



Strategic People Practices in Startup Organizations

By Evelyn Rogers and Justin Paul

Many rapidly growing startups focus human resources on recruitment of talent as fast as possible, just to keep pace with the exponentially growing workload. When discussing recruitment strategy with the leadership of startups, however, we heard about a range of people practice needs, which, like recruitment, were compounded by the reality of being resource-strapped organizations with non-traditional cultures and innovative business models.

Therefore, we began investigating the use of strategic people practices in startups in the summer of 2016. Our research consisted of in-depth conversations with over a dozen CEOs and heads of HR for startup companies, as well as the collection of systematic data from 27 such organizations from industries such as advertising, consulting, and technology. Company size ranged from 10 to 1,000 employees and were from at least nine cities. Data was collected using a 17-item survey targeted at the CEOs and CHROs of organizations. To be included in the study companies had to be in the process of developing new solutions, typically in the technology space, and planning for exponential growth. Our findings uncovered

four important characteristics of HR and people practices in startups:

1. It's not the size of the HR function; what matters is impact of the function holder and their credibility.
2. Plan A is to always have a plan B, being flexible while building a foundation of people practices.
3. Startup culture has a double-edge: the mission and values attract talented people. They also leave faster should they lose confidence in their leaders and how their values are being lived
4. A history of staying flexible in the face of constant change can lead startups to resist HR's effort to drive consistent people practices or to invest in staff to support people practices.

After review of the data leading to these findings, we present several keys to unlocking the potential of people practices in startups.

HR in Startups: Small but Impactful

Human resources within a startup is not defined by functional terms, but rather people or more specifically, a person, who handles HR activities. Though half of our sample did state they employ a Chief People Officer, 41 percent indicated that they have "one person who is 100 percent dedicated to HR responsibilities." On a positive note, the majority agree human resource activities should be done in house, with only 9 percent outsourcing and 9 percent have none at all. Though small, the respondents indicated 64 percent of HR teams meet or exceeded expectations.

Startup leadership typically delegates HR responsibilities to one person, who is the sole team member. They need to build everything from scratch, but this also means they can make an immediate impact. The CEO views the HR role as

a respected resource in helping the business succeed. There are no formal processes of stakeholder analysis or bureaucratic signoffs; the mentality is similar to product development: deliver the solution, execute, and then put version 2.0 out if this fails or is not perfect.

Floating Foundation Builders

HR is expected to create and sustain value-added people practices but also be ready to adapt them at the drop of a hat if the business requires it or if not all leaders are bought in. In some companies where regulatory or funding outcomes can dramatically change the operating plan, HR must have a plan B where they are ready to staff and build capability exponentially yet also be prepared to divest 50 percent of

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their workforce in half the time. Additionally, after a new practice is designed and rolled out, some leaders may have the authority to "veto" the process for their team, forcing HR to scramble and find secondary solutions.

Each brick added to the foundation of people practices is done with the knowledge that it can be changed, removed, or swapped out to fit the needs of the pivoting business, however its effects on people and company culture may still last long after its removal.

Out of the eight standard people practices we measured, over half of all companies were at least moderately investing

Figure 1: Investment in People Practices

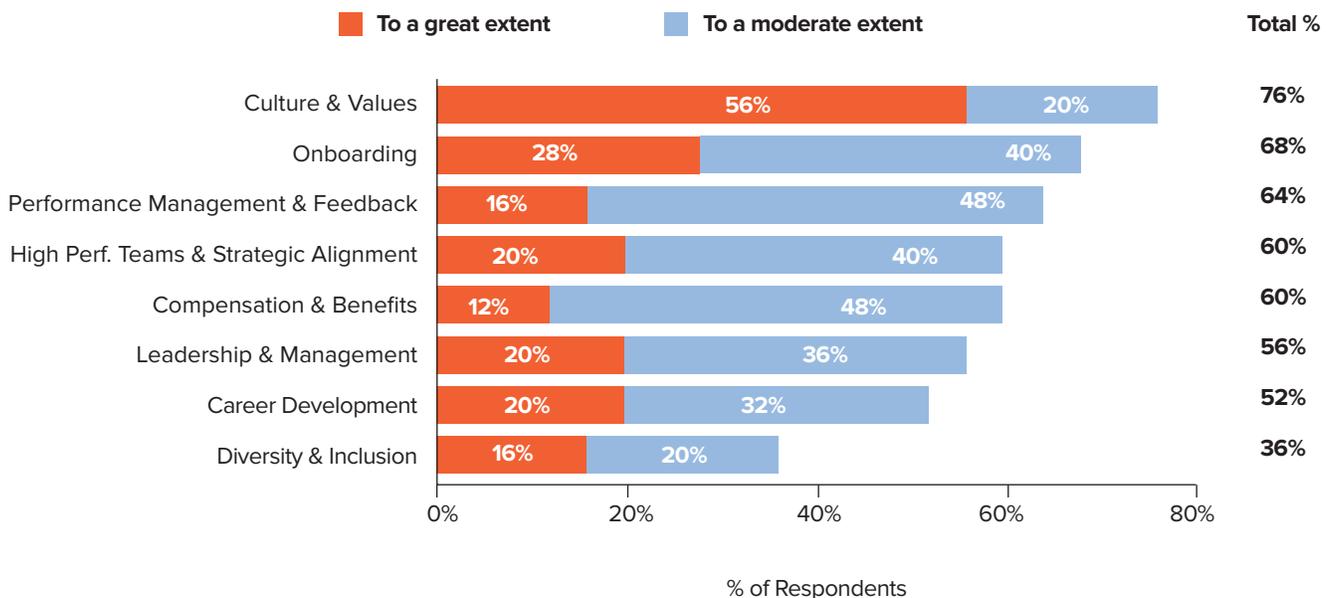


Figure 2: Strategic Importance of People Practices



in them with the exception of diversity and inclusion (See Figure 1). Culture and values received the most investment (with 56 percent of startups investing in this area to a great extent). Other processes received at least moderate investment from most organizations including, in order, onboarding (68 percent), performance management (64 percent), high performing teams (60 percent), compensation and benefits (60 percent), leadership and management (56 per-

efforts on building high performing teams (60 percent) and improving leadership and management capabilities (56 percent) are growth drivers but receive less attention. Our discussions revealed that these two areas often depend on the specific leadership personalities. Typically, there is a mix of great leaders who work hard to develop talent and create high performing teams and others who exhibit little effort in these areas or, worse, actively disengage their teams. Therefore, for HR to improve leadership and team performance, flexibility must be built into the solution.

It was the consensus of our interviews that startup cultures are transparent, open in communication, non-hierarchical, adaptive, flexible, and fast paced.

Culture: Saving Grace or Greatest Challenge

Organization culture has always been a multifaceted concept, difficult to comprehensively assess and quantify, yet the significant influence of values, beliefs, and common behaviors on success is undeniable. In startups culture is even more critical, due in part to the vacuum left by a lack of other established people practices and also the need for individuals to believe in the eventual success of the company's yet-to-be-proven solution(s). It was the consensus of our interviews that startup cultures are transparent, open in communication, non-hierarchical, adaptive, flexible, and fast paced. These factors attract talented employees who believe in the company mission and values and work hard to achieve results, but if they lose confidence, they're likely to opt out and leave.

cent) and career development (52 percent). Establishing these processes is necessary but challenging, as many employees remember earlier days when there were less people and more flexibility.

The need to establish a working foundation for an organization with constantly moving targets can prevent HR leaders from working on practices that could drive strategic organizational growth. Instead leaders find themselves working with a kind of "floating foundation" that is built out of necessity, knowing that some bricks have been left out or propped up hastily, to serve the company's immediate needs, and that they can always be reconfigured later, when they need the structure to reach higher.

As seen in Figure 2, onboarding receives the second most investment from startups (68 percent of companies surveyed) yet is not considered a strategic growth driver, while

This double-edged sword of culture explains why the majority of startups surveyed (56 percent) are investing heavily in culture and values "to a great extent"—far ahead of the next closest people practice, onboarding at 28 percent. CEO and CHROs also believe culture will drive strategic growth with it coming in a close third out of the eight practices measured.

Due to the high-growth rate of success, startups managing culture is a continuous challenge. Many interviewees de-

scribed situations in which increased scope of responsibilities and complexity for senior roles requires the recruitment of tenured experts from outside. Due to the immediacy of the need to fill the capability gap, the build vs. buy equation slants toward buying the needed talent and less in building leadership and management capabilities internally. With senior talent brought in from the outside, the imperative becomes assimilating the new senior leaders into the culture and values of the startup while still leveraging their expertise to change operating procedures. These adjustments can be difficult for everyone involved, especially early employees used to more access and flexible processes. In this way, growth, which should be a strong indication that the company culture and mission are on the right track, can also undermine it and cause people challenges if not managed properly.

If the floating foundation of people practices has been crafted carefully to reinforce the strengths of the founding culture then it should be able to weather the instability as new people “settle in.” However, if the floating foundation is weak, then new bricks and new people increase variability, create instability and ambiguity around what matters, and cause stagnation or even collapse.

Roadblocks for People Practices

As seen in Figure 3, the greatest barrier to implementing people practices is time and effort (81 percent). With HR departments of one or very small coupled with the additional barrier of lack of funding (64 percent), it is understandable why HR gets derailed from delivering on multiple initiatives. Those we interviewed indicated that there was little support to hire external consultants or extra resources to assist in getting the work done. The common sentiment was, “CEOs believed they were paying the CHRO to design the solutions and do the work.”

Change is also a factor to further leveraging people practices in startups. In Figure 4, nearly half of all responding

organizations believe that significant change will influence their people practices within just one year. As we discussed earlier, the uncertainty of the short-term future makes it difficult to justify creating momentum around initiatives that may become superfluous.

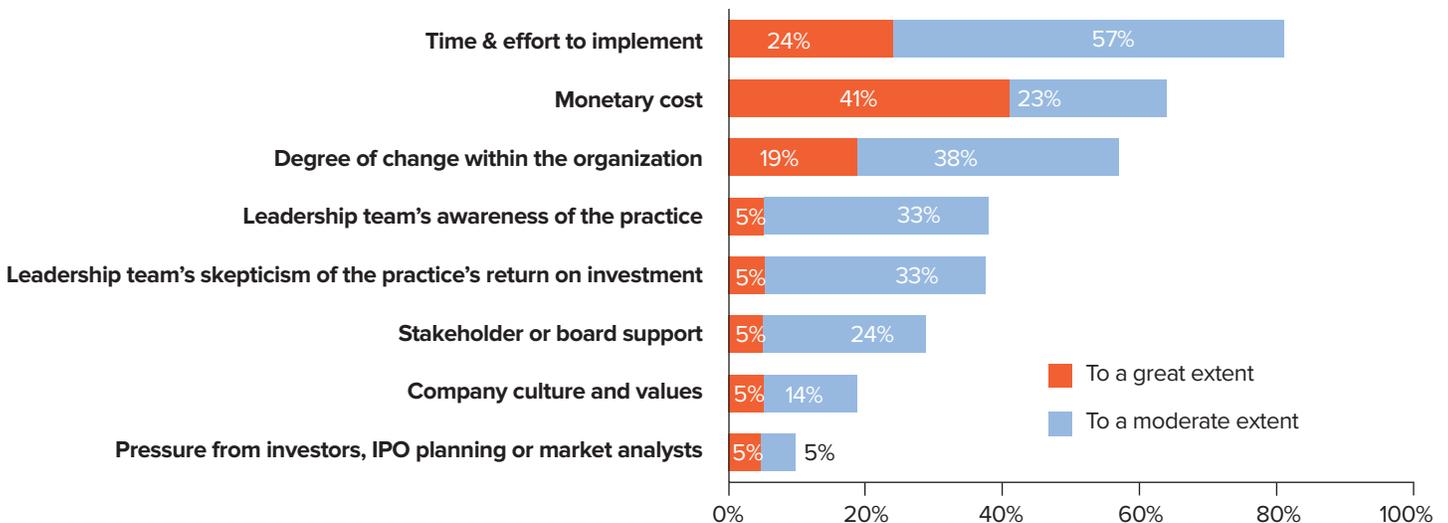
On a more optimistic note, there is possibility for interest and buy-in to work on more extensive people practice enhancements. Leadership awareness and skepticism were not seen as barriers to over half the organizations surveyed (62 percent each) and pressures from boards and investors as well as the existing startup culture are not seen as significant challenges, with less than 31 percent of respondents citing these as even moderate concerns. How then can HR professionals in startups extract further value from their people practices?

Five Keys of People Practices in Startups

From our survey findings, resulting discussions, and personal experiences working with HR and startup leaders we’ve identified five key principles startup leaders and HR professionals should apply to unlock the potential of people practices in their organizations.

1. Create a strong link between the initiative and business results. Large organizations with thousands of employees have economies of scale. They can afford to invest in their people on the loose assumption that general performance will improve and show up in some way in the bottom line. In smaller, more resource-strapped businesses, new initiatives will need to show that they solve a problem that clearly is costing the organization or that they are key enablers of future growth. The bricks in the people process foundation undoubtedly will need to shift, re-configure, and at times be switched out entirely. HR must be hyper-aware as the company scales and pivots as to where the structural stress points will be and why something must be done about them now.

Figure 3: Barriers to Strategic People Practices



For example, the case to invest in devolving culture building, leadership, and decision-making to an added layer of managers must be approached very carefully. The founders may resist this and it will be HR's responsibility to present the defensible arguments related to the bottom line of the business.

2. Start small, collect feedback, and evaluate. Startups, more so than other organizations, should be open to experimentation—use this to your advantage and test your plans before spending too much effort. For instance, you could invite a few people managers to watch a TED talk on a relevant leadership topic and discuss what they learned or have a discussion about team effectiveness principles with one manager and gauge their interest. Get feedback on the impact you've had and suggestions on how the company can improve in these areas.

3. Connect the initiative to company culture. As culture appears universally understood as a driver of success in this sector, building culture into your business case (e.g. "a culture of leadership" or "a culture of development") and discussing the extended behavioral impact will strengthen your case. Startups are constantly struggling to avoid adopting complex processes and layers of bureaucracy or hierarchy that would stifle their agility. The founding culture is what enables them to achieve this, therefore new people initiatives must tap into and strengthen company culture.

4. Keep it high level. Because of time constraints and organizational changes on the horizon, you're not likely to get a return on highly detailed design efforts. Stakeholders

may raise complicated "one-off" issues or you may be tempted to perfect your plans but you're probably best served by keeping the 80/20 rule in mind. Focus on high-impact actions and agree on one person to oversee the project and be responsible for approving any exceptions. For example, when recruiting in growth phases, you don't expend the effort to establish robust job requirements and competencies—you simply select for technical skills and culture fit. Had you done the detailed work, you could easily find out weeks later you need your new hire for completely new tasks.

5. Look outside your organization. Peers in other startups may have a solution that's already proven effective in their organizations or they can serve as valuable partners in investigating common challenges together. Similarly, consultants and talent management professionals have a wealth of experience, research, tools, and solutions at their disposal and are generally open to starting a discussion. If you're interested in working with an external consultant further, you may be able to share the expense with another startup. A wrong move early in the process can stop a people initiative in its tracks, therefore leveraging existing knowledge and expertise upfront can be extremely valuable.

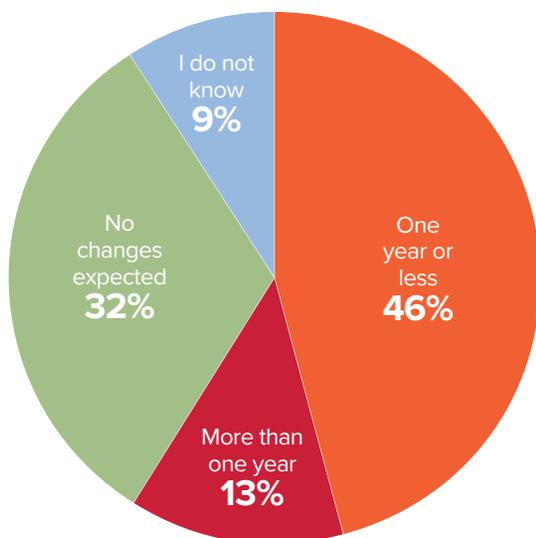
Agility Is the Secret Sauce

Time and again we have been told by those we interviewed that the startup world they live in is a VUCA one (volatile, uncertain, complex, and ambiguous). The person(s) inhabiting the human resources function needs to adapt and flex their own style, practices, and approach in order to survive as a business partner. Structure and process are not your friend in this world. The company's ever changing landscape and the need to constantly prioritize implementations necessitates a strong understanding of the business and the ability to develop innovative solutions.

This is not surprising as the business of a startup is to develop solutions through a process of discovery, not extensive pre-planning, so why would HR be expected to operate any differently? CHROs are asked to work on an extremely complex problem, "How do we maximize recruitment, productivity, talent, retention, employee satisfaction, and capability building at the same time as meeting other financial needs and growing the business?" and to do so with an uncertain company future hanging over their heads. Those who succeed do so by staying flexible and applying an elegant mix of experimentation, creativity, speed, and responsiveness. ■■

Figure 4: Timing of Significant Activity within Startup Organization

How Soon Will a Significant Activity Effect Your Strategic People Practices?



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