

# HR Issues in Indian Start-ups

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## Abstract

*Indian economy has witnessed positive sentiments towards technology supported innovative entrepreneurial firms over the last few years. India has become a home to a new breed of young start-ups, and currently is the third largest tech start-up location in the world. In most of the start-ups, employees are treated as partners. Start-ups provide unique and exciting atmosphere to employees. However, attracting right persons and retaining them later, is an all-time challenge. In general, liability of newness and smallness leave new venture firms with fewer resources and greater challenges for the companies. Human resource related matters appear to be rather tricky with these firms. Thus, the article presents a qualitative analysis of such issues and challenges faced by the start-ups.*

**Key Words:** Start-ups, innovative strategies, HR issues and challenges

## Introduction

Indian economy has witnessed positive sentiments towards entrepreneurial and technology supported innovative companies over the last few years. These sentiments are supported by Government's key initiatives such as Digital India, Make in India, Start-up India and Skill India, which have generated a lot of excitement in the industry circles. Department of Industrial Policy and Promotion (DIPP), Government of India, issued guidelines and the definition of a start-up, and announced some relaxations for them. The definition of start-up is that it must be working towards innovation, development or improvement of products or processes or services. Or it must have a scalable business

model with high potential employment generation or wealth creation capacity. However, if an entity is formed by splitting up or reconstruction of an existing business then it shall not be considered a 'start-up'. In the revised guidelines, a private company till 7 years from the date of its registration will be considered a start-up. However, as per earlier guidelines a company was considered a start-up only up to 5 years from the date of its incorporation. Moreover, in the case of a start-up in biotechnology sector, the period is kept up to 10 years to be considered for being termed as start-up. The start-up's turn over limit is now kept up to ₹25 crores. These start-ups can claim 100 per cent tax exemption on profit for three years since their inception. The

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services provided by a number of Indian start-ups are backed with latest technology.

The start-up ecosystem was best developed earlier in the USA, which is home to many start-ups followed by the UK. India is developing fast and emerging as the third largest base for start-ups in the world. India has been one of the fastest growing start-up ecosystems in the world and total number of technology product/digital start-ups are projected to be 11,500 by 2020, employing over 2.5 lakh people from just 65,000-75,000 in 2014 as mentioned by Mr. Ravi Gururaj, Chairman of Nasscom Product Council (NASSCOM, 2016 and NASSCOM 2018). The start-up ecosystem attracted 300 venture capital/private equity and 225 angel investment deals worth over US\$2.3 billion since 2010. These figures are quite encouraging and speaks a lot about a developing economy like India.

As per The Hindu (2018), top start-ups from India include the names of OYO Rooms in hospitality sector, headquartered in Gurugram, Cure Fit from Bengaluru in wellness services, Dunzo, a service app company by Google in Gurugram, Rivigo, a delivery service company from Gurugram, Digit Insurance, an online digital insurance company, and Little Black Book, a blog writing on different aspects, etc. More than 880 companies could get the venture capital funding in the first half of 2015 alone. Baron (2004) mentioned that new ventures started by entrepreneurs offer a 'unique and

potentially valuable business context for testing the principles and theories of HRM.' Although, there are some signs reflecting a positive scenario in terms of fund-raising by these start-ups, getting and retaining the right talent is an all-time challenge for them.

### **State of HR in Start-ups**

Start-ups have advantages as well as disadvantages. The advantage of smaller size and newness is that they do not need to have stringent policies and structures, thus are more flexible. At the same time, they often tend to neglect alignment between their mission and employee's career aspirations, which leads to disengagement. Also, disruptive and dangerous employee turnover is a critical issue all the time.

These start-up initiatives generally are taken by young persons, who have a lot of enthusiasm and innovative ideas. These young founders do have talent, but not necessarily the required experience. Moreover, it was found that these organizations work differently in comparison to big organizations. HR practices in start-up firms are different from established and big organizations. These firms face difficulty in attracting talented employees and recruiting employees of their choice is always a challenge for them (Williamson et al., 2002). Moreover these companies often lack formal HR policies and procedures (Markman and Baron, 2002). In general, liabilities of newness and smallness leave new ventures with fewer resources and greater challenges than the established

counterparts (Stinchcombe, 2000). These start-up founders face a dilemma of 'head vs. heart', when they have to make a decision. Founders usually like to follow their gut and intuition - the 'heart', which at times lead to incorrect decisions. In addition, in start-ups, the HR department is generally not a separate department, rather HR work is outsourced or left as a part-time job. As a result, integration or building up of unique culture with employees having similar mindset becomes a tricky job. At the same time, when these organizations create a separate HR department, its first priority usually becomes hiring employees as quickly as possible, rather than having a focus on culture and values. The example of Uber demonstrates that ignoring HR issues is a shortcut to increase speed, but there is a risk of creating a culture that ultimately derails business, and costs the company even more with extra time and energy. Key findings from a recent study by Behera<sup>1</sup> (2018) in which he collected data from a number of senior HR and cross-functional executives reflected that around 42 per cent executives thought that employee growth and development are the main challenges for their companies. 48 per cent of employees admitted that they do not feel comfortable voicing issues with their bosses during formal performance reviews. Millennials<sup>2</sup>, who are the backbone of many such start-ups are also not comfortable with

sharing their concerns with their seniors, as 54 per cent of them expressed their discomfort about talking to their seniors. Further, most of the employees are not motivated and they lack understanding of clear vision and strategy of the firm. They found that the response and the support from HR is generally very slow or it takes a lot of time in processing their applications. In general, processes are either time-consuming or cumbersome and see little hope even in future. The respondents in the study suggested a fast performance review process and an ongoing feedback mechanism on the real time basis. They added that in a start-up scenario, proper and effective communication is must for faster growth. The suggestions as listed above pointed out that there is a need for introspection. Also, the unique culture of start-ups need to be restored for becoming successful in today's competitive environment.

### *HR Planning and Hiring*

Bamberger et al. (2002) found in their research that most of the owners and managers of the high technology start-up firms do not pay much attention on HR Planning (HRP). Also, they do not want to have a long term planning for these firms because of the uncertainty towards survival. That is why HRP literature focuses on Fortune 500 firms or large firms. Butensky and Harris (1983) studied start-up firms with

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<sup>1</sup>The study is now available online free in the form of recorded webinar as well

<sup>2</sup>A person who reaches young adulthood in the early 21st century are referred as Millennials

respect to the usage of HRP. In their study they found that out of 27 firms, 12 firms do see the need for HRP and the remaining 15 firms do the routine works that hardly qualify the definition of HRP or succession planning. At the same time, most small businesses do not have formal HR departments (Aldrich and Von Glinow, 1991).

Small firms also extensively consider non-instrumental factors in their hiring including the norms, values, and beliefs of the organization (Williamson, 2000; Williamson et al., 2002). Person-organization fit is often been found to be an important factor in the selection decision (Chatman, 1991). Often the managers focus on the applicant's competencies to match the general organizational needs, rather than specific job requirements (Heneman et al., 2000). At the same time, some companies had mentioned that they are not bureaucratic and are able to successfully recruit employees based on their informal, empowered approach to work.

### ***Organizational Culture***

Regarding the culture of the start-ups, it was found that the atmosphere is informal in such organizations and bureaucratic approach is less. At the same time, each organization, whether it is small or big, has clearly defined legally defensible policies and procedures that govern the workplace. A company, which is in its initial stage of set-up, may not have policies and procedures in place, but other companies

generally do take the pain or responsibility of developing an employee handbook. This handbook with HR policies and procedures must receive proper legal review to protect the company from liability. According to Rubenstein (2004), HR function is full of complex tasks, which might seem very simple but actually puts together all the things like "organizational puzzle pieces."

The other important role of HR lies in building supervisory structure. This type of understanding is important as it helps in building smooth and cordial relationship between an employee and the immediate supervisor which in turn assists in building and developing employee excellence. This relationship supports and brings optimum employee relations, provides credible and timely feedback to employees, and assists in developing employees' skills. In a start-up mechanism, the role of the leader or the founder becomes very crucial, specifically his or her leadership (Vecchio, 2003), self-efficacy, perseverance, risk-taking ability, and role transitions that they experience during venture emergence (Johnson and Bishop, 2002).

### ***Job Roles***

The start-ups treat their employees as partners. These employees are also expected to go beyond their defined roles and responsibilities. These employees end up working on different areas, which not

necessarily is part of their job description or were asked to do at the time of hiring. The work culture is informal, less hierarchical and strict job roles are not practiced. These employees possess a variety of skills or acquire such skills over a period of time. Employers work hard to hire and train these employees as their requirements are niche and keep on changing.

It is seen that in start-ups, a comprehensive description of different tasks is mostly not available. Job descriptions serve as a blueprint for an employee, which give details about job expectations and responsibilities, thereby providing a plan of action. As many start-up organizations do not pay much attention to job descriptions, it is a costly mistake. Lack of clearly defined roles, leads to ambiguity, and it becomes difficult later by the managers to assess the work done by an employee. Thus, there should be some well-defined roles and responsibilities available to each employee before even joining the organization.

### ***Career Development and Retention***

The other aspect is related to development, which helps employees in supporting and building their career. The approach leads to coaching and mentoring employees in taking better decisions as how they can proceed in their career. It helps in unleashing employee potential recognizing special talent. This approach is applicable to both the high performers as well as low performers. This also leads to productivity maximization of

employees, enhanced satisfaction and better retention.

Retention of human capital is very critical for the success of these startup firms (Deshpande and Golhar, 1994). But attracting talent, remain always a challenge for them. Moreover, with booming economy, many multinational companies require talented employees and they do have the capacity to pay higher salaries. As these infant firms are unable to pay higher salaries, it ends up in shortage of talented employees for their key roles 25 per cent of small businesses view lack of qualified workers as a threat not only to their plans to grow and expand, but more importantly for their survival as well (Mehta, 1996). These employers often lose their employees to competitors or larger corporations. In many a cases, employees see better job security with established companies, and like to work for Fortune 500 companies.

### ***Performance Review and Rewards***

The other important aspect is related to performance review, where HR plays a very important role. Performance review of and communication to not only high potential employees but also low performers is very critical. High potential employees expect a lot of recognition and incentives for services provided by them. At the same time, for low performers, it is needed that the message is communicated to them without hurting them along with the detailed and clear objectives for the coming year. Behavioural psychologists

suggest that one should strive for praises before each criticism. Each and every aspect of the performance should be discussed in detail for ensuring an adequate progress.

Typically, it is seen that managers are good in providing support as far as the technical side of the work is concerned; however, it becomes difficult for them when it comes to other areas such as providing constructive feedback, coaching and mentoring, and providing support in terms of development. There are many cases where managers struggle as how to communicate a negative feedback. The role of HR is more appreciated, when it helps employees in their development. Thus, a solid supervisory framework helps in opening the doors for HR to be on the executive table to provide strategic business leadership.

Many companies at their start-up phase struggle for liquidity issues. In the initial stages, these companies work on smaller profit margins. These companies thus, are not able to pay hefty amount as cash components to their employees in comparison to the established ones. Thus, a list of employees finds themselves as under-compensated. Here, the importance of rewards and recognitions play a very important role. These companies can attract and retain highly talented employees if they are able to provide them challenging work and decision making authorities. When these employees realize that they are able to make a substantial difference in the company, they feel motivated for putting extra efforts.

Moreover, a kitty of benefit plans which they really value, works well than a fat pay cheque.

### ***Training***

One of the core competencies of all HR practitioners is training. Although, not all HR professionals possess the level of skills necessary to provide the required training, HR still plays a pivotal role in ensuring that managers and employees have access to relevant skills and know-how that help them in understanding the present trend and capacity of making wise and timely decisions. Moreover, training schedule should be designed as per the recent requirements of the organization with equal emphasis on soft skills. More focus should be given on effective communication, team building, management skills, interviewing skills, and awareness on laws related to sexual harassment.

### **Conclusions and Suggestions**

It is observed that start-ups in India have a positive environment in terms of Government support, ecosystem, and availability of young, enthusiastic and talented people. Although, these firms do have lots of issues and challenges, including HR issues, the present discussion shows that these challenges seems manageable. Careful attention and understanding of these aspects are very important in the organizational context. With time, experience, and knowledge sharing among industry circles, customized solutions of these unique challenges can make the task

easier and possible. India, being a price sensitive market, cultural issues associated with risks and dealing with failures have prohibited them from venturing out with an entrepreneurial spirit as people are conscious about risks and rewards. In addition, not everyone is flexible enough to work in a start-up. Hence, the role of HR in managing fair employee relations, with consistent, and equitable treatment to employees is vital for their organizations.

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