Attract and Retain
The importance of employees in small firms

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Abstract

This thesis investigates how a knowledge-intensive, small, young firm, in a highly competitive environment, deal with difficulties in their recruitment process. Given their assumed disadvantages, how does the firm attract and retain key personnel? A case study was conducted of a small young firm in Silicon Valley. The findings suggest that small firms do not directly compete with larger firms for personnel, and that the company should emphasize small firms’ work characteristics in their recruiting practices to become attractive for job-seekers.
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1. Introduction

“Small business is the backbone of our economy” - John McCain, United States senator

This statement was made during the 2008 presidential election when senator McCain was running for office. According to him, and many others with him, small business is a very important part of the American economy. And they are right. Small firms\(^1\) produce 13 times as many patents as larger firms, employ about half of all private sector employees and pay 45 percent of total US private payroll (TGASBC, 2010)

Each year, an estimated 700,000 new ventures are established in the USA. This includes everything from restaurants to pharmaceutical companies. But only 3.5 percent of these evolve into large corporations\(^2\) while one third goes out of business during their first two years (Gilbert, McDougall & Audretsch, 2006). Why is this? Well, there can be many reasons such as an unsuccessful business idea or too strong competition. But something that can be described as vital for all business’ survival is to have the right employees. In fact, Tansky & Heneman (2006) point out that human failings, ineffective management and the inability of the firm to attract and maintain qualified personnel, all contribute to the failure of new ventures every year. This is further supported by Baron & Hannan’s (2002) research on over 100 newly founded firms in Silicon Valley where they showed clear linkages between high turnover and company failure. This makes Human Resource Management (HRM) highly important for new ventures as it is critical for company success.

An important role of HRM is to find the right persons for each position within the company. However, this can be problematic. Especially for newly founded firms. Many leaders of small business enterprises states that there is a scarcity of qualified personnel (Williamson & Robinson, 2008) and young, small businesses experience issues that their larger counterparts are somewhat immune to. Cardon & Stevens (2004) performed a literature study in which they describe such issues.

\(^1\) In this study, small firms was defined as firms with less than 500 employees, meeting size standards specified by the U.S. Small Business Administration, Office of Size Standards

\(^2\) In this study, large corporations was defined as corporations with more than 500 employees, meeting size standards specified by the U.S. Small Business Administration, Office of Size Standards
The most important issues facing young, small, firms, according to Cardon et al., are that they suffer from lack of legitimacy as an employer organization (Williamson, Cable & Aldrich, 2002; Williamson, 2000), limited financial and material resources (Hannan & Freeman, 1984; Williamson, 2000) and that these firms often have a high number of jobs where employees typically perform multiple roles (May, 1997). These problems combined leads to a difficulty in attracting and retaining key talent and skills (Cardon et al, 2004).

While attracting and retaining key talent and skills are troubling for most new ventures, there is one category of companies that, to a larger degree, are affected by this issue. When looking at this through the lens of a knowledge intensive company these issues are only magnified since these companies’ core competence and competitiveness derives from their employees’ expertise and know-how, much more so than in other types of organizations (Alvesson 2004). For knowledge intensive IT firms these issues are even more critical, as the relative importance of human capital compared to physical capital is higher in IT firms than in non-IT firms (Yang, Kim & Bakos, 2003).

Because of the vital importance for knowledge intensive firms to hire the right people it stands to reason that it is of equal importance to retain these individuals once employed. This is due to the fact that finding a replacement can be a difficult task and that valuable knowledge leaves the company, but also the loss of time and money spent training that employee (Ramlall, 2004).

These two areas, attraction and rentition of key talent and skill for knowledge intensive companies have received little attention from the academic community (Cardon et al, 2004). The studies that have been conducted reach a consensus that these types of firms should have great difficulty in performing these types of activities. The purpose of this thesis is to bring new knowledge by presenting our findings from a case study of a knowledge intensive IT firm in the USA, that has been successful in their hiring process and employee rentition.

1.1 Research goal
Research question: What factors influence recruitment and employee rentition success in knowledge intensive young small firms in Silicon Valley?

Research purpose: The purpose of this exploratory study is to investigate how a knowledge intensive, young, small firm handles their recruitment and rentition of knowledge intensive
workers. It is also aimed at filling an academic gap since little attention has been given to these questions by the academic community.

1.2 Research boundaries
We have chosen to limit our research to a small, knowledge intensive, high-tech, entrepreneurial company located in Silicon Valley, California. We conducted a case study on one organization, KPM, in order to get a clearer, in-depth perspective on how firms experience, and can handle, employee attraction and rentition issues.

We choose to focus our study on the engineering department of the company since that department solely employs knowledge intensive workers. The same cannot be said about the business side of the company and due to this it has been excluded from our study.
2. Theoretical framework

In this section we will present relevant theories and research on how entrepreneurial companies attract and retain knowledge intensive workers. We begin with describing what a knowledge intensive worker actually is. Secondly, we show the difficulties that young, small, firms suffer from when trying to employ new personnel. Thirdly, research concerning retention will be presented. This theoretical framework and its main points will be summarized at the end of this chapter.

2.1 Knowledge intensive work and firms

Knowledge intensive work and firms revolve around tasks where intellectual and analytical processes are in center. Typically, these types of tasks require extensive theoretical knowledge and experience to be carried out successfully. The work is oftentimes characterized by not being highly routine but rather creative and requires adaptation to specific circumstances. Often times there are also a high level of autonomy when performing these types of tasks (Alvesson, 2004, pp 1-22).

Examples of knowledge intensive firms are IT-firms, management consultancies, R&D based companies, engineering- and law firms (Alvesson, 2004, p 1).

In these types of corporations competitive advantage is derived from the effective use of human capital. So the employees, identified as knowledge intensive workers, are usually paid a substantially higher salary than the average worker. This is done in order to keep their expertise within the company and give them a fair compensation for their input. The knowledge intensive firm also puts heavy emphasis on the creation of culture and corporate attachment (Alvesson, 2004, pp 1-36). As explained by Pfeffer:

“The distinctive competence of a professional services form is the skill of its staff and if those people can be obtained just as readily elsewhere, and if they have no attachment to a particular firm, then the competitive position is diminished. This is why many well-managed professional services firms emphasize recruitment, selection and building strong culture to retain the skilled employees who constitute the basis of their success.” (Pfeffer, 1994, pp 21-22)

This can be seen in many of the successful IT corporations of our time and they fit into the category of knowledge intensive firms. Google has established a practice of very high salaries and personal benefits for their employees as well as created a corporate culture that’s appealing to the
individuals they want to recruit. They allow their employees to operate with a high level of autonomy and draw on their creativity to create new products (Sullivan, 2007).

2.2 HRM introduction
Human Resource Management (HRM) gained notice and appraisal in the 1980’s. HRM is comprised of different organizational aspects and practices in regards to staff issues, but the key goal it to reach a competitive advantage by managing the company’s most critical asset – the employees (Poole, 1999).

In the discussion of HRM, Wall and Wood (2005, p. 430) list its organizational activities; "sophisticated selection methods, appraisal, training, teamwork, communications, empowerment, performance related pay and employment security." Developing strategic approach in these areas should enhance the organizations skill base and employee efficiency, which in the end will lead to competitive advantage and be profitable for the organization.

In a study conducted by Barret, Neeson & Billington (2007) they reach the conclusion that small firms should formalize their HRM to better reach and attract personnel with the right set of competencies and skills for the job. Especially so in small growing firms, were informal HRM practice may not be sustainable. However, studies show that formalization of HRM practices is lacking in small firms, and is foremost characterized by informality. Recruiting, for example, is often based on the practice of "word-of-mouth" and the usage family and friendship (Barret et al, 2007).

2.3 Recruitment in small firms
In 2004 Cardon & Stevens published a literature study concerning young, small, firms’ hiring processes and the difficulties that young, small firms can have in this process. Here we present the main points of their study as well as some complementing theories in order to highlight some of the issues that face these firms in their recruitment process.

2.3.1 Legitimacy
Legitimacy is crucial for any organization’s success in several areas of their operations. In a broad sense, organizational legitimacy represents an umbrella evaluation of an organization’s activities or characteristics (Williamson, 2000). Suchman (1995) describes the effect legitimacy carries on the
job-seekers’ perception of a company. He describes it in very certain terms where high legitimacy is beneficial and low legitimacy is negative for the outcome of the hiring process. With low legitimacy the organization can be viewed as untrustworthy and unreliable (Suchman, 1995).

Prospective job applicants who view an organization as a legitimate employer will see that organization in a more favorable light than those organizations that lack employer legitimacy. This positive image of an organization as an employer will increase applicant interest in that organization and should increase the success of the organization's recruitment efforts (Williamson, 2000).

Larger corporations can rely on their name, reputation and market share, which inherently gives them more legitimacy, to attract new employees. Small, newly founded companies has yet to earn, or create, a brand as an employer and gain high legitimacy on the market, and it can present an issue when competing with established firms (Aldrich, 1999).

2.3.2 Familiarity, reputation and image
Cable & Turban’s (2001, 2003) research of applicants behavior concluded that the applicant’s behavior was influenced by three factors in the recruitment process; familiarity, reputation, and image. These three factors are sub-categories to legitimacy and play a part in forming the umbrella evaluation of the company.

Familiarity means that the applicant had some form of knowledge about the company before applying. If there was a pre-understanding of what the company did and how they operated, it affected the recruitment outcome positively as the applicants regarded familiar companies in a better light, than they did unfamiliar ones. Reputation is defined by how affectingly the applicants see the company as an employer. If, for example, a company had a reputation of taking good care of their employees it affected the recruitment process positively. And lastly, image, is defined by the applicants associations and perceived attributes of the company. Such attributes could be “meaningful”, “fun”, “philanthropic” and so on. If the applicant could identify with the company's perceived attributes it affected the hiring process positively. All these three dimensions affect job seekers behavior (Cable & Turban, 2001; 2003).
These dimensions (familiarity, reputation, and image) can be problematic for young firms, as they often suffer from financial restraints and lack of market share and exposure. The lack of market exposure ensures that they are less familiar to job seekers than older, more established firms. The young company is also unlikely to be known for their good employee benefits or high salaries since they often suffer from a lack of financial resources, which can be negative for their reputation. (Cable & Turban 2001, 2003; Hannan & Freeman, 1984; Williamson, 2000). Though familiarity and reputation can be detrimental to a young firm’s hiring process their image can still benefit them if job applicants can associate themselves with the company’s perceived attributes.

Williamson et al (2002) argued that even if a small company is familiar and has a good image in the job-seeker’s eye, it may not be sufficient for a successful recruiting. There also has to be, from the job-seekers perspective, an attractiveness and desirableness to the company.

2.3.4 Limited financial and material resources
Most young, small, firms are limited by financial and material resources accessible to the company (Hannan & Freeman, 1984; Williamson, 2000). Since many specialized HR activities such as recruiting are infrequently performed in these ventures, the costs of hiring highly trained HR professionals are likely to be prohibitive (Arthur, 1995). Larger, more established, companies have more financial resources to put behind these types of activities which make them less financially straining to conduct (Williamson, 2000). In young, small, companies it often becomes the responsibility of general managers to handle HR functions, rather than HR professionals. This is a result of the financial implications associated with recruitment activities, since outsourcing to an HR professional generally costs a lot more than performing the process in-house (Longenecker, Moore, and Petty, 1994).

Since it is often a sporadic process, small firm managers are least likely to develop the skills and tacit knowledge required to efficiently perform needed HR activities, which makes the in-house hiring process less effective (Barney, 1991), and when performed, these HR tasks may interfere with managerial responsibilities that are directly related to revenue production (Cook, 1999). This is problematic for small venture managers who are already resource and time constrained (Klaas, McClendon, & Gainey, 2000).
Limited financial resources can also cause problems when a company lacks the financial means to pay a fair market wage to its employees. This can lead to employees leaving the organization and search for other employers where they would receive a higher salary (May, 1997).

2.3.4 Multiple job responsibilities
In young, small firms it is common that the employees perform several functions within the organization. An accountant may for example help with technical support and attend industry conferences for marketing purposes (May, 1997).

Small businesses also have a need for flexibility among its employees. To this end, job assignments are often unstable and employees can be asked to move quickly from one role to another and back again. This can present an issue when recruiting new employees since it demands comfortability with uncertainty (May, 1997).

2.4 Employee rentition
The organizational awareness of employee turnover and its ramifications is high. In a survey from 2007, done by Report on Salary Survey, more than 600 HR professionals partook. 87.1 per cent answered that they had worries concerning attracting and retaining personnel (IOMA, 2007). This is understandable since Fitzenz (1997) stated that the average company loses approximately one million dollars with every 10 professional employees who leave the organization. The total cost of employee departure, with combined indirect and direct costs, can be anywhere between one and two years pay for each lost employee. This is a significant economic impact on an organization and it is further damaging given the knowledge that is lost with the employee’s departure. The implications of turnover is especially significant in small, knowledge intensive ventures as shown by Baron et al’s (2007) research on over 100 newly founded firms in Silicon valley, where he showed clear linkages between high turnover and company failure.

2.4.1 Basic needs
Managers need to facilitate a proper climate in which employees’ feel that they can develop and that their needs are met. If such a climate does not exist it can lead to frustration amongst the employees which can result in lower job performance and increase withdrawal from the organization (Steers & Porter, 1983, p.32).
Some of these needs and how to satisfy them was explained by Champange & McAfee (1989). Their theory builds on Maslow's need hierarchy theory. They state that there are five important base needs for professional employees. When these five needs are met the employee is motivated and is more likely to stay with the current employer. The five needs are physiological needs, security, affiliation, esteem and self-actualization.

The physiological needs refer to things associated with the body of the employee, such as food. Champange and McAfee (1989) states that one way of fulfilling this need is to provide food from a cafeteria or vending machine. The need for security is explained through terms of economic and physical security. The pay has to be satisfactory and benefits, such as medical insurance, should be provided. In addition, the work environment has to be safe and free of hazards. The third type of need is that of affiliation. Employees need social interactions to function effectively and this should be encouraged by management. Activities organized for the employees outside of the office could further fill this need. Another important factor is employee esteem. Their work has to be challenging or it will decrease motivation. The employee should also be given training in new areas in order to keep them engaged in their work. The final need is that of self-actualization. Here it is important for management to encourage creativity, career opportunities and, again, provide training so that the employees feel that their work not only provides them with monetary rewards but also teaches them new things that can benefit them in the future.

These are the basic needs for professional employees and should be fulfilled in order to keep employee turnover low (Champange & McAfee 1989).

2.4.2 Compensation
As stated above, satisfactory compensation is important. But what would constitute satisfactory compensation for an employee? Robbins (1993) explains that it depends on many circumstances such as culture, previous experiences, education, expectations etc. But the core of it is that the employee must feel that there is a balance between what they give, input, and what they get out, output. The employee makes this comparison between what their input-output ratio is and the perceived input-output ratio of other employees at the company. Tension might be created if there is a discrepancy here and motivation and the willingness to stay at the company may be damaged.


2.4.3 Job design

Job design is highly relevant for employee motivation and rentition. How the tasks are formulated and how the overarching structure of how work is done plays an important role for the need of affiliation, esteem and self-actualization.

The theoretical approach is that the task itself should be motivating for the employee. If the task is monotonous and repetitive it stifles motivation while challenging tasks gives an increase in employee motivation. Adding autonomy, decision authority and variety to tasks are ways of creating a larger challenge. So it is beneficial to let employees try new things, letting them make their own decisions regarding their workload and leave the task to their discretion (Herzberg, Mausner & Snyderman, 1959).

By implementing the three above stated ways of making tasks more challenging employees are likely to reach the three important psychological states described by Hackman & Oldham (1980). According them the employee will experience internal motivation when they feel personal responsibility for the outcome of the job, that the work that they are performing is meaningful and when they are able to transform effort to output.

In short, the tasks should be designed as to generate experiences for the employee of meaningfulness, responsibility, and knowledge of the results of one’s effort (Pinder, 1984). This structure should be supported by feedback from management as it helps the learning process. By providing feedback turnover is also reduced (Hackman et al, 1980). In this way the work itself helps fulfill the employees need for esteem and self-actualization.

Hackman et al (1980) continue by describing three additional factors that make work seem meaningful for the employee; skill variety, task identity, and task significance. They claim that a work task should consist of a mixed set of skills and talents for it to be experienced as meaningful. It should also consist of some degree of awareness of how the task at hand fits in with other employees work in the organization.

The tasks should also be designed as to give a pretext for social interactions. Even if the task itself is performed on an individual level, it’s highly important that help can be enlisted for co-workers and superiors to fulfill the need of affiliation (Ramlall, 2004).
With efficient job design, motivation can be benefited and fewer employees will leave the organization (Ramlall, 2004).

2.4 Theoretical framework summary
Young, small firms face numerous of issues concerning their attraction of key talent and skill. The ones that we have chosen to focus on are legitimacy, limited financial resources, multiple job responsibilities, lack of familiarity, reputation and image. Many of these issues affect young, small, companies differently than large companies.

When a company suffers from low legitimacy or an ambiguous firm identity it affects job seekers perception of the company negatively. Young, small firms also, usually, have a small market share which makes them unfamiliar to most job seekers. In addition to that they have yet to form a reputation, good or bad, as an employer. With the added issue of being heavily limited by financial resources so that marketing campaigns rarely can be conducted, or HR professionals hired, it comes as no surprise that young, small companies can experience difficulties attracting and retaining key talent and skill.

Once a small, young firm finds an employee it becomes very important to keep that individual in the company since high turnover has led to the demise of many newly founded firms. In order to keep employees motivated and willing to stay with the organization the company needs to fulfill the employees' basic needs. These are described in terms of physiological, security, affiliation, esteem and self-actualization.

The work itself must also be motivating and challenging. In short, the tasks should be designed as to generate experiences for the employee of meaningfulness, responsibility, and knowledge of the results of one’s effort.

The company also has to provide satisfactory payment and benefits in order to keep turnover low.
3. Method

3.1 Research method
We chose a qualitative, case study design of our research. This because we need to gain a deeper understanding to answer our research question and with a qualitative study it’s easier to do this than with a quantitative research method (Saunders, Thornhill & Lewis, 2009).

3.2 Data sampling
We choose to perform semi-structured interviews with the CTO (Chief Technical Officer) and four employees. The interview with the CTO was critical for our thesis since he has been in charge of the company’s hiring process and has been the one who performed interviews with potential employees. The interviews lasted between 30 minutes to one hour and were performed over a duration of two weeks. Emails were, in some cases, sent after the interviews to gain additional information and to clarify given answers. We also read internal documentation, recruitment ads and articles to get additional information on the company as a whole as well as their recruitment and retention effort.

In this thesis we were asked not to state the real name of the company and it is therefore called KPM in this thesis. Nor were we to link any statements directly to any employee. This was done on the request from KPM’s management.

3.3 Validity
By reading theoretical works we developed our interview questions3, and the interviewees targeted had extensive experience of our research field, which provides high validity. The type of interviews (qualitative, semi-structured) provides opportunity for follow up questions for an elaboration of the answers given. This approach may bring nuances of information to light, which would otherwise have been lost with a quantitative method (Bell, 2005). Semi-structured interviews also give the respondent room for own reflections, which in turn may give deeper understanding for the research questions (Saunders et al, 2009). The balance provided by the flexibility of the interview technique and the predefined starting point of the five key issues, gave us a understanding of the respondents opinions and experiences while maintaining a good comparability between the interviews, and maintaining high validity.

3 See appendix for interview questions.
We have chosen to study only one company, with few employees, in our case study, which is a limitation that affects validity.

3.4 Reliability
The company we chose for our study is located in Silicon valley (CA), which made face-to-face interviews impossible. Therefore we chose Skype as a communication tool. Skype is an internet based communication program which provides both audio and video options. This helped since it allowed us to not only to hear what the respondent said but it also allowed us to read their body language and pick up on clues that would otherwise have been lost. During the interviews, we both took notes of answers given, and both authors partook in the conducting and elaboration of the interviews. To increase the accuracy and reliability of these interviews we recorded everything in order to have the option to go back and listen to what was said. Each interview was listened to several times in order to gain as much detail as possible from the interviewees’ answers. This helped us gain a deeper understanding for the answers given, as well as getting accurate quotes form the interviewees. We also followed up with several of the interviewees via email to allow them to clarify their position on certain questions. Certain parts of the interviews, that was deemed extra important by us, was transcribed in order for us to be absolutely clear about what was said.

3.5 Research difficulties
While we did choose semi-structured interviews as our method, we do recognize the difficulties which may occur when conducting a qualitative research method. Saunders et al (2009) explains potential problematic consequences with the use of qualitative research, in terms of credibility to the research, such as relationship bias, reliability, validity and generalizability. However precautionary steps have been taken to avoid this. We would in light of this emphasize that one of the authors of this thesis has a background at KPM, and a close relationship to one of our research subjects. We are aware that this affects our perception of the company. Due to this, we have had to critically examine our pre-understanding of the company, in order to create an un-biased interpretation of the information received and research results (Holme & Solvang, 1991). We leveraged this pre-understanding in such a way that it contributed to creating enhanced understanding for the situation of the interviewee (Dalen, 2007).
4. Empirical study

4.1 Case description

4.1.1 Company Environment
KPM has its office in Silicon Valley, California. Silicon Valley has been a high-tech cluster since the 1950’s and is today host for several of the world’s largest web-based companies such as Google and Facebook (Netvalley, 2010) and this area has become a popular place for entrepreneurs to start their own high-tech firms (Silicon valley, 2010).

A common type of venture in Silicon Valley is the “dot com” firm. The name derives from the URL extension “.com” that is commonly used by international sites. These types of firms are characterized by their dependency of the World Wide Web and that they operate primarily on the Internet where their products and services are sold and used online (Investorword, 2010).

The dot com firms are highly technology based. Their products are commonly developed by skilled engineers to be able to function on the complex platform that is the World Wide Web (Silicon Valley, 2010).

4.1.2 KPM
KPM is a young, knowledge intensive, dot com firm, founded October 2009, in Silicon Valley. Their product is an application for Facebook and with 60 000 customers and 12 million monthly active users it became the largest media application on the social network after 7 months on the market. Their product is aimed at helping musicians in their marketing on the social network by providing a platform for their music, videos and photos, and by being a one stop destination where fans can find information about the band as well as engaging in conversations with other fans.

KPM operates within the “music-tech” industry. This means that they are a technological company and that their products are designed for the music industry.

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4 See appendix for company timeline, organizational chart and picture of company product
5 Each “Monthly active user” represents a Facebook user that uses the product at least once per month. Numbers were acquired from KPM’s database, 2010-12-13
The company mostly employs knowledge intensive workers. They currently employ 10 people where seven of them would be considered knowledge intensive workers. Six of these are employed on the product development side of the company. These individuals are the base of our study.

KPM serves as a good representative example for our research question. Given that it is a newly-started, small, knowledge intensive firm, it should have experienced and dealt with the difficulties identified.

4.2 Case data results
In this section we present the collective information gained by interviews with management and employees at KPM, articles written about the company, internal documentation and other material. First, we will go through management’s view on what attracts individuals to KPM and then their strategy for retention. Secondly we will present the employees’ views on those same topics.

4.2.1 Recruitment efforts and strategy
“*The company is only as good as the sum of its parts*” - CTO

This statement was made by KPM’s CTO. He expressed that what makes KPM possible, and what makes it succeed, are the employees. Their skills and knowledge is what drives the company forward and without sufficient in-house talent in all fields necessary the performance of their product would be severely hampered.

Their goal when searching for new employees is to find the top one percent talent on the market. This is based on the assumption that with such a skilled team they will need fewer employees, which creates a more efficient team that is easier to manage and also costs less.

“We are looking for people who possess extraordinary talent in programming. But they should also be down to earth, have great communication skills and be a good fit for the team. We don’t hire people who are money hungry but individuals who want to make a difference and who want to work on interesting projects.” - CTO
KPM management feels like these people are scarce and can be hard to find. The CTO expressed concern that many of their preferred employees would seek employment at larger IT companies, like Google and Facebook, now that they are hiring personnel after the recent economic crisis. The competition for these individuals has increased further now that many other young IT firms in Silicon Valley have received venture capital over the last few months. With more capital available more ads can be paid for and higher salaries can be offered.

Previously KPM has tried several different avenues to reach these individuals but they've had a low success rate. Through forums and job-hunting sites they have received a lot of applications but very few real alternatives. Some of the sites that were used also offered low response rate. In June 2010 one ad had over 100 views but only 3 people applied for the position (Internal documentation). The direct financial costs for this process has been relatively low but the time spent on sorting through the applications and performing interviews has led to a lot of time being consumed that could have been used on product development and business activities.

Management noticed that there was a low answer rate to their job postings and credited this to a lack of knowledge about the company among potential employees. The company had, at this time, June 2010, relatively low market exposure and was still quite unknown.

In light of this KPM turned, in October 2010, to HR professionals and headhunters. Even though the initial cost was several times higher, than posting ads on forums and job-hunting sites, it freed up managements time so that they could focus on their core activities like product development and marketing. The reason why they had not turned to HR professionals earlier was due to lack of funding for such a venture, but in October 2010 they received their first venture capital and as a result they could finance the hiring of aforementioned headhunters. According to management, the result of this strategy was an overall increase in quality of potential employees and made their managerial operations run more efficiently.

All things considered, management expressed deep satisfaction with the result of their recruitment process and the level of talent they have attracted and how well the team has performed. Out of the 9 people they have hired no one has chosen to leave the company and only one person has been forced to leave the company due to less than satisfactory performance.
4.2.1.1 Company attraction

When asked about what attracts people to work for KPM several factors were mentioned. KPM operates both within the tech and music industry. They believe that this is a driving factor behind their recruitment success since it’s a, according to management, high profile industry that has an appeal for a lot of people because everyone has emotional connections to music. Some of the world’s most famous artists use KPM’s product and management thinks it’s very appealing for programmers to know that their work affects the success of some of their favorite musicians.

KPM is also a company that has seen steady growth which makes a silent promise of a fast career for the employees that enter the company early on. The CTO stated that employees at KPM might have its own project team within a year while the same achievement would be a three-year process at a larger firm. Since they employ a relatively small team there is also room for employees to make contributions to several areas of the product, which adds variety to their work. He believes that these are appealing factors to potential employees.

The above mentioned factors are inherent to their company. Outside of this KPM have made a lot of marketing efforts concerning their company and product. This has been done mostly through media attention and community management. Over 200 articles have been written about the company over the last year, with features in large tech-blogs and music magazines like TechCrunch, Mashable and Billboard Magazine. Quotes from some of these articles are displayed on KPM’s website in order to strengthen the company’s image. An example is:

“KPM will probably be the service that changes the way Facebook looks when it comes to music.”
- Techcrunch

They also try to build their communication with potential employees is such a way as to spawn a positive emotional reaction. An example of this is the introduction to a job posting they used to find new talent.

“Want to be part of a high growth start-up and work closely with the music industry? KPM provides a fast-paced work environment with daily challenges and projects that gives you opportunities to use your creativity and intellect.”
- Job posting on Jobbi.com for a frontend engineer, 2010-07-20
According to management, all of this combined has been a conscious move to strengthen the company's image, both towards customers and potential employees. Management noticed that as their market share increased they got better and better response from their ads and headhunters. The CTO stated that it's quite likely that their product success has been a big contributor to their, in his words, hiring success.

“We believe that some [potential employees] were hesitant in joining a company that had only been on the market for a few months. They had no idea about our numbers and might have perceived a risk in joining. Nobody wants to join a sinking ship. Now that we are more established we no longer feel that this is an issue since we receive sufficient applications to for the positions we advertise.”

- CTO

4.2.2 Retaining employees

“Our most important tool, our only tool, is morale” - CTO

Most of KPM’s rentition efforts are aimed at raising morale. Their view is that a happy employee is much more likely to stay at the company that a disgruntled one. Keeping the talent that they have recruited is very important to management because of the following reasons. First and foremost it’s hard to find new employees. Secondly, a lot of time and resources has been spent training the employees. Thirdly, if an employee were to leave, the already massive workload would, for a time, be divided amongst the other employees who already have long working hours. And fourthly, it would be detrimental to morale to have people leave since bonds have been established between the individuals of the team. In this section we will go through the tools KPM has used to raise morale.

4.2.2.1 Work environment

KPM management has made a conscious choice to try to democratize the work environment. The CEO and CTO do not have offices separated from the rest of the workforce but are instead working alongside the employees in an open office landscape. They believe that this is a vital part of building trust and allows for an efficient way of leading by example. It also reduces the chance of barriers being built between management and the rest of the company.
Leading by example is a big part of KPM management’s strategy to motivate their employees. During the long work hours, up to 14 hours per day in some cases, management believes that it helps the employees to see their superiors work just as much as they do. This would not be possible to the same extent if there were separate offices.

Each morning they hold a meeting discussing what tasks everyone are going to be working on during the day and if they need assistance with any of the tasks at hand. They also state what they did the day before so that their work can be evaluated and feedback given. This is done in order to keep track of what everyone is doing, both for the benefit of the CTO and the employees themselves.

The office in itself is also part of their motivation strategy.

“We try to always exceed expectations. We could have gotten a smaller, less flashy, office and saved a lot of money but it’s important for us that our employees enjoy their work environment.” - CTO

In an effort to make the work environment more fun and fit the company's image, management has equipped the office with large speakers, musical instruments and DJ turning tables, all available for use by everyone at the company.

The same ideology can be seen when management recently purchased computers and office materials. Management stated that they bought the best possible computers and screens for their employees in order to make them feel appreciated.

4.2.2.2 Compensation

“Salaries here at KPM are relatively low. But we don’t only offer compensation in terms of money. We pay our employees with knowledge and opportunities as well.” - CTO

KPM’s compensation strategy was from the beginning one of necessity. There was no money for salaries for the first six months of operations so, besides stock options, knowledge and opportunities was the only means of compensation.
Even though KPM now pay their employees for their work, the salary is far lower than what is offered by many other software companies in Silicon Valley, according to management.

“I don’t think that salary is a big issue for our employees but rather what environment they work in and what people they have around them. In general I believe that this type of individuals want to work with people who can challenge them, learn from and that they can have fun with at work.”

- CTO

Training is offered to all employees on a regular basis, both in one on one sessions and in group settings. When tasks are performed by employees, management also provides feedback and expresses what was performed well and ways in which the task might be performed more efficiently.

Management believes it’s very meriting for a worker to have been part of a start-up, especially a successful one, more so than being part of a large corporation. This would, according to management, make everyone who has been part of KPM more attractive to other employers after they leave the company. And as stated earlier by the CTO, entrepreneurial firms in general and KPM in particular offers a faster career path within the company compared to larger firms. Management believes that this fast increase in responsibilities and influence over the company's activities compensates, to some degree, the relatively low salary offered to employees.

All employees are also offered free breakfast at the office.

4.2.3 Employees on recruitment
A common view amongst the interviewed employees was that they did not want to work for a large corporation. They had specifically looked for work in small, growing, organizations. In their minds, small organizations allowed them greater freedom, an atmosphere where they could be creative and make a real impact on the company's performance. There was a consensus among the employees that smaller organizations also often where better employers, which had led them all to search for small companies to join.

The major reasons given for joining KPM, instead of another small company, was that it operates within the music-tech industry and that end consumers use the product. Many of the interviewees
expressed an appeal in being able to show their friends and family that they had helped create something that they could use.

“It’s a lot more fun to work on something that makes a difference in someone’s life instead of working on a product which sole intention is to make a difference to a corporation’s bottom line.” - Employee

According to the employees; being part of young, small, firm also seemed like a good learning experience. They perceived that there would be ample of areas where they could contribute and learn from more senior members of the company.

Even though they perceived many reasons for joining KPM, several of the employees voiced hesitation. Many felt like they didn’t have a very clear view of what the company stood for, how well the company was doing on the market or what was expected from them once they took the position.

“There was a possibility that I was jumping on a ship sailing towards an iceberg I didn’t know about. Before joining, they [KPM management] kept their cards very close to their chest.” - Employee

Despite this the employees joined because they perceived that the potential benefits outweighed the risk.

4.2.4 Employees on retention
Several different reasons were given by the employees when asked why they want to stay at KPM. In this section we will go through the most common answers.

Something that was mentioned by all interviewees was the opportunity for learning more about their field of expertise and new skills in both business and engineering. They all felt that KPM provided a healthy climate where the employees had room to try new things and get guidance from the senior members of the company and their colleagues when facing challenging tasks. Many expressed a feeling that the work they were performing now is teaching them skills they will surely use in their future career. In their day-to-day work they were part of several different areas of development, which further strengthened the feeling of learning and made their workdays less routine.
That artists and their fans use KPM’s product was also a major point of job satisfaction. There was a general feeling that they contributed to their favorite artists’ success.

“It feels good when you see your code on your favorite artist's page. You know that you have made a difference.” - Employee

By providing a product that all musicians can use, many employees felt that they are a part of democratizing the music industry. This was highly appreciated among the interviewees since they feel that they are not only contributing to one or two artists but are part of a company that, in their eyes, is changing the way the music industry works.

The atmosphere at the office and the camaraderie that has developed between the individuals on the team was another reason given for staying at the company. Working with other competent people on complex problem while having fun with each other was high on the list of positive thing for most of the interviewed employees. One of the interviewees expressed it in this way:

“It’s very important for me to feel that there is rapport with the people I work with. That I can come to the office and work with people I consider friends is a huge benefit to working here.” - Employee

Though there are several strong reasons for staying at the company some of the staff felt overworked, but that the workload was the same for everyone and that everyone did their part, and that working the long hours at the company took valuable time away from their social life. Some said that this was somewhat compensated by being invited to social events, such as industry parties and conferences. Most employees also mentioned dissatisfaction with their salaries but stated that it is “not a big deal” since they had known about it when they took the position and that the pay is the same for all employees.

When asked to summarize their feelings for working at KPM all interviewed employees said that they were very satisfied.
5. Analysis
KPM has realized that their employees is their most important resource for competitive advantage and that the employees collective skills and talents are the essential factors in making the company successful, which is coherent with Alvesson’s (2004) descriptions regarding knowledge-intensive workers. KPM’s ambition, to get the top one per cent talent on the market, represents this as well. However, equally important as talent, was a good fit for the team. This can help fulfilling the need of affiliation, as described by Champange & McAfee (1989) since it is easier to conduct social interactions with individuals who possess similar personality traits.

KPM management also experienced that the competition for the employees was high, especially so when several other small ventures had received venture capital recently and used this in their recruitment efforts. These criteria, the requirements of talent, personality and the competition from other IT companies, lead the managers to expect difficulties in the recruitment of new employees.

The CTO expressed concern regarding the fact that larger firms like Google and Facebook also were hiring at the same time as KPM. He feared that they would attract skilled employees from the market that could otherwise have been valuable at KPM. But according to our research results this fear may be ungrounded since not one of the interviewed employee wanted to take employment at a large firm. All employees wanted to work in small organizations, because of the working environment. They felt as they could do a real difference in the company and greatly affect the end product, which ultimately affects company’s performance. It seems as though the competition for employees is not between large and small firms but rather between small companies themselves.

So the question is what attracted the employees to KPM instead of another young, small, IT firm in Silicon Valley. This can be explained through Cable & Turban’s (2001, 2003) research where they described reputation, image and familiarity.

As stated by the employees, smaller organizations often where better employers, which had led them all to search for small companies to join. Since KPM falls within the category of small companies it is likely that they benefited from the reputation that small firms in general possess. In other words, they did not necessarily need to have a reputation of their own as being a good employer since they already were attributed by this in the eyes of their employees.
KPM has put a lot of effort into creating a positive image of the company. This is evident through the quotes they have chosen to display on their site and their choice of words in job postings. The image that they are trying to convey is that they are a young, growing, music oriented firm that is part of revolutionizing the music industry. This image is strengthened by their product success, their media attention and that they operate within the music-tech industry. This image, true or false, may have had a positive effect on their recruitment effort since it is something that the employees, according to them, can identify with and want to be a part of.

The study result show that the increase in familiarity also made the recruitment process easier to conduct. This is based on the CTO's statement that as their product became more successful on the market and more articles were written about the company, more potential employees became aware of their existence and more applications were submitted to the company for announced positions.

These three factors helped increase the company's legitimacy. But as stated by Williamson et al. (2002) the company also needs to have attractiveness and desirability in the eyes of the potential employees.

These factors can be found in the fact that KPM provides consumer facing products that are used by artists. This was actually given as one of the major reasons for joining the company in the first place by the interviewees. The attractiveness was found in, as stated by an employee, “making a difference in someone’s life” and that the code that they write is used by millions of people each month. It was also said that it was desirable to be able to show family and friends a product that could be used by them on a daily basis. It was also quite desirable to be part of a KPM as they perceived many learning opportunities at the company.

The five above mentioned factors, reputation, image, familiarity, attractiveness and desirability, combined likely made KPM stand out in the eyes of the employees and in turn influenced their decision to apply for employment at the company.

May (1997) suggest that multiple roles with different job responsibilities could affect the attractiveness negatively in the recruiting process of small firms. But this does not really apply to the case research result. It was in fact perceived by the employees as the direct opposite. The ability
to contribute to, and to learn from, different areas was seen as highly beneficial. That the work was varied was one highly ranked reason as to why they took the job and were staying.

According to management, the lack of financial resources was initially an inhibiting factor in the recruitment process, as described by Hannan & Freeman (1984) and Williamson (2000). They could not offer high salaries or embark on extensive advertisement campaigns for job positions. Though once they received venture capital this issue was diminished as they could now pay for headhunters to perform their hiring activities for them. But even though they now have capital at their disposal for higher salaries management has chosen to keep salaries below market average.

Concerning the salaries however, the financial aspect did not matter that much. According to the employees, the relatively low salaries did not impose a significant problem. They argued, alongside the managers’ perspective that the salary was not that important, and did not mind much that their salary is beneath market average. Instead they valued the learning process of new areas and the goal of accomplishment for the organization.

As described by Robbins (2003), even though the salary is relatively low there is little or no discrepancy in KPM’s employees’ perceived input-output ratio which might help explain why this has not become an issue. If there had been, it might have damaged the company’s retention efforts.

Considering KPM's employee retention, management expressed satisfaction. This is due to the fact that none of the employees they have hired has voluntarily left the company. That one employee was forced to leave was in itself a failure in their hiring process as the employee was not vetted sufficiently before hire but this did not dampen the feeling of success.

The reasons for employee work satisfaction can be explained by Champange & McAfee's (1989) basic need theory and by Herzberg’s (1959) and Hackman & Oldham's (1984) theories concerning job design.

The case research results show that KPM fill all the five basic needs to some degree. The physiological need is somewhat filled by the free breakfast offered to employees at the office. This could be further strengthened by also supplying lunch or dinner as well, especially when considering the employees’ long work hours.
Even though the salary is below market average it is apparently sufficient to provide some form of financial security. The need for security could be further filled if the salaries was somewhat raised since it would decrease worry concerning unforeseen financial expenditure for the employees.

The employees’ feelings of affiliation are influenced by several factors. Management has made conscious efforts to have an open office landscape and a democratized office environment. This provides opportunities to easily share ideas and conduct conversations since there are no barriers between workstations. Management also invites the workforce to some social events, such as industry parties and conferences. Employees expressed satisfaction with this and it has enhanced the sensation of camaraderie. These factors have helped filling the need for affiliation.

KPM provides many opportunities for the employees to contribute to different areas of the product. Training is also provided by the company and combined with often occurring challenging tasks it helped fulfill the need of employee esteem.

The last need described by Champange & McAfee (1989) is that of self-actualization. This need is filled by the perceived potential of a fast career within the company as well as the new skills, that they are taught at the company, in their field of expertise as well as in both business and engineering.

As pointed out by the employees, they feel that what they do is meaningful. Both for themselves and the company but also for the people who use their product, as they feel that they make a difference both for the artists and the Facebook users. In the morning meeting that is held each day they also experienced responsibility for their tasks since they know that it is important for the company's performance that they finish assigned tasks on time and that they are going to be evaluated on their performance. These morning meetings also provide the benefit of allowing the employees to the how their work fits in with their co-workers’. These factors are described in Pinder's (1984) and Hackman's (1980) research as good job design as it helps motivation and in turn, rentition within the company.

The above mentioned factors, physiological needs, security, affiliation, esteem, self-actualization, meaningfulness, responsibility and awareness of how the task at hand fits in with other employees
work in the organization, and how KPM has complied with them has most likely played a large role in their retention success.
6. Conclusion
In our research we noticed, in accordance with presented theory, that legitimacy and limited financial resources could indeed present issues for the company in their hiring process. But multiple job responsibilities were not viewed as negative by employees. They rather found it positive as it presented them with ways to increase their knowledge base and opportunities for personal development.

Case study results show that KPM does not directly compete with larger firms for their employees. Instead, they compete with other small firms for key talent and skills. In light of this they need to differentiate themselves from these other companies in terms of familiarity, reputation, image, desirableness and attractiveness in order to facilitate future hiring success.

In the company's recruitment effort it seems to be of high importance to promote the meaningfulness of the organizations work in general and the employees importance in this endeavor in particular; that their contributions to the company will make a difference, both to the company itself as well as its customers.

KPM's rentition strategy has worked in terms of that no one has yet left the organization willingly and that the employees seem satisfied with their current employment situation. This can be credited to their coherence with the theory presented in this thesis. They might face issues in the future though since their employees specifically stated that they want to work in a small organization. The degree to which they now fill employees' needs might be diminished as the company grows and each employee's performance matters less in a larger organization.

7. Suggestions for future research
Future research could focus on how employees experience their significance within an organization that has seen significant growth since they were employed and the effects that can have on motivation and rentition.
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9. Appendix

9.1 Company timeline
9.2 Organizational chart

CEO

CTO

Engineering Team

Business Team
9.3 Company product
9.4 Interview questions

9.4.1 Interview questions – Employer

9.4.1.1 Background questions

Name:

Position at the company:

Previous experiences:

9.4.1.2 Recruitment related questions

1. Are you experiencing trouble finding the right employees? /Why do you think that is?

2. Do you experience distrust towards KPM as an employer from potential employees? /Has there been a change in this over time? /If yes – What has changed and why do you think it’s so?

3. What channels do you use to advertise that you are seeking new employees? /Why those? /If you had more financial means - would you choose other channels?

4. Do you wish you could go about recruitment in some other way? /Do you feel limited by anything?

5. How do you differentiate yourself in the eyes of the potential employee? /What do you want to be associated with?

6. Are you happy with your recruitment?

7. What are you looking for in new employees?

8. How do you communicate you company’s values and work practices to new personnel? /How much, and what kind of, information do you provide them with before they take the position?

9. Do you believe that you chose your employees or do they choose you?

10. What do you think attracts people to KPM?

11. Why do you believe that your employees choose our organization instead of someone else?

12. What do you do to build an image for the company? Both internally and externally.

9.4.1.3 Employment related questions

13. How is the division of labor made?
14. Do employees only work with tasks that fall within their area of expertise? 
   /If no – Why is that? 
   /Have this changed over time?

15. Describe a workday for one of your employees?

16. Do you feel a difference in the corporate/office culture since you started recruiting more employees? 
   /If yes – Is this change positive or negative?

17. What steps have you taken to strengthen the corporate/office culture?

18. Has anyone left the company since you started? 
   /If yes – Why did they do that?

19. Has anyone been fired from the company? 
   /If yes – Why did you make that decision?

20. How important do you believe your product success has been for your recruitment efforts?

21. How important do you believe that your customer relations have been for your recruitment? 
   /Do you believe that people are attracted to your company due to your close ties to the music industry?

22. Do you want to add anything?

23. Can we return if we have any further questions?

9.4.2 Interview questions – Employees

9.4.2.1 Background question

1. Name:

2. What’s your education?

3. What did you do before joining KPM?

4. Are you local to San Francisco or did you move from another part of the country to get this position?

9.4.2.2 Recruitment related questions

5. What criteria do you use to evaluate organizations where you seek employment? 
   /What’s the most important? 
   /Do you feel like KPM fit those criteria?
6. How did you get in contact with KPM? 
/Did they stand out in any way?

7. What were your intuitive feelings around the company?

8. What were your intuitive feelings around employment at KPM?

9. How did you know that they were looking to hire?

10. Did you feel well informed about the company and your part in it when applying? 
/Did you know what your tasks would be?

11. Did you have any hesitation in joining? 
/If so, why?

12. Do you believe that their practices differ from how other dot com startups work?

9.4.2.3 Employment related questions

13. What are your feelings now for KPM as a company?

14. How did/do you feel about working for a startup?

15. What’s the morale like at the company? 
/If high – what do you attribute that to? 
/If low – why?

15. Now that you have worked for a while – Do you feel that your expectations has been met?

16. Have your tasks changed over time? 
/What’s your feelings concerning that?

17. Do you perform any tasks now that you had no education or experiences of?

18. How are you compensated for your work? 
/are you happy with that? 
/what do you believe your salary could be at another company? 
/(If higher than current salary)What motivates you to take that pay cut?

19. Do you think that there has been a change in the corporate/office culture due to all the new hires? 
/If yes – How? 
/How do you feel about that?
20. Do you enjoy your work at KPM? 
/ Why? What’s most important for you?

21. Has it affected your personal life, working for KPM?

22. How do you believe your friends view you employment at KPM?

23. Where do you believe the company will be in 5 years?

24. Do you want to add something?

25. Can we contact you again if we have any further question?

26. Does the size if the company matter?