

Chronic Underfit of the Small Firm's HRM Function: When Low Functional Elaboration Interacts with Contingencies

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We address qualitative functional elaboration of human resource management (HRM) in small firms where HRM is typically simple and informal. After describing qualitative functional elaboration in terms of structuration, managerial process, and effects on HRM, we discuss relevant contingencies that can render small-firm HRM's degree of elaboration insufficient relative to firm needs and goals. We then discuss implications of chronic underfit of HRM in small firms, drawing on theory of asymmetric effects of misfit. Finally, we discuss implications for future research, practice, and entrepreneurship education.

INTRODUCTION

There is no shortage of published research that comments on the informal, basic, and even underdeveloped condition of the human resource management (HRM) function in small firms (e.g., Bartram, 2005; Benmore & Palmer, 1996; Cardon & Stevens, 2004; Mayson & Barrett, 2006a, 2006b). At best, small-firm HRM may be regarded as organic and flexible (Bacon, Ackers, Storey, & Coates, 1996); at worst, it may be regarded as a liability due to its lack of sophistication (Bacon & Hoque, 2005) or to relatively thoughtless adoption of large-firm practices that may not fit the small firm's HRM needs or be doable given the small firm's resources (Heilmann, Forsten-Astikainen, & Kultalahti, in press). Much research notes that HRM in large firms, however, is more sophisticated and complex and, especially if characterized by high-performance work systems, benefits the large firm (Huselid, 1995; Wright, Gardner, Moynihan, & Allen, 2005). Most of the strategic HRM (SHRM) research literature describes well-developed HRM in larger firms, but typically ignores the elaborative process that, over time, renders a given compensation, training, staffing, employee relations, or performance management practice as particularly strategic. In any case, the message is clear: HRM in big firms is different from HRM in small firms, and the small firms' HRM tends to be somewhat insufficient and unsophisticated.

Research to date has not always addressed how this condition of small-firm HRM comes to be, almost treating the matter as if the small firm's resource restrictions leave it prey to some negative, exogenous reality that inevitably consigns the firm's HRM to a stunted state. This may be a function of the typically cross-sectional nature of most HRM research, an artifact that may well desensitize the academy and entrepreneurs to how structural and environmental contingencies vary over time (Zajac, Kraatz, & Bresser, 2000) and how some endogenous processes over time make HRM in any firm, big or small,

assume various qualities, including sophistication, complexity, and effectiveness (and sometimes excessive formalization). This topic relates to the intersection of HRM and entrepreneurship, which is still in its relatively early existence as a study field (Cardon & Stevens, 2004; Chandler & McEvoy, 2000; Heneman, Tansky, & Camp, 2000). Thus, our understanding could benefit from considering how internal processes resolve against structural and environmental contingencies in a way that is more or less helpful for the small firm's HRM function.

Regarding these internal processes that shape the small firm's HRM function, we will discuss qualitative functional elaboration of HRM and resolve it with the theory of asymmetric effects of misfit, which gives us the concept of underfit of an organization's design and structures, including its HRM function (Klaas & Donaldson, 2009; Klaas, Lauridsen, & Håkonsson, 2006). By *qualitative functional elaboration* of HRM, we mean a process of achieving depth in the form of more complexity and sophistication in HRM activities and practices. It is not merely having more "pieces" of the HRM function in place, which is quantitative elaboration, or breadth across more and more HRM activities and practices. By *underfit*, we mean the condition in which HRM's qualitative functional elaboration is insufficient for addressing performance-relevant structural and environmental contingencies such as growing headcount, attempted use of various strategies, adoption of advanced technology requiring specialized knowledge, increasing governmental regulation and applicability of employment laws, fluctuating external labor supply, and so forth (Klaas & Donaldson, 2009; Klaas et al., 2006; Tushman & Nadler, 1978).

Our point is that consistently low, or shallow, functional elaboration of HRM in the small firm interacts with structural and environmental factors (contingencies) to create chronic underfit between the small firm's HRM function and the various business requirements and opportunities involving HRM that the small firm faces. Thus, simple, bare-bones HRM in small firms is not, in and of itself, a bad thing (Chadwick & Li, 2018; Heilmann et al., in press). It becomes a problem only when resolved against contingencies that render the HRM function consistently deficient for supporting the small firm's performance goals and needs. We will describe qualitative functional elaboration, relevant contingencies, and chronic underfit below, as well as their implications for future research and entrepreneurship education. We will also mention a broader model in which entrepreneur/owner-manager factors influence functional elaboration of the small firm's HRM practices and chronic underfit influences proximal outcomes, but development of that full model is beyond this paper's scope. For now, we will focus on low functional elaboration interacting with contingencies to affect chronic underfit of the small firm's HRM function.

FUNCTIONAL ELABORATION OF HRM

Functional elaboration of HRM in small firms is at the heart of much of what appears in research since the mid-1990s, including in special issues of journals such as *Entrepreneurship Theory and Practice* and *Human Resource Management Review*, wherein researchers invoked and described this functional feature in a variety of ways. For instance, Cardon and Stevens (2004) focused on HRM functions (specific systems and practices, such as staffing, compensation, and training) in small, growing firms, and noted a difference in the thoroughness and complexity (i.e., qualitative functional elaboration) of HRM practices in small versus larger firms, and even in small versus "very small" (fewer than 20 employees; p. 302) firms. Similarly, Greer, Carr, and Hipp (2016) noted the common perception that, relative to large firms, small firms' HRM systems are "underdeveloped or simplistic" (p. 755). In more of a quantitative elaboration sense, Baron, Burton, and Hannan (1996) wrote of differential prevalence and adoption of specific HRM practices in small, young firms.

To understand elaboration of HRM in small firms, one must first understand basics of structuration. Organizational structure entails a certain division of labor that is devoted to distinct but related tasks executed through patterned behaviors. It also entails what is done or implemented to coordinate and to control those tasks (Mintzberg, 1980; Ranson, Hinings, & Greenwood, 1980). Organizational design parameters that are relevant to small, entrepreneurial firms, which display what Mintzberg (1980) called

the “Simple Structure” configuration (p. 331), include power that is both vertically and horizontally centralized (i.e., power resides mostly in the owner-manager) and task coordination through direct supervision and mutual adjustment, the latter of which necessarily requires relatively small work-unit size with close spatial proximity of employees in order for informal communication to suffice (Marlow, Taylor, & Thompson, 2010; Wapshott & Mallett, 2012). In classic structuration terms, the small, entrepreneurial firm is organic and entails relatively little planning, training, and behavioral formalization, relying instead on decisions and control that come mostly or entirely from the owner-manager (Mintzberg, 1980).

Organizational substructures typically described as business functions or subsystems include, among others, the production subsystem and various maintenance subsystems that exist to stabilize organizational functioning (Katz & Kahn, 1978). The firm’s HRM function is largely such a maintenance subsystem. Thus, consistent with structuration theory, entrepreneurs are enacting structure (Giddens, 1984) when they begin establishing and specifying business functions, including the HRM function, in their small firms. More of the same occurs when, after designing and implementing the fledgling business function, entrepreneurs adjust the function’s features and take action to maintain the function (Klaas & Donaldson, 2009). Elaborating HRM, then, essentially denotes structuration of the HRM business function through a series of decisions, resource allocations, task assignments, policy making, authorizations, patterned actions, related communications, and the like, often all done or at least initiated by the owner-manager (Klaas & Klimchak, 2006). This is consistent with Felin and Foss’s (2005) reminder that organizational routines and capabilities, which we think surely include the HRM function, originate from purposeful, intentional action. In the case of small firms and startups, the owner-managers and entrepreneurs are the purposeful, intentional actors who elaborate HRM routines and capabilities. This is also consistent with regarding individuals and structure as microfoundations of organizational routines and capabilities (Felin, Foss, Heimeriks, & Madsen, 2012; Zoogah, 2018). Finally, we note that research on responses to paradoxical tensions also suggests that HRM’s elaboration will occur in small, growing firms, with owner-managers taking necessary steps to make the function more deliberate and formal even as they long for their firms to stay, on the other hand, organic and flexible (Keegan, Bitterling, Sylva, & Hoeksema, 2017).

This elaboration establishes a reliable, procedural pattern to HRM activities and programs while developing, strengthening, and extending procedural infrastructure such that HRM becomes a stable enough system to counter the opportunity costs of underfit. Given HRM underfit and attending absence of necessary elaboration, the small firm may be consigned to purely ad hoc, idiosyncratic treatment of HRM issues with undue amounts of decisional churn and re-invention that tax the entrepreneur’s already limited time, attention, and resources (Chadwick, Way, Kerr, & Thacker, 2013).

In our conception, elaborating is a process construct, somewhat comparable to the differentiation and integration Lawrence and Lorsch (1967) described. HRM’s degree of elaboration, whether quantitative (breadth of distinct HRM subfunctions and activities) or qualitative (depth, or sophistication and complexity, of a given HRM subfunction or activity), is certainly a state variable, but that end state occurs through a process of elaborating. To equate the end state construct with its generative process construct would be tautological (Suddaby, 2010), so we stress that the elaboration process (functionally elaborating) resides in decisions, resource allocations, and the like that result in the focal HRM activity’s establishment and form.

Note this description of HRM’s relatively low qualitative elaboration in small firms shares similarities with what has been described regarding, for instance, the marketing function’s development in small businesses (Hills, Hultman, & Miles, 2008; Resnick, Cheng, Simpson, & Lourenço, 2016). Hills et al. described how relatively little market planning and research occurred in the small firms they studied, how marketing’s opportunity-recognition mechanisms were strongly tied to entrepreneurs’ behaviors versus something more systematic, and how marketing-related authority and control were concentrated in the owner-managers. Likewise, project management in small firms (100 and fewer employees) changes with company size (a structural contingency) in the project management’s maturity (which we see as its degree of qualitative functional elaboration) and fit (including degree of underfit). Project management is less

formal and less bureaucratic in small firms, and people who are not primarily project management-trained people tend to lead projects in small firms (Turner & Ledwith, 2018), just as non-HRM professionals typically execute HRM in small firms (Cardon & Stevens, 2004).

Note also the foregoing descriptions of small firms' structure and HRM's elaboration in small firms are different from what one typically reads regarding HRM in large, established organizations. This is especially so with respect to the strong influence of the founding entrepreneur, which typically is greatly diluted or entirely gone in very large firms that comprise the samples used in much research on strategic human resource management. Fundamental structuration differences may well be at the heart of observations that HRM in small, entrepreneurial firms is meaningfully different from HRM in large, established firms, and that conclusions reached in strategic HRM studies involving large firms may not hold or apply neatly to HRM in small firms (e.g., Allen, Ericksen, & Collins, 2013; Balkin & Swift, 2006; Goswami, McMahan, & Wright, 2006; Heneman et al., 2000; Hornsby & Kuratko, 2003; Tocher & Rutherford, 2009; Wiesner & McDonald, 2001).

When decision makers in small firms elaborate HRM, they initially establish and then develop this business function from being fairly narrow and simple to being broader and more complex. Thus, HRM's elaboration is both quantitative (more or fewer HRM functional activities like staffing, compensation, training, performance appraisal, disciplinary action, workplace safety and health practices, and so on) and qualitative (HRM functions, activities, and systems that are more or less complex, nuanced, detailed, and sophisticated). The degree of HRM's quantitative elaboration is akin to what Patel and Cardon (2010) termed "HRM intensity," which they described as the degree or extent to which firms adopt key HRM practices, and which these researchers operationalized as an additive index (see Sels et al., 2006, and Wagar and Rondeau, 2006, for similar approaches).

Patel and Cardon (2010) conceded, however, that knowing how many HRM practices a small firm employs (HRM intensity) may not be as useful as knowing what specific HRM practices influence important variables such as productivity and firm culture (cf. Wright & Gardner, 2003). We suggest that the qualitative elaboration of HRM practices in use takes this a step further. For instance, the combination of a rudimentary recruiting and selection process with base pay may have less impact on employee productivity than a combination of a more complex, discerning staffing process (akin to what Kotey and Sheridan [2004] described as "intensified" selection procedures that incorporate multiple techniques; cf. Way, 2002) and a more sophisticated pay practice that features both base/fixed and variable pay components. The small firm's performance demands and market opportunities may evolve in ways that necessitate HRM activities that are more nuanced and sophisticated enough to ensure employees with certain skill sets are hired and retained; that employees receive training in specific processes and technologies for productivity's sake; that performance feedback, rewards, and overall performance management focus employees' attention on new and specific behaviors, skill development, and customer needs; and so forth.

An example of this qualitative elaboration may reside in deciding on, budgeting for, and authorizing going from base pay and simple commission practice to additional performance-based pay practices often cited as high-performance work systems (HPWS; Huselid, 1995). As to employee benefits, an example would be initiating a basic group health insurance benefit and later, through vendor coordination and any needed funding of increased expense, qualitatively elaborating that benefit to meet employees' variable needs (e.g., high-deductible coverage versus more traditional indemnity coverage) for the sake of retention. Another example is allocating the selection resources and time and assigning, for instance, panel interviewer roles so as to move from simplistic interviewing and technical skills testing to variations in interviewing (e.g., panel-style, behavioral questioning, etc.) and testing (soft skills testing, personality testing, etc.) for more focused screening. Yet another example is authorizing and communicating related policy for expanded workplace drug testing that includes not only new-hire testing, but also post-accident testing and random mandatory testing in safety-sensitive jobs. These more critical compensation, staffing, and employee safety approaches represent not only quantitative elaboration in the form of new ways to be rewarded, screened, or drug-tested, but also qualitative

elaboration because of the more performance-connected assumptions these advanced practices are based on and the more sophisticated formulae, knowledge, and data processing they apply.

RELEVANT STRUCTURAL AND ENVIRONMENTAL CONTINGENCIES

Variable amounts of the process and activity of elaboration (i.e., decisions, resource allocations, task assignments, policy making, authorizations, patterned actions, related communications, and the like, often all done or at least initiated by the small firm's owner-manager) resulting in variable degrees of functional elaboration may or may not be associated with underfit and related firm performance problems, depending on contingencies the small firm faces. The contingencies are both internal and external to the firms (Klaas et al., 2006) and are what determine whether small firms' characteristically low HRM elaboration results in underfit (Klaas & Donaldson, 2009). A tight external labor supply, for instance, may render a small firm's simplistic recruiting practice insufficient. Other performance-relevant structural and environmental contingencies include, but are not limited to, moderating influences such as growing headcount, attempted use of certain strategies such as diversification, adoption of advanced technology requiring specialized knowledge, and increasing governmental regulation and applicability of employment laws (Klaas & Donaldson, 2009; Rauch & Hatak, 2016; Tushman & Nadler, 1978). These contingency factors place demands on the small firm's HRM that, when interacting with minimal or superficial elaborative managerial action and thin, under-developed HRM, enhance the likelihood of underfit.

For instance, issues of HRM's evolution in small firms, typically described in relation to small firms' employee headcount growth and life-cycle stages, implicate HRM's elaboration, for the small firm faces a problem if its growing headcount demands more HRM sophistication than its low state of functional elaboration and low occurrence of elaborative processes (requisite meetings, decisions, resource allocations, and so forth) can muster. Kotey and Sheridan (2004) reported evidence that HRM's elaboration increases as headcount grows, and that HRM in micro firms (fewer than five employees) is less elaborated in virtually all ways than in small and medium-sized firms. Cardon and Stevens (2004) addressed differences in HRM between small and medium-sized firms as well as between emerging and established firms. They noted that very small, emerging firms' HRM, often neglected in academic research, differs from HRM in firms that are small but established. Others have likewise noted that small firms cannot be lumped together in a single category because some are very small (e.g., fewer than 10 employees or, as in the micro firms in Kotey & Sheridan [2004], fewer than 20 employees) versus small and growing toward medium-sized; some are young, emerging, and entrepreneurial versus older, established, and kept deliberately small as a conscious strategic or personal choice; and some are at different life-cycle stages than others of similar size (Barber, 2006; Baron et al., 1996; Barrett & Mayson, 2007; Carland, Hoy, Boulton, & Carland, 1984; Davidsson, 1989; Marlow, 2006; Mayson & Barrett, 2006a; Tansky & Heneman, 2006).

On this latter point of similar sizes at different life-cycle or growth stages, note that not all researchers put stock in typical stage models as an explanation of small firms' relative size. This matters to our discussion to the extent one believes that firm size and environmental factors, more than time's mere passage and regardless of the firm's age or life-cycle stage, influence and interact with HRM's elaboration. Certainly, this comports with Baron et al.'s (1996) findings that headcount growth was far more influential than firm age on HRM's formalization in emerging firms. Levie and Lichtenstein (2010) depart from any notion that businesses develop through some specific number of stages that are somehow inherent to all firm development. Instead, tension the entrepreneur feels to exploit untapped market opportunities spurs business model development so as to generate marketable value that addresses the market opportunities. Levie and Lichtenstein note that optimizing and adapting the small firm's business model for responding to any given set of market opportunities can be required repeatedly and in any number of sequences, versus only at certain finite, sequenced stages. Baron (2006) likewise described how entrepreneurial opportunity recognition and its related effects on business model adaptations may happen repeatedly as the pattern of factors defining the opportunity gradually becomes clearer to the

entrepreneur, thereby expanding and refining the business venture in a number of ways. Organizing activities and organizational processes are certainly part of the firm's business model, so what may appear to some as the entrepreneur's frequent "tinkering" with HRM practices is understood as necessarily elaborating HRM in the service of business model (re)specification and execution.

Research references to HRM's evolution in small firms may suggest a temporal element in HRM's elaboration. A small firm's HRM function may start out fairly elaborated, however, depending on strategy and owner preference, and regardless of whether that preference makes traditional sense in the small-firm startup context (i.e., overfit of HRM elaboration may exist from the start; Klaas & Donaldson, 2009). In such a case, time's passage means much less than what is entailed in a function's evolution (Hannan, Burton, & Baron, 1996), given that "evolution" typically connotes gradual change or advance. Evolution may not connote the degree of change or advancement, however, whereas elaboration in both quality and quantity can (i.e., researchers should be asking, "Evolving from *what* to *what*, and *how*?").

Although some small-business owners and senior managers may elaborate HRM anticipatorily at the very outset of the venture, most entrepreneurs likely elaborate HRM only when HRM problems become more salient and they see the need for a specific HRM activity, policy, or function (Tocher & Rutherford, 2009). That is, elaboration is more likely if a given HRM activity or function seems functionally relevant (deemed instrumental to success in the specific context of contingent challenges the entrepreneur faces) to the small firm's owner (Bacon et al., 1996). The interaction of the firm's current degree of HRM elaboration and the opportunities uncovered in strategic pursuits makes further qualitative functional elaboration imperative, catching the entrepreneur's attention and prompting the managerial actions necessary to elaborate further the HRM function. In Levie and Lichtenstein's (2010) terms, as long as the entrepreneur can see the connection between elaborating HRM and exploiting a market opportunity, the impetus for HRM's elaboration is subsumed in the tension the entrepreneur feels while the untapped market potential intrigues the entrepreneur.

HRM's functional relevance must exist to command the owner-manager's already challenged attention, typically diffused across many brief, fast-paced, and disparate tasks throughout the workday (Bird, 1988; Chadwick et al., 2013; Greer et al., 2016), and to compete with whatever tendency the owner may have to focus heavily on the technical aspects of the firm's products and services while ignoring some organizational and managerial needs associated with those products and services (Mueller, Volery, & von Siemens, 2012). Indeed, the demands of addressing pressing operational issues likely account for some of the lag between when the small firm's HRM becomes underfit due to inadequate functional elaboration (Klaas & Donaldson, 2009) and when the entrepreneur comes to realize the need for elaboration.

Another peculiarity involving HRM's elaboration exists when, for instance, a 20-year-old small business's owners have consciously chosen not to elaborate HRM much along the way. Is this a case of arrested or retarded evolution, or more a matter of strategic choice or business model specification resolved with market opportunities? Carland et al. (1984) articulated a difference between small business ventures and entrepreneurial ventures, noting the latter are more growth-oriented. Thus, Carland et al. would seem to label any lack of HRM elaboration in a small business as a deliberate choice reflective of owners' preferences (to include a preference for keeping the firm small), not necessarily arrested evolution (cf. Davidsson, 1989).

Particularly as qualitative elaboration occurs, HRM changes from informal to more strategic, from merely functional and compliance-driven to more high-performing in nature. Whereas quantitative elaboration slows down after initially establishing HRM activities, qualitative elaboration of HRM tends to increase over time if the firm is growing or pursuing new opportunities. A similar distinction would be between traditional HRM practices that mainly serve control purposes and discretionary HRM practices that tend to support innovation (Hayton, 2003). We suspect the latter are more qualitatively elaborated. What has especially happened in such cases is quantitative elaboration of HRM in the form of expanding to include functions and activities not as needed or as readily afforded at some earlier point in the firm's development and, very importantly, qualitative elaboration of those HRM practices. Granted, qualitative elaboration may be practically absent in HRM rendered static by the owner-manager's choice, by low or

flat headcount growth, and in lulls in external forces (e.g., no new legislation, fewer market opportunities during an economic downturn, etc.) that tend to influence HRM practices. In other cases, however, strategic choice, growth, and external forces prompt qualitative elaboration (Chadwick et al., 2013).

Understanding the early functional elaboration of HRM is important to understanding subsequent strategic HRM (SHRM) in the same firm, as early HRM structures in small firms can constrain subsequent elaboration (Hannan et al., 1996). Some small firms, particularly growing ones, can and do come to approach HRM strategically and in an integrated fashion versus executing various HRM functions somewhat disjointedly in some loose configuration (Goswami et al., 2006; Way, 2002). Logically, SHRM has to proceed from some functional basis of sufficient quality (i.e., the “threshold level” of HRM quality needed before SHRM is possible; Huselid & Becker, 2011, p. 423) that will provide foundational practices and policies to be deliberately integrated in the service of corporate strategy (Mayson & Barrett, 2006b; Wright & McMahan, 1992). Owner-managers initially elaborate that functional basis at least in part due to strategic imperatives and business issues the small business faces at the time, especially during its growth from, say, microbusiness origins to some more developed and bigger (yet still small as businesses go) form (Hannan et al., 1996; Huselid & Becker, 2011). We hold that qualitative elaboration of HRM is a key tool in small, growing firms’ efforts to integrate HRM with firm strategy for performance’s sake. If the small firm’s current HRM configuration activity, even if low in qualitative functional elaboration, and elaboration activity, even if too infrequent or unfocused to make the HRM practices more sophisticated, can deliver on what the adopted strategy demands, then no underfit will occur. If the small firm’s HRM is too simple and unsophisticated to support strategy and the owner-manager takes no action or insufficient action to address HRM, however, underfit will occur.

Qualitative functional elaboration is essentially the mechanism that shapes HRM’s horizontal and vertical fit (Wright & McMahan, 1992), and these fit notions do not apply solely to large firms (Hayton, 2003). Quantitative elaboration will necessarily make horizontal fit across HRM functions and activities more complicated, but it can also serve vertical fit to the extent that the HRM function being added aids overall firm strategy. Qualitative elaboration within a given HRM function can certainly make that function’s fit with other HRM functions more challenging, but qualitative elaboration can also form coordinating mechanisms needed to ensure horizontal fit (Katz & Kahn, 1978). Qualitative elaboration is likely to be especially necessary for vertical fit as the HRM function is modified and refined to support overall firm strategy, hence strategy’s place among moderators that are relevant to HRM elaboration’s link to underfit, fit, and overfit. Fortunately, small firms may have more opportunity than large firms to establish and to maintain sound vertical fit (as well as to address overfit or underfit of HRM, for that matter), given the fewer number of decision makers and HRM practitioners involved.

CHRONIC UNDERFIT OF THE HRM FUNCTION IN SMALL FIRMS

Once again, underfit is the condition in which HRM’s qualitative functional elaboration is insufficient for addressing performance-relevant structural and environmental contingencies such as those we mentioned above. Overfit is the condition of the business function being excessively elaborated relative to contingencies, such that inefficient redundancies and unnecessary activities occur or aspects of the business function stand idle (Klaas & Donaldson, 2009; Klaas et al., 2006). Underfit of the small firm’s HRM function will exist to the extent the owner-manager’s qualitative elaboration efforts are inadequate relative to the structural and environmental demands and opportunities the small firm faces. Specifically, low qualitative elaboration of the HRM function, which generally characterizes small firms’ HRM, in combination with those moderating influences results in an HRM function that is underfit to the firm’s actual HRM needs.

This notion of inappropriate levels, or degrees, of HRM elaboration reflects the kind of misfit decried in structural contingency theory (Burns & Stalker, 1961), but the issue may be especially problematic for small firms that are growing. Applying the theory of asymmetric effects of misfit to HRM’s elaboration suggests that growing firms are liable to experience episodes of underfit during growth spurts. According to this theory, whereas overfit entails costly inefficiency but still permits firm goal attainment, underfit is

even costlier in that it results in firm goals not being met (Klaas & Donaldson, 2009; Klaas et al., 2006; Tushman & Nadler, 1978). The ill effects of underfit and overfit are not neatly symmetrical; underfit is worse. This is analogous to Zajac et al.'s (2000) finding that insufficient change in firm strategy was more likely to lead to firm failure than was excessive change. The point is that excessive functional elaboration may create "noise" and inefficiencies, but not jeopardize key HRM goals and intended business outcomes, whereas low functional elaboration may leave the firm lacking capacity to seize opportunities or to counter threats, thus jeopardizing key HRM and overall firm goals. No small firm profits from missing HRM-related goals, but small firms that are growing are especially and repeatedly at hazard if their owner-managers and decision makers ignore HRM's elaboration when it is truly needed and thus invite underfit.

Inappropriate levels of HRM's elaboration implicate small-firm resource constraints, owner-manager values violation, opportunities missed, and unmet employee needs, among other things. For instance, resistance and related in-fighting become predictable when proposed HRM elaborations aimed at addressing underfit, as defined in theory of asymmetric effects of misfit (Klaas & Donaldson, 2009), contradict the small firm founder's values and preferences. Another example would be undue qualitative elaboration resulting in a performance-based pay feature for which no employees qualify. This would be overfit, with the small firm needlessly incurring the administrative expense of maintaining the policy and tracking the related data, but not necessarily facing a problem of pay inadequacy. As Hayton (2003) observed, building in additional HRM flexibility and differentiation when things are relatively static in the organization represents an undesirable cost to be avoided and, therefore, is a form of overfit.

Thus, we are not suggesting small firms should needlessly elaborate HRM simply for the sake of being more like those firms (typically much larger firms) that have widely and deeply elaborated HRM. We are suggesting that finding the right balance of HRM elaboration is important to any small firm (Heilmann et al., in press). Even if we acknowledge the research that has largely dispelled the notion of "bleak house" HRM conditions (absence of HRM and attending workplace fairness and participation in employee relations) in small firms (e.g., Bacon et al., 1996; Wiesner & McDonald, 2001), we note those studies assessed sample firms' HRM in quantitative elaboration and documentation-related formalization terms only. Assessing the qualitative functional elaboration of those small firms' HRM is the only way to know with due precision if underfit or overfit is a problem.

What makes the underfit chronic in small firms varies somewhat, depending on which types of small firm and entrepreneur are involved. If it is a small, "lifestyle" kind of firm with an owner-manager determined to keep the firm small (Morris, Neumeier, Jang, & Kuratko, 2018), the chronic, ongoing underfit comes from a deliberate choice not to allocate resources and attention to elaborating HRM. That is, the entrepreneur, in consciously trying to keep the firm small, may unconsciously (and mistakenly) hold that headcount is the only relevant contingency. In this case, the underfit is truly chronic in a way Klaas and Donaldson (2009) did not entirely anticipate in holding that overfit is typically chronic, but underfit instead creates an episodic, acute condition that drives a corrective reaction (i.e., the underfit gets resolved). If the small firm is, however, growing and has an aggressive, growth- and prospector-oriented entrepreneur at the helm (Peng, 2001) or has an aggressive growth identity as Morris et al. (2018) describe, it is less a matter of choice and more a matter of fit being a moving target. The contingencies, not the least of which is employee headcount, change. Each time the owner-manager qualitatively elaborates HRM some more and achieves relative fit, the contingency subsequently shifts, causing the entrepreneur once again to play catch-up because the entrepreneur typically is not going to divert whatever little organizational slack there is to overfitting preemptively the HRM function. By the time elaborating HRM becomes functionally relevant again to the busy entrepreneur (i.e., by the time the entrepreneur "feels the pain" of underfit in terms of productivity lags, missed sales, and such), the firm is already behind contingencies' effects, and the firm's HRM is already underfit relative to the contingencies.

Thus, we expect that underfit of the HRM function recurs in repeated waves or cycles for the small firm that is growing in headcount or encountering new market opportunities due to new strategic initiatives, often with the effect of slowing other critical development (e.g., sales, certain operating

efficiencies, etc.), at least until the entrepreneur acts to elaborate further the HRM function and restore better fit (Klaas & Donaldson, 2009). This HRM elaboration by fits and starts happens despite agility the small firm may show in other areas such as marketing and operations, as small firms have sometimes been found to have traditional HRM practices (although fewer than in large firms) instead of ones more tailored to their specific situations (Heilmann et al., in press). To adapt to our discussion a point Tushman and Nadler (1978) made, the firm's conditions and requirements change over time, so qualitative functional elaboration of HRM never quite stabilizes or ends, especially not in a small firm led by an entrepreneur intent on developing, growing, and making profitable the firm. The same can be said even for the small firm whose owner-manager deliberately intends to keep it small because other relevant contingencies besides headcount (regulations, swings in the economy, etc.) change, if only more slowly or less frequently.

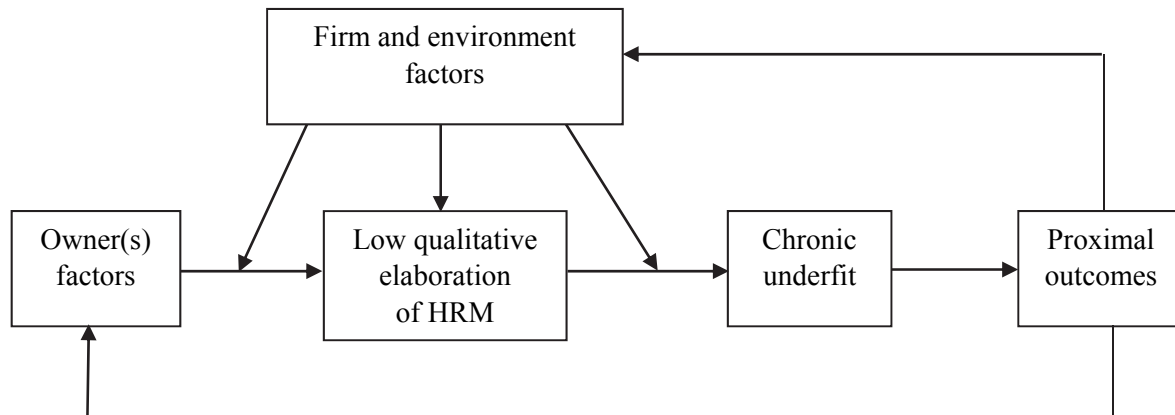
IMPLICATIONS FOR FUTURE RESEARCH, PRACTICE, AND ENTREPRENEURSHIP EDUCATION

Clarifying the HRM elaboration construct is a useful first step toward functional elaboration theory that could be applied to practical prescriptions for optimizing HRM elaboration dynamics in small firms. Small firms need insights in this area because it is possible for a small firm's HRM to be either over-elaborated or under-elaborated relative to the small firm's particular configuration of employee needs, internal resource availability, environmental constraints, market opportunities, and entrepreneur's preferences (Kotey & Slade, 2005; Miller, 1991). Two of these conditions, internal resource availability and the entrepreneur's preferences, are felt more acutely in small firms versus large, established firms. Thus, excessively deep and complex HRM activities and systems can spell relatively big trouble for the small firm, as can HRM practices that are too simplistic or too shallow.

Being able to operationalize functional elaboration in small firms as both a dependent variable and, as appropriate, a mediator is important to model testing, as is specifying and operationalizing relevant correlates as independent variables and outcomes. Independent variables logically include entrepreneur/owner factors and firm/environment factors, and the latter may also interact with the former. These antecedent effects on various HRM-relevant, proximal outcomes are likely mediated in small firms by HRM's low functional elaboration and, depending on moderating effects, chronic underfit. Figure 1 depicts this proposed set of variables and associations; it also suggests that the HRM-relevant outcomes can subsequently influence, in feedback-loop fashion, both the owner-manager and antecedent firm factors over time.

Antecedents associated with HRM's elaboration in a small firm include both influences of the founder or owner-manager and certain structural, financial, and industrial features of the firm. The latter represent context variables, and thus may also moderate the relationship between founder characteristics and HRM's elaboration (Klaas & Klimchak, 2006). Organizational factors that affect HRM's elaboration, and that may moderate certain owner-manager influences, include financial resources, growth in headcount and across business functions and locations, venture type and associated organizational identity, strategy and related plans, and proportion of staff comprised of the entrepreneur's family members. Future research should investigate these antecedents.

FIGURE 1
INFLUENCES ON AND OF HRM'S LOW QUALITATIVE FUNCTIONAL
ELABORATION IN SMALL FIRMS



Relative to any one of the multiple HRM professionals, line managers, labor union officials, and so forth who may influence HRM's elaboration in large-firm settings, the owner-manager of a small business occupies a dominant position and has great influence on how the small firm's HRM is elaborated and formalized (Allen et al., 2013; Klaas & Klimchak, 2006; Koch & de Kok, 1999; Matlay, 1999). Some research (e.g., Rauch & Hatak, 2016) has called for investigating how the owner-manager's goals influence occurrence of various HRM practices. Various characteristics of the small firm's owner-manager will influence decisions, task assignments, resource allocations, authorizations, and policies related to virtually all of the small firm's operations and business functions, including HRM (Cardon & Tolchinsky, 2006; Kaman, McCarthy, Gulbro, & Tucker, 2001; Mayson & Barrett, 2006a; Shepherd, Williams, & Patzelt, 2015). These features include the entrepreneur's prior exposure to HRM, delegation tendencies, formal business education, attitude toward HRM, reliance on external advisers or peers (i.e., network usage), and personal values involving the entrepreneur's own financial rewards and the small firm's community impact. Future research should also investigate these variables' effects.

In addition to specifying the above antecedents' effects on HRM's functional elaboration in the small firm, further development of the model and any associated theory of HRM's functional elaboration in small firms should certainly address outcomes likely mediated by underfit. Proximal outcomes that are directly related to employees are more likely to be relevant and reliably testable than are more distal outcomes such as firm financial performance. In addition to the retention and productivity outcomes we mentioned above, these proximal outcomes may include things like person-job fit, staffing efficiency, training transfer, pay equity perceptions, organizational commitment, workplace injury abatement and related cost control, unemployment insurance claim outcomes, and even succession management, all of which may be better or worse to the extent HRM's elaboration is appropriate for and well-fitted to the small firm's situation and aims.

Some confusion in researching HRM in small firms likely stems from the seductive convenience of simply counting HRM-related documents (judging "formality" simply in terms of the existence or not of a visible, documenting policy or practice statement) versus judging more qualitatively the actual HRM practice's complexity and sophistication (qualitative elaboration). We hold that HRM's functional structuration must be regarded as much more than mere formalization if researchers are to understand the small firm's HRM. Again, elaboration of HRM is structuration of the HRM business function through a series of decisions, resource allocations, task assignments, policy making, authorizations, patterned actions, related communications, and the like. These decisions, choices, and actions can take many forms and reflect many psychosocial processes given the wide array of conditions and features defining any small firm's business context and owner-manager. Even gauging managerialization in growing small

firms to see if the founding entrepreneur's idiosyncratic influence is giving way to something more distributed and formalistically prescribed does not necessarily enable researchers to assume the growing small firm's HRM is elaborated. Successor management can still conduct HRM in much the same way the founder did due to having been influenced by the entrepreneur from early on and to being constrained by the small firm's culture (Chadwick & Li, 2018).

Headd (2010) stated that "most small firms start small, stay small, and close just a few years after opening" (p. 7). For the half or so that survive beyond five years in the USA (Headd, 2010), however, surely some HRM elaboration occurs, if only because HRM is so sparse and unelaborated at startup. It behooves researchers to know what HRM elaboration attends growth and survival of these small firms. Relatedly, Klaas and Klimchak (2006) raised questions about when it is best for small firms to invest in HRM practices, programs, systems, and services. They are essentially asking when HRM elaboration should start and qualitatively develop in small firms. We think the answer is when contingencies such as headcount growth, strategic choice effects, customers' service quality demands, and regulatory requirements demand it. Entrepreneurs can allow the prospect of needed functional elaboration to push them, anticipating some of these contingencies and proactively elaborating HRM, with the result being somewhat inefficient overfit for a while. Most entrepreneurs, however, will be too busy with everyday challenges and too financially constrained to do anything but allow contingent effects to pull them along toward elaborating HRM in lagged fashion, after the underfit has become acute enough to hurt firm performance.

Any proper theory of HRM's functional elaboration in small firms will specify relevant concepts and constructs, explain how and why these constructs exist or are related, and give due attention to conditions that qualify or limit the theory's propositions (Suddaby, 2010; Sutton & Staw, 1995; Whetten, 1989). We have taken initial steps toward this theorizing in this paper. Such a theory will guide empirical testing (both qualitative and quantitative) to specify elaboration dynamics and optimization, which can address what we warned of above: the possibility of a small firm's HRM being either over-elaborated or under-elaborated.

Research on HRM's functional elaboration and chronic underfit in small firms may enrich our understanding of HPWS. To the extent qualitative elaboration enables HPWS, it is good, and a close look at HPWS research literature will reveal that small firms can have such systems, too. Indeed, some small firms have certain HPWS naturally (Bacon et al., 1996), whereas very large firms have to work hard to create such systems precisely because those firms are not organic in their structure or functioning. To the extent SHRM or its associated formalization begin enacting additional structure (Giddens, 1984) independent of the firm's real need, it is bad. The inefficiencies associated with over-elaboration are real, and small firms should leverage their small size and organic practices to avoid those. This was Wilkerson and LeVan's (2017) point, for instance, when they recommended that entrepreneurs, leveraging small-firm features and conditions, adopt non-traditional performance appraisal approaches that are lighter in ratings focus and the formalization that attends ratings. At the same time, small firms, especially ones with owner-managers strongly opposed to elaborating and formalizing HRM, should take care not to under-elaborate to the point of underfit so severe that necessary HRM outcomes (retention, productivity, etc.) are missed (Klaas & Donaldson, 2009). Given the connection between HRM outcomes and firm performance (Allen et al., 2013; Huselid, 1995), the small firm's very ability to exploit market opportunities may be at stake.

Further study in this area could address questions like which HRM functions and activities are most often elaborated first. Logically, the staffing function would seem to be the first HRM activity established in most small-firm startups, but when it is not, why is that so? Perhaps more importantly, which HRM functions do entrepreneurs qualitatively elaborate most deeply, and why? Also, which HRM activities are most often deferred, and if there are HRM activities the entrepreneur would especially prefer to avoid, what are they and why? Relatedly, do the HRM activities or modifications that entrepreneurs most often defer result in underfit as conceived in the theory of asymmetric effects of misfit (Klaas & Donaldson, 2009), and what HRM elaboration ensues to correct the underfit?

Furthermore, is employee headcount growth the only relevant contingency? Arguably, underfit occurs when qualitative elaboration of the HRM function renders information processing that is insufficient to meet size, strategy, and uncertainty contingencies, among others (Klaas et al., 2006; Luo & Donaldson, 2013). Size defined as employee headcount is an obvious contingency relative to HRM's qualitative elaboration, but so is uncertainty. That uncertainty in the market and environment complicates qualitative elaboration of HRM practices aimed at achieving fit with the in-flux firm, knowing exactly what needs to be trained more or differently and knowing what needs to be incentivized through variable pay, for instance. Finally, can the adjustments in qualitative elaboration be made without overdoing formalization and unduly taxing the small firm's relatively reduced capacity for handling paperwork and related rulemaking? Knowing answers to these questions would be beneficial for both research and practice.

A curricular, educational implication of our discussion is that entrepreneurship courses and instruction need to be explicit about the relatively informal and simplistic status of HRM in startup firms and small firms, but also warn that this simplicity can result in underfit, depending on contingencies, that can retard financial growth, thwart operational initiatives, expose the small firm to legal liabilities, and so forth. We concur with Kuratko (2005) that entrepreneurship education needs to be explicit about risks in entrepreneurship, and the risk inherent in chronic underfit of small firms' business functions is one of those risks. Entrepreneurship students may be so focused on fresh startup activity and heroic, one-person entrepreneurship (Laukkanen, 2000) that they cannot well imagine the HRM pressures that can occur even at micro-firm size. Assuming the entrepreneurship student's practical objective is eventually founding a firm that will grow, what would be useful would be explicit education on how to anticipate and plan for inevitable underfit in the HRM function and, crucially, how to conduct the various activities that entail functional elaboration in a rapid, efficient, and effective manner once the effects of underfit are imminent or incipient. This comports with McGee, Peterson, Mueller, and Sequeira's (2009) observation that entrepreneurship education should take into account the skills needed to address the potentially very detailed planning and implementation requirements for carrying the new venture beyond merely the nascent entrepreneur's initial search for venture opportunities and inspiration.

Thus, education in certain kinds of environmental and internal monitoring for the sake of gauging contingencies' effects becomes important. Perhaps more important is education in skills pertinent to the functional elaboration process that the entrepreneur must initiate and lead, skills such as decision making, team goal-setting, task assignment and related training, role definition and negotiation, cost analysis and projection for funding allocation, prioritization of funding allocation in budgeting, communicating policy and practice changes, managing employees' reactions to functional change, and so forth. These skills should be taught with the small-firm context constantly considered, as the entrepreneur will likely have fewer financial resources, less personal time, and fewer employees to engage in these functional elaboration efforts.

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