THE TROUBLE WITH GURUS: RESPONSES TO DEPENDENCE AND THE EMERGENCE OF EMPLOYMENT PRACTICES IN ENTREPRENEURIAL FIRMS

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ABSTRACT

Using a study of technology-intensive start-ups, we develop and test the hypothesis that employment practices are shaped by the ways in which entrepreneurs respond to experiences of dependence on early *indispensable* employees. We find strong evidence that the experience of dependence on employees influences the types of employees hired, recruitment and retention strategies, the timing of adds-to-staff, and whether incumbent employees believe they are treated fairly. We draw several implications for entrepreneurial practice and entrepreneurship education.

INTRODUCTION

The Strategic Human Resource Management (SHRM) literature suggests that employment practices are an important component of strategic management, and that better alignment of human resource practices and business strategy will lead to better firm performance. However, employment practices in entrepreneurial firms -- the mechanisms used to attract, select, retain, coordinate and control human resources -- have received very little scholarly attention (Aldrich & von Glinow, 1992; Baker & Aldrich, 1994; Baron, Burton, & Hannan, 1996; Burton, 1995). Reviews of the human resource literature typically do not even address small firms (Lengnick-Hall & Lengnick-Hall, 1988; Taylor, Beechler, & Napier, 1996). Empirical work in “Strategic Human Resource Management” often explicitly excludes small firms (Baker, 1999). This exclusion reflects the overall bias in organizational research toward the study of large firms (Aldrich & von Glinow, 1992; Hornsby & Kuratko, 1990). There is also a simpler explanation. Most work on human resource practices addresses the concerns and activities of human resource managers and professionals. Most very small firms do not have formal 'personnel' or 'human resource' departments. From this perspective, there is little practical reason to address employment issues in start-up firms.

It is ironic that SHRM researchers have paid so little attention to entrepreneurial firms. Most large organizations begin as entrepreneurial firms, and as they grow, they are likely to retain aspects of their early structures and practices. Ecologists and institutional theorists have repeatedly used employment practices as examples of organizational inertia (Aldrich, 1979; Hannan & Freeman, 1977; 1984). As a young firm develops routines and employees develop expectations about the firm as an employer, it becomes disruptive and costly to make substantial changes in employment practices (Pfeffer, 1994). Making smaller changes may even be a problem. One founder told us that when he canceled Friday pizza and beer parties because he was worried about accidents "you would have thought it was the end of the world.” If practices developed early on are difficult to change, they will strongly influence the practices found in older and larger firms. Thus, by failing to focus upon the development of employment practices in entrepreneurial firms, SHRM researchers have missed an opportunity to understand the choice and development of practices that are relatively inert when observed in older and larger firms. This may explain some of challenges faced by researchers exploring the performance impact of "fit" between "configurations" of employment practices, competitive environments and strategies (Baker, 1999; Huselid, 1995; Snell, Youndt, & Wright, 1996). Much of the action has taken place earlier than most SHRM scholars begin looking.

Some recent research has focused on very early dynamics shaping employment practices in young firms. Aldrich and von Glinow (1992, p. 238) suggested that founders' prior work experiences set up "strong expectations as to what an effective HRM system looks like (Aldrich & von Glinow, 1992, p.238."Burton and her colleagues (Baron et al., 1996; Burton, 1995; Hannan, Burton, & Baron, 1996) studied the initial organizational images held by founders -- visions of the kinds of firms they want to build, and the kinds of people they want to employ -- in a sample of Silicon Valley start-ups. They found that the mental images held by entrepreneurial leaders shaped initial employment practices, changes in practices, and other important organizational outcomes. Taken together, evidence regarding inertia and the importance of initial mental images conveys an image of employment practices that are highly resistant to change: entrepreneurs bring clear images of desired employment practices to the firms they found, these images get embedded in practices, and the practices become inert as firms grow and age.

In contrast to such depictions of inert practices, we are interested in how entrepreneurs respond and adapt to human resource challenges and issues that occur while they try to build their firms. Entrepreneurs may learn a great deal as they build a new firm and discover how it fits into the labor markets in which it operates. We believe that the early years of firm development and growth represent a dynamic period of entrepreneurial responsiveness and learning about employment practices. Key events and developments shape the choices entrepreneurs' make and the employment practices that come to characterize their firms. In this paper, we focus on one common human resource management experience: dependence on ostensibly "indispensable" employees. We argue that entrepreneurs' experiences of dependence on indispensable employees and the ways in which entrepreneurs respond have important implications for the development of employment practices in the early years of entrepreneurial firms.

THEORY AND HYPOTHESES

Resource dependence theory (Aldrich & Pfeffer, 1976; 1981; Pfeffer & Salancik, 1978) argues that that a great deal of organizational change is shaped by the terms under which critical resources are made available to organizations. Resource dependence perspectives inform prior work in entrepreneurship. For example, venture capitalists, regulators, and major customers are often portrayed as shaping firms and outcomes through control of various essential resources. However, this attention to how dependence on resource providers shapes firms typically does not extend to the providers of human resources, i.e. employees. Nonetheless, it is easy to imagine entrepreneurs as dependent on particular early employees, and that such dependence relations play an important role in the early dynamics of firm emergence and growth. Stories of individual technical gurus who appear indispensable to the success of technology companies are legendary, such as Lotus Notes designer Ray Ozzie or the "Woz" at Apple computer. When IBM was in the process of purchasing Lotus, a continuing issue was 'how will Ozzie react?'

We can extend such anecdotes -- and the influence of dependence on employees -- to the more commonplace circumstances of dependence relations between entrepreneurs and the early employees on whom they depend while building their firms. Dependence on particular individuals is likely in start-ups. Compared to larger firms, small new organizations frequently have little redundancy across roles. For any given task, there is a good chance that only one person in a start-up firm will have appropriate skills. Indeed, entrepreneurial firms often begin with a single key technology leader or visionary, who is a source of advantage for the firm, but simultaneously a source of dependence. We interviewed the founder of a firm developing what he believes is a revolutionary medical imaging device. We explored with him the question: why couldn't any group of bright imaging engineers quickly replicate the technology? His final answer was that "no one else has Dr. Jones, and there is no one else like him to get."

We use power-dependence theory (Emerson, 1962) to extend resource dependence perspectives to dependence on employees. Emerson developed a generic framework to explain dependence relations among dyads. His fundamental argument is simple: If you have something I want, or if you represent a means of getting what I want, and if I have no other reasonable way of getting it, then I am dependent on you. The more I want it (the more valuable the employee), and the fewer my alternative sources (the harder the employee is to replicate), the more dependent I am. Following Emerson, we define dependence on an employee as a circumstance in which the entrepreneur views an employee as both valuable and hard to replicate or replace. Such *indispensable* employees may create big holes and substantial employment issues if they leave a firm. We predict that when an entrepreneur is concerned about the harm key employees' departure might cause, the way in which the entrepreneur assesses and responds to the situation has important implications for the firm as a whole. These early dependence experiences are salient to entrepreneurs, and they are influential in shaping the employment practices entrepreneurs adopt, the lessons they learn and changes they make, and the firm level outcomes that follow.

The Experience of Dependence: Number, Attribution, and Strategic Response

We focus on three aspects of the experience of dependence on employees that influence employment practices and outcomes. The first is simply the *number of times* an entrepreneur experiences dependence on an employee. The second aspect is the *causal attributions* an entrepreneur makes about why the dependence relation has developed. During fieldwork preceding this study, entrepreneurs offered two reasons for why they had found themselves dependent on employees. The most common explanation was that the person had skills that were in short supply -- or in short supply at an affordable price -- in the local labor market. We call this the "labor market attribution." The second most common explanation was that some role or process idiosyncrasy -- had resulted over time in an incumbent who was uniquely positioned to make particular valuable contributions to the firm (Baker & Aldrich, 1994; Miner, 1987; 1990; Williamson, Wachter, & Harris, 1975). They were in the right place at the right time, and knew things or had skills – important to the business and the entrepreneur – that no one else knew or could quickly and easily learn.

We label the third aspect of the experience of dependence "strategic responses." These responses are strategic in the sense that they are forward looking, and may provide general direction for the use of more specific tactics used in response to dependence. Following Emerson's delineation of mechanisms through which the balance of dependence relations can change (Emerson, 1972), we distinguish entrepreneurs who adopt strategies intended to reduce their dependence on employees, from those who adopt strategies intended to increase employees dependence on the entrepreneurs. "Recruitment responses" attempt to reduce entrepreneurs' dependence through a focus on trying to find someone else to perform the work currently done by indispensable employees. In contrast, "retention responses" focus on making sure that indispensable employees don't choose to leave the firm.

The next three sections present propositions in response to three questions, how does the experience of dependence affect *who* is targeted and selected for hiring, *how* they are recruited, and *when* they get hired?

Who Is Targeted?

Potential employees vary along a large number of dimensions that might be relevant to job performance or other preferences that entrepreneurs hold regarding who they want to employee. Entrepreneurs express these preferences when they target new employees, and when they make selections among candidates. We follow Burton and her colleagues (Baron et al., 1996; Burton, 1995; Hannan et al., 1996) in categorizing the criteria on which entrepreneurs focus when targeting or selecting employees. They described three primary selection criteria: skills enabling an employee to begin performing required tasks immediately, values that match those that the entrepreneur envisions for the firm, and potential for major contributions in the future. Based on our fieldwork, we added a fourth category: inexpensive, or how cheaply new employees could be hired. Although "inexpensive" is not commonly the most important criterion for any length of time, several entrepreneurs described periods in which avoiding expenditures dominated their hiring decisions.

The criteria embedded in selection decisions contribute to the creation of dependence relations. For example, an entrepreneur who actively seeks only "the best and the brightest" employees, or those with "unique talents" will increase the likelihood of dependence on particular employees. Because selection criteria contribute to the development of dependence relations, a change in selection criteria may represent a tactic for responding to experiences of dependence. In a sense, entrepreneurs adopting recruitment responses reject dependence by focusing on ways to replicate employees on whom they are dependent. In contrast adopting a retention response implies acceptance of the dependence relation. Because the dependence relation already exists, rejection requires more radical actions than does acceptance. Thus, retention responses will be associated with more conservatism toward the criteria by which employees are targeted and selected.

An idiosyncratic attribution implies that there is little systematic connection between current criteria for targeting and selecting employees, and the rare value found in the dependence relation. Current practices are not associated with being able to get another employee like the one on whom the entrepreneur is currently dependent. This makes it more likely that current targeting and selection criteria will seem unconnected to the generation of valuable employees, and makes it more likely the criteria will be changed.

> *Hypothesis 1*: Entrepreneurs adopting retention responses will be less likely than those adopting recruitment responses to make changes in targeting and selection criteria, while those making attributions to idiosyncrasy will be more likely than those attributing dependence to the labor market to make changes in targeting and selection criteria.

How Are Employees Recruited To The Firm?

Entrepreneurs may find that they have trouble recruiting good employees to a small, young firm. This may occur because the firm lacks a reputation as a good employer (Aldrich & Fiol, 1994), or simply because of a tight labor market. Regardless of whether they find themselves dependent on particular employees, entrepreneurs who have trouble hiring may try to adopt practices to enhance their recruiting. One tactic they may adopt is to offer special "recruitment deals" to potential employees. These deals may include unusually large stock option grants, extra weeks of vacation not earned through tenure with the firm, signing bonuses, promises of early salary reviews, and a wide variety of other perks. To the extent that entrepreneurs find that they are dependent on particular employees, and unable to hire anyone else with the appropriate skills, they may be more willing to offer special recruitment deals.

> *Hypothesis 2:* Entrepreneurs experiencing large numbers of dependence relations will be more likely to offer special recruitment deals.

Some entrepreneurs may not start with recruitment deals, but may learn that they need them, and add them later. The opportunities for learning this lesson are likely to be greater among entrepreneurs experiencing many dependence relations.

> *Hypothesis 3:* Entrepreneurs experiencing large numbers of dependence relations will be more likely to add special recruitment deals after the early days of the firm.

Special recruitment deals may violate current other employees' expectations of norms of universalism in the workplace (Aldrich & von Glinow, 1992; Halaby, 1986), and create resentment and dissension over such “star” treatment (Austin & Berglas, 1997), as well as a sense of employee "haves" and "have nots" (Baker and Aldrich 1994). Dissension and resentment may exist without detection by the entrepreneur, but it may also generate explicit complaints from employees who resent the deals given to other employees.

> *Hypothesis 4*: Entrepreneurs offering recruitment deals will be more likely to experience employee complaints of unfair treatment.

When Do People Get Hired?

As a protective measure against creating dependence relations, entrepreneurs adopting recruitment responses may learn to avoid jobs with single incumbents,. When there is only a single incumbent in a job, there is no comparative standard for performance or for what activities the job should entail. Jobs with single incumbents may therefore be more likely to evolve to idiosyncrasy (Miner, 1987; Miner, 1990) in such a way that the entrepreneur becomes increasingly dependent on the incumbent employee. In addition, recent evidence suggests that dependence based on structural holes brokered by employees, or based on employee social capital in general is highest when there is only one incumbent per job (Burt 1997). When there are multiple employees in a job, entrepreneurs are less dependent on each, and they have a more readily available comparative standard for what the job entails, making it easier to avoid evolution of jobs toward idiosyncrasy and dependence.

Founders who strongly wish to avoid dependence on incumbents of unique jobs may thereby be motivated to hire new employees earlier than they otherwise would. By hiring sooner than they had originally planned, they may reduce the number of jobs held by a single incumbent, and reduce the chance that dependence relations will evolve:

> *Hypothesis 5:* Entrepreneurs who adopt recruitment responses will be more likely to add to staff prior to when pure perceived workload considerations demand a new hire.

METHODS

Instrument

We wrote a questionnaire designed to work both as a self-administered questionnaire, and as a structured interview guide designed to capture current and historical data on firm employment practices and entrepreneurs' experiences with dependence. It also captured standard demographic data and general information about firms. It was relatively long (over 100 questions, with many of the questions open-ended. As a structured interview, the questionnaire took a minimum of just under two hours. Several people who completed the questionnaire on their own reported that they had spent up to 4 hours on the document, not including the time they spent talking and exchanging email with us.

Sample

We are attempting to explain one source of the variation in employment practices that exists even among firms in the same or very similar industries (Hannan et al., 1996). Thus, we sought to control through sampling, to the greatest extent possible, exogenous industry and geographic characteristics such as labor markets, technology, and culture. We targeted entrepreneurial (small, young, attempting to grow) firms in North Carolina, in industries characterized by a high percentage of employees educated in scientific and technical fields. We chose this population because we expect that given the very low levels of unemployment among technical workers in this market during the last fifteen years, and the complex and rapidly changing state of the art in many technical fields, entrepreneurial dependence on employees is likely to be relatively common. We are not trying to prove that dependence exists. Instead, we are trying to see what effects it has on employment practices and other outcomes when it does exist. We therefore created a purposive sample in which dependence experiences would be common.

We attempted to create a list of North Carolina firms with the following profile: founded in the last 10 years, with a high percentage of technical employees, growing or attempting to grow, not a subsidiary of another firm, and still run by a founder. We focused on two broad industry segments: Information Technology and Pharmaceuticals/Biotechnology. Using entrepreneurship booster group and trade association membership lists, along with various government records, we identified approximately 1400 candidate firms. We screened these firms against our profile by telephone, by reading local magazines and newspapers, and by searching the Web. Many firms turned out to be too old, to have no expectation of growth, to be a subsidiary of a larger firm, to have no founders currently involved, or to have gone out of business.

After screening, we had a list of 137 firms for which we had some verification that they fit the profile. For another 26 firms, we were unable to get any additional useful information about the firms -- except that their telephone numbers are still in service, and are answered by either a person or a machine -- despite large numbers of mailed, emailed, faxed, and telephoned messages, and despite asking apparent competitors about them. Of the remaining 137 firms, 14 explicitly refused to participate, though we then convinced 5 of these to provide at least partial data, reducing the number of refusals to 9. We have in hand data from 83 of the remaining 128 firms, for a response rate (83/137) of 65%. More than 1/3 of these firms had missing data on at least one question, either because the respondent didn't know the answer, or chose not to provide the information. The other 45 entrepreneurs have all agreed to participate, but in some cases, we have been waiting as long as 7 months for them to find the time required to provide us with the data we request. Nonetheless, we have completed data collection with some firms up to six months after initial agreement to participate, and we expect that many more of the 45 remaining firms will eventually find time to participate.

MEASURES AND RESULTS

Hypothesis 1:

To measure the experience of dependence, we first asked entrepreneurs whether they "ever faced a situation in which you were concerned that if a particular employee left, it would leave a hole that might be hard to fill?" Dependency relations are very common in our sample. Out of 76 entrepreneurs answering this question, 66 (87%) reported dependency relations. The 66 answering "yes" reported an average of 4.9 dependencies, with a range between 1 and 20. We asked the entrepreneurs to place each dependence relation in one of two categories. First, was the person was hard to replace "mainly because they had skills that were in short supply in the labor market" (labor market attribution) or second, "mainly because their job had put them in the position of knowing things that no one else knew about your firms operations or technology"(attribution to idiosyncrasy). We calculated an "*attribution to idiosyncrasy*" score as the number of dependence relations attributed to idiosyncrasy divided by the total number of dependence relations. The average score on this variable was .45 (range 0.0-1.0). Entrepreneurs who reported trying harder to find or train someone else to do the work of the indispensable employee than they tried to make sure the indispensable employee didn't want to leave were coded as adopting *recruitment* responses. Those who reported trying harder to make sure the indispensable employees didn't want to leave were coded as adopting retention responses. It was possible to code 65 entrepreneurs in terms of response strategies, with 37 classified as "recruitment" and 28 as "retention."

To measure changes in criteria used for recruitment and hiring, we asked entrepreneurs what criteria were important to them in the early days of their firms, and what criteria are important to them now. For each period (during different parts of the interviews) we asked entrepreneurs to rank in order of importance the following criteria: employees who were "relatively inexpensive," "highly skilled," "had good values and commitment to the firm," and "had high future potential." In the rankings describing what entrepreneurs did in the early days of their firms, "inexpensive" was ranked as most important by 5 entrepreneurs (See Table 1). None of these 5 continued to rank "inexpensive" as most important later. However, 2 entrepreneurs moved "inexpensive" into the top slot, for a total of 2 cases with "inexpensive" as the number 1 criterion for the later measure. For the early days, 31 respondents reported "skill" as most important. In 8 cases, skill was "dethroned," from the top position, but in 11 cases skill won out over the other criteria, for a later total of 34 cases with skill in the top position. "Values and commitment" began on top in 29 cases, lost 7 and gained 4, ending up ranked first in 26 cases, and "future potential" started with 9, lost three and added 5 for a total of 11. We measured change in the criteria used to target and select employees as any shift in the relative rankings of the criteria. In total, using this measure, 60% of entrepreneurs made a change between the early days of the firm, and the time of the interview.

Hypothesis 1 predicted that retention responses would be negatively associated with changes in targeting and selection criteria, while attributions to idiosyncrasy would be positively associated with changes in criteria. We used logistic regression (See Table 2, model 1) to model whether an entrepreneur made any changes to recruitment and selection criteria as a function of number of causal attributions and strategic response, controlling for firm size and age. We included these controls in all models discussed in this paper. The signs of the coefficients estimated for idiosyncrasy and retention are in the directions predicted by Hypothesis 2. Attribution to idiosyncrasy is statistically significant, but strategic response is not. The size of the coefficient for attribution to idiosyncrasy suggests that the odds of a change in targeting and selection criteria for an entrepreneur who attributes all dependencies to idiosyncrasy are over 5 times as high as for an entrepreneur who makes all attributions to the labor market. This provides moderately strong support for the first part of Hypothesis 1 and no support for the second part. Variation in attributions is associated with changes in targeting and selection criteria, but variation in strategic response is not.

Hypotheses 2,3, and 4.

We asked whether employees joining the firm in the early days all received the same benefits and types of compensation, or whether some people got "special deals." We also asked "Today, do you ever offer people you are trying to recruit "special deals" (e.g. vacation, stock options, promises of tuition assistance) when they join your firm?" Twenty-two entrepreneurs (see Table 3) reported giving special recruitment deals in the early days. Fifty-one firms were "at risk" of adding deals, and of these 22 had added deals by the time they were interviewed. Currently, 41 firms report using deals to attract employees.

Hypothesis 2 predicted that entrepreneurs experiencing large numbers of dependence relations would be more likely to offer special recruitment deals. We used logistic regression (See Table 2, model 2) to model the use of recruitment deals as a function of the number of dependence relations. The number of dependency relations is statistically significant. Substantively, an increase of one dependency relation multiplies the odds of offering recruitment deals by around 1.5. This offers relatively strong support for Hypothesis 2.

Hypothesis 3 predicted that the number of dependence relations would be positively related to reports of adding special recruitment deals after the early days of the firm. Table 3 shows that 51 firms did not have special recruitment deals initially, and were therefore "at risk" of adding them. Twenty-two firms (43%) added deals. A logistic regression model of adding special deals (See Table 2, model 3) shows that the number of dependency relations is statistically significant, and estimates a 1.3 times increase in the odds of adopting special deals for each increase in the number of dependency relations experienced by an entrepreneur. Overall, this provides relatively strong support for Hypothesis 3.

Hypothesis 4 predicted that offering recruitment deals would be positively related to having employee complaints of unfair treatment. Out of 77 entrepreneurs answering this question, 20 (26%) said that employees had complained that the entrepreneur unfairly treated other employees better than them. The logistic regression of employee complaints on offering deals shows (See Table 2, model 4) that offering recruitment deals is statistically significant and substantively large as a predictor of employee complaints. Relative to an entrepreneur who does not offer recruitment deals, someone offering special deals to new employees increases the odds of employee complaints by about a factor of 4. This offers relatively strong support for Hypothesis 4.

Hypothesis 5 predicted that recruitment responses would lead entrepreneurs to hire employees in order to avoid dependence, before workload requires adding to staff. We asked entrepreneurs "Have you ever hired a new employee, not specifically because of workload, but in order to avoid having only one person in the firm who could do a particular job or set of tasks?" Of the 76 people answering this question, 25 (33%) indicated that they had hired to avoid dependence. The logistic regression of having hired to avoid dependence (See Table 2, model 5) on strategic response shows a positive and statistically significant relation between recruitment response and ever having hired to avoid dependence. Entrepreneurs adopting the recruitment response have estimated odds of ever having hired to avoid dependence that are higher by a factor of almost 10, relative to entrepreneurs adopting retention responses. This provides strong support for Hypothesis 5.

SUMMARY, DISCUSSION, AND IMPLICATIONS FOR ENTREPRENEURIAL PRACTICE

We investigated the extent to which early entrepreneurial experiences shaped employment practices in entrepreneurial firms. We focused on one common human resource management experience: dependence on ostensibly "indispensable" employees. We looked at three aspects of the experience of dependence: the number of dependence experiences, attributions about the causes of dependence experiences, and strategic responses to dependence. Our results provide powerful evidence that the experience of dependence on employees shapes employment practices in entrepreneurial firms.

Dependence is related to changes in who is hired, how they are recruited, when new openings are created, and whether incumbent employees believe that a firm's employment practices are fair. Attributions to idiosyncratic causes of dependence are a significant and substantively large predictor of whether or not entrepreneurs make changes in the criteria by which they target and select employees. The number of dependency relations experienced by entrepreneurs predict whether firms will offer "special deals" to recruit new employees, and whether firms which didn't start with such deals will add them later. Using such special deals predicts whether entrepreneurs will experience complaints of unfairness from current employees. Strategic responses to dependence relations very strongly predict whether or not an entrepreneur will hire employees before workload demands adding to staff.

Our results also provide powerful evidence of learning and change. Founders can preserve their pre-conceived mental images of desirable practices. They can maintain consistent practices through the onset of the employment practice inertia that besets many established firms. But many entrepreneurs choose change and adaptation. Those who believe that ostensibly indispensable employees are *not* really unique are much more likely to choose to make changes in who they target and select for new hires. Entrepreneurs who find themselves experiencing dependence over and over again have repeated opportunities to learn to make changes toward presenting recruits with more attractive inducements to join the entrepreneurial firm. Even though most entrepreneurs we interviewed did not really want to employ more people than the workload demanded, those who decided to adopt recruitment strategies in the face of dependence were willing to forgo their preferences for running lean businesses in favor of their preferences for avoiding dependence. Each result represents a pattern in which entrepreneurs choose to make changes from their initial employment practices based on experiences of dependence.

We are not able to estimate the extent to which the entrepreneurs making changes had to overcome the inertia of established practices. The evidence about the generation of employee complaints suggests that one aspect of inertia -- employee resistance -- was sometimes present. But the firms experiencing complaints were only a few months older, and were actually slightly smaller on average than the firms experiencing no such complaints. We really don't know how to predict the onset of inertia in employment practices, or how to measure its impact, and we believe that this is a fruitful area for future research.

Our results taken as a whole demonstrate that entrepreneurs' respond to dependence in ways that shape employment practices, making changes after founding and before the onset of serious problems with inertia. Some of our individual results have potentially important implications for the types of firms entrepreneurs build. The decision to offer special deals for recruitment makes employee complaints of unfairness much more likely. The existence of a group of employees who feel they are the “have nots” compared to people who are newly recruited might severely degrade a firms’ culture of coordination and the likelihood of corporate citizenship behavior among employees who feel poorly treated. Perhaps more of a problem, in a tight labor market, with high mobility between firms, a firm with many ex-employees spreading the work about “unjust” employment practices might find recruiting top notch employees increasingly difficult. Alternatively, presented properly, such a firm might appear to “star” employees as a place where they could receive the treatment “they deserve” without worrying about constraints from entrepreneurs concerns about internal equity among employees. In either case, a decision to offer special deals, made much more likely by experiencing dependence, has important implications for firms’ culture and positioning in the local labor market.

The decision to hire a new employee before workload demands it may undermine attempts to create a “lean” culture in an organization. Employees may well learn the lesson that being “indispensable” means that you get help with your work more quickly than someone else. In a small, cash-strapped firm, the decision to spend scarce resources on hiring to avoid dependence my seriously limit what other hires can be made, and therefore what new opportunities can be pursued. An entrepreneur who adopts a strong recruitment strategy will build a firm composed of many people with similar skills. If their firms do business in stable environments, relative homogeneity of employee skills may help entrepreneurs build routines and efficiencies, gaining the benefits of bureaucratization early. But in the dynamic environments typical of high technology start ups, a more diverse group of employees skills is probably an advantage.

Entrepreneurship and HR scholars might have one serious concern with the implications of our finding that experiences of dependence shape employment practice and changes in employment practices in entrepreneurial firms. Recall that our sample consisted of firms operating in a common geographical area, drawing on a very similar labor market for technically-skilled employees. In fact, controls for industry (not shown) made no difference in any of the models analyzed in this paper. The firms we studied faced very similar labor market constraints and opportunities. Why, then, did we find so much variation in entrepreneurs’ experiences of dependence on employees, and in their responses to this experience? We found no evidence at all that entrepreneurs decided how to respond to dependence based on thoughtful consideration of their firms’ overall business strategies and how various employment practices might support these strategies. Rather, we generally found that entrepreneurs had highly emotionally charged and knee-jerk responses to dependence.

Two patterns were common. In one, entrepreneurs were *grateful* for the presence of an “indispensable employee.” We were frequently told that some employee is the “best in the world” or at least the “best in North Carolina” at some set of tasks, and that the entrepreneur was lucky to have the person in the firm. Recall the anecdote earlier about the medical electronics guru presented as the one true source of distinctive advantage for his firm. The affection directed toward some of these indispensable employees surprised us. The other pattern of response was very different. Many entrepreneurs were *angry* at employees for “thinking they are indispensable.” The phrase “nobody is indispensable” recurred frequently, uttered by entrepreneurs who had found themselves in dependence relations with employees. In several cases, entrepreneurs were convinced that employees had actively manipulated their positions in order to *make themselves indispensable:* “That b…h thought she had me right where she wanted me. She hadn’t taught anyone else any of her secrets. And all of her employees loved her, and they all thought she was untouchable, and could get away with that bulls..t. Well, you know what I did, I fired her ass. And that’s my advice to every manager who works for me. Somebody thinks they’re untouchable, you just send them out the door.”

Either emotional response may be based on an accurate assessment. Some indispensable employees really are the only one like them, or the "best there is." Some employees undoubtedly manipulate themselves into indispensability and then take active advantage of their situation. But we heard no description of any attempt to be accurate. Instead we heard quite passionate tales of affection or righteous indignation. But given that responses to dependence have the potential to significantly affect entrepreneurial firms' practices and outcomes, it would seem to make little sense to respond in an unreflective, emotionally charged manner. We believe that many entrepreneurs respond to dependence without adequate understanding or consideration of the potential implications for their firms. This represents a significant area for future research, and an important opportunity for entrepreneurship education.

Table 1
Movement of Targeting and Selection Criteria Into and Out of Top Ranking

Criterion	Ranked First Early On	Dropped from top position	Increased to top Position	Ranked First Currently
Inexpensive	5	5	2	2
Skilled	31	8	11	34
Values and Commitment	29	7	4	26
Future Potential	9	3	5	11
Total	74	23	22	73*

* Totals don't match due to missing data on one variable for one entrepreneur .

Table 2
Logistic Regression Results: Odds Ratios and Significance Levels (intercepts not shown)

	Models				
Variable	1	2	3	4	5
Dependent Variable	Change in Selection Criteria	Offers Recruitment Deals	Adds Recruitment Deals	Experienced Employee Complaints	Hired to Avoid Dependence
Number of Employees	1.000	1.002	.999	1.000	1.000
Age of Firm (in months)	1.009	.996	1.002	..999	1.006
Number of Dependency Relations		1.452**	1.315*		
Attribution to Idiosyncrasy	5.468*				
Retention Strategy	.386				
Recruitment Strategy					9.61**
Offers Special Deals				3.931*	
Probability all Coefficients = 0	.06	.001	.03	.05	.002
Pseudo-R^2	.14-.20	.21-.29	.17-.23	.11-.15	.22-.31

*=.05; **=.01

Table 3
Distribution of Recruitment Deals Over Time

	Early Deals	Stopped Giving Deals	Added Deals	Deals Currently
YES	22	3	22	41
NO	51	70	51	32

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