts when it comes to identifying the right talent. Talent inventory should be prepared in advance with proper job analysis to ensure supply and demand much in advance.

- *Create appropriate retention strategies*: As people gain experience and expertise over a

period of time with start-ups, they tend to move to established companies leaving them short on manpower. Start-ups must use strategies to retain top talent through various reward and recognition policies and, whenever required, with restrictive covenants.

- *Ensure ongoing and constructive communication among employees*: Large companies many a times are immune to small grapevines because an official communication is said to have the most accurate information. Same is not the case with the start-ups, where founder(s) do not communicate often with the employees, and it is open to interpretation if there is a grapevine around sensitive issues like payment to the employees, discussion around acquisition or buyout, etc.

Start-ups should encourage and put regular communications to practice through newsletters, town hall meetings, weekly employee roundup, etc.

Even though it is true that some of the start-ups fail because of the lack of a properly formulated HR policy, it is not the end of the road. They need to recognize the cause and make corrections to their way of operating in the business ecosystem so as to assess the problem and make amends. Implementing the solutions as suggested above can certainly ease the pressure of success. It is a proven fact that the only viable competitive advantage of any firm is its people and the same applies to the start-ups as well.

Notes

1. How Old Are Silicon Valley's Top Founders? Here's the Data, 2014.

available at: https://hbr.org/2014/04/how-old-are-silicon-valleys-top-founders-heres-the-data (accessed 25 August 2016).

2. IT start-ups hiring seasoned HR executives available at: http://timesofindia.indiatimes.com/tech/jobs/IT-start-ups-hiring-seasoned-HR-executives/articleshow/15072693.cms

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Grant, R.M. (1991), "The resource-based theory of competitive advantage: implications for strategy formulation", *California Management Review*, Vol. 33 No. 3, pp. 114-135.

Lawler, E.E., III. and Mohrman, S.A. (2003), "HR as a strategic partner: what does it take to make it happen?", *People and Strategy*, Vol. 26 No. 3, p. 15.

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