CHANGE AND STABILITY IN EMPLOYMENT MODELS OF ENTREPRENEURIAL FIRMS

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ABSTRACT

Whether organizations change or keep stable their core elements during different developmental stages is a topic of constant debate. Using an institutional perspective in examining the driving forces for stability or change in employment models in entrepreneurial firms, this paper proposes a theoretical framework which encompasses the arguments from the two major camps of change theories: rational adaptation and path dependency. While organizations are subjected to isomorphic pressures from their environment, internal institutional forces of value commitment and established interests also play an important role in influencing how organizations interact with their exogenous context. Further, we examine the impact of change and stability in employment models on organizational members’ attitudes and experience, before linking them to operational performance indices at the organizational level, thus building a multi-level framework. Understanding the sources and consequences of stability and change in organizations bears important implications both theoretically and practically. Through examining the endogenous and exogenous contextual factors underlying stability and change, we gain insight on the developmental dynamics of entrepreneurial firms, and organizations in general. Our multi-level approach enables us to examine employment models from both the organization and the members’ perspectives, and to identify the respective relationships among HR architecture, practices and outcomes, answering the calls for cross-level studies in HRM research specifically, and organizational research in general.
Continuous change is a fact of life for organizations and their members (Leana & Barry, 2000; March, 1981). During their different developmental stages, organizations may have to go through substantial transformations in their core elements to respond to the challenges of a changing environment (Van de Ven & Poole, 1995). It is argued, however, that radical changes in the core elements of the organization can disrupt routines and undermine relationships, leading to a loss of institutional support and legitimacy, which may result in organizational failure (Hannan & Freeman, 1977, 1984; Barnett & Carroll, 1995). Following this logic, one may expect organizations hold onto their established routines and values even as they transit through different stages of development. Whether organizations change or continue to adhere to their original organizational design during different developmental stages is therefore a topic of constant debate (Van de Ven & Poole, 1995; Baron, Hannan & Burton, 1999). Empirical evidence on why organizational elements change (or remain stable), and what their respective consequences are, is fragmentary and occasionally contradictory (Barnett & Carroll, 1995).

Rather than joining the debate as to whether organization core elements change or remain stable over time, we take the view that change and stability should be understood in context, and in relation to each other (Astley & Van de Ven, 1983; Levinthal, 1991; Pettigrew, 1987). Taking employment models, one of the most important core elements in organizations (Hannan & Freeman, 1984; Hannan, Burton and Baron, 1996), as the object of study, and growing entrepreneurial firms as the organizational platform, this
study focuses on addressing the questions of how firms come to adopt a specific employment model, why some firms’ model remain stable and others change, and what may change and what stays the same, during their development path. An institutional perspective incorporating the ‘old’ institutionalism stressing on value commitments and established interests, and the ‘new’ institutionalism stressing isomorphic pressures for change towards homogeneity (DiMaggio & Powell, 1991; Greenwood & Hinings, 1996; Selznick, 1996) is employed to reconcile the arguments from the adaptation and the path dependency schools, underpinning the contextual forces for stability and change. While organizations are subjected to external institutional forces in the form of isomorphic pressures, internal institutional forces of value commitment and established interests also play an important role in determining how organizations will respond to the external forces.

While internal and external institutional forces form the sources of change and stability in employment models, another important theoretical question relating to the change theories concerns the outcomes of the respective change paths (Barnett & Carroll, 1995). While change theorists generally focus on the effect of change (or stability) on organizational survival (for examples, Barnett, 1994, Hannan & Freemann, 1984, Zucker, 1987), or performance (Child, 1972; Greve, 1999, Siggelkow, 2001), there has been increasing concern with regard to the appropriateness in linking human resource management directly to organizational outcomes, especially financial outcomes (Pfeffer, 1997; Truss, 2001). Considering that human resource management philosophies and practices define the way how people are being managed in the firm, we should first assess the effect of change and stability in employment models at the individual level, before
moving on to organizational outcomes (Ostroff & Bowen, 2000; Schneider, Smith & Sipe, 2000). Taking the aforementioned views into account, in this paper we set out to examine first the effects of stability and change in employment models on individual attitudinal outcomes such as job satisfaction and commitment, and intension to turnover, before linking them to firm performance indices likely to be direct outcomes of the HR system, namely employee turnover, productivity, product/service quality, and customer satisfaction.

Our schematic conceptual framework in examining the different contextual factors leading to stability or change in employment models in entrepreneurial firms, and their subsequent outcomes at the individual and organizational level is summarized in Figure 1.

*Figure 1. Sources and consequences of stability and change in employment models*

Understanding the sources and consequences of stability and change in organizations bears important implications both theoretically and practically. Using an institutional lens encompassing internal and external contexts in explaining stability and change in employment systems synthesizes the arguments of adaptation and path-dependency on organizational development. Through examining the internal and external institutional forces impacting stability and change, we gain insight on the

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developmental dynamics of entrepreneurial firms, and organizations in general. Our examination of multi-level interactions of organizational change, individual outcomes and organizational performance answers the repeated call for multi-level considerations in the study of human resource management in particular, and organizations in general (Schneider et al., 2000; Ostroff & Bowen, 2000). As a practical matter, the understanding of different contextual factors at work can potentially lead to more informed decisions, and better implementation of necessary change in organizations.

EMPLOYMENT MODELS IN ENTREPRENEURIAL FIRMS

Employment models are not merely manifested through sets of HR practices, they are also underscored by different sets of values acting as the guiding principles for such practices (Cameron & Quinn, 1999; Ouchi, 1981; Panayotopoulou & Papalexandris, 2003; Yeung, Brockbank & Ulrich, 1991). In this session we first review extant literature on classification of HR system based on different configurations of practices, before linking them to different sets of corresponding core values, and then summarize our conceptualization of employment models in entrepreneurial firms based on the dual-facet of core values and HR practices.

Employment Systems defined by Practices

The most common conceptualization of HR/employment systems is based on different sets of HR practices (Delery & Doty, 1996, AMJ; Lepak & Snell, 2002, JM; Snell, 1992, AMJ, Snell & Youndt, 1995, JM; Tsui, Pearce, Porter, Tripoli, 1997, AMJ). Delery & Doty (1996) argued that HR systems can be classified into two major types: market versus internal systems, based on different configuration of seven HR practices.
Lepak and Snell (2002) suggested that four types of employment modes are associated with the commitment-based, productivity-based, compliance-based, and collaboration-based HR practices, in accordance with the different types of human capitals within a firm. In the earlier years, Snell and colleagues also suggested different HR configurations based on organizational mechanisms of input control, behavior control, and output control (Snell, 1992; Snell & Youndt, 1995), and the typology of human-capital-enhancing HR practices and Administrative HR practices (Youndt, Snell, Dean and Lepak, 1996). Tsui and colleagues classify employment relations into overinvestment, mutual investment, underinvestment, quasi-spot-contract types, based on a set of seven HR practices.

All in all, the classifications of HR practices reviewed above can be summed into either dichotomies of commitment and transaction types corresponding to internal and external systems, or multiple types which captured more variations between the dichotomies, mostly based on context of larger, established firms. For entrepreneurial firms, the dichotomy of an internal or external system may not capture the differences among firms at the early stage, since an internal system is virtually non-existent. A more fine-gained, multi-type classification system may therefore be more appropriate. Mapping with the variation of management philosophies/controlling systems prevailing in organizational studies, the Lepak and Snell (2002) typology of HR configurations classify HR systems into commitment-based, productivity-based, compliance-based and collaboration-based, and can be considered as a suitable framework to capture the variation in HR systems in entrepreneurial firms from their startup to their growth phase. Furthermore, as we will elaborate below, while employment models are amplified
through sets of HR practices, they are at the same time underscored by sets of guiding principles. The Lepak and Snell typology corresponds well with the competing values we use below to elaborate the guiding principles. Taking the aforementioned points into consideration, the Lepak and Snell typology of HR configuration will be adopted as the practice dimension in our conceptualization of employment models. Commitment-based HR practices empower employees, encourage participation in decision making and discretion on the job, provide a considerable degree of employment security, and focus on aptitude in selection and development and feedback in performance appraisal. Productivity-based HR practices hire employees with the right skill from the market, pay market-based wage, and focus on job performance. Compliance-based HR practices limit employee discretion and concentrate on enforcing rules and regulations, with training and performance appraisal activities limited to ensuring compliance with company policies, systems, procedures, and outcomes. Collaboration-based HR practices recruit/select those who can integrate their knowledge and experience into the firm and work in a team environment, and establish collective incentives that encourage sharing and transfer of information/knowledge. These four types of HR systems map with core values in the clan, market, hierarchy and adhocracy type of organizations respectively, as will be discussed in our next session.

**Core Values as the Guiding Principles behind Employment Models**

While HR practices are an indispensable components of HR systems/employment models, more and more HR researchers are proposing that we need to take into account the guiding principles behind such practices as well (Becker and Gerhart, 1996; Delery, 1998; Wright, 1998). Yeung and colleagues (1991) proposed that organizational culture
(core values) and HR practices are reciprocally related. On the one hand, core values influence how HR practices are designed and delivered (Ouchi, 1981, Kerr and Slocum, 1987). On the other hand, HR practices may be used to create, shape, and reinforce organizational values (Brockbank and Ulrich, 1990; Cummings, 1984). To study employment models, therefore, we need to examine not only the HR practices, but also the core values of the organization.

While different organizations may have a different set of core values as guiding principles for their practices, within an organization competing tensions and conflicts may also be inherent, as in any other human systems. The competing values framework (CVF) developed by Quinn and Rohrbaugh (Quinn and Rohrbaugh, 1981, 1983) posits that while multiple values are present in organizations, different contextual factors will lead to the emphasis on one particular set of values over the others across different organizations, or within the same organization at different times (Buenger, Daft, Conlon and Austin, 1996; Denison and Spreitzer, 1991; Quinn and Cameron, 1983). We therefore consider it appropriate to adopt CVF to capture the core value dimension in an employment model.

CVF is represented by two major dimensions and four quadrants. One dimension differentiates flexibility, discretion and dynamism from stability, order and control. The other dimension differentiates an internal orientation, integration and unity from an external orientation, differentiation, and rivalry. Together these two dimensions form four quadrants, each representing a distinct set of organizational core values: human relations value underscores a clan type of organization in which people development is the key; open system value underscores a adhocracy type of organization in which people
with different expertise work together to create innovation; internal process value underscore a hierarchy type of organization in which rules and procedures are emphasized; and rational goal value underscore a market type of organization in which productivity and efficiency are stressed.

**Conceptualization of Employment Models based on Core Values and HR Practices**

Based on the above elaboration, we incorporate both core values and HR practices in our conceptualization of employment models. In accordance with the dominant set of core values, a certain configuration of HR practices will be formulated, if the employment model in an organization is internally consistent (congruent). The competing core values framework maps well with the four sets of HR configurations proposed by Lepak and Snell (2002). In a clan type organization in which human relations underscore the core value, a commitment-based configuration of HR practices should be dominant. In an adhocracy type of organization in which the value of an open system is dominant, a collaboration-based HR configuration should be in practice. In a hierarchy type of organization, compliance-based HR practices may be the norm, and in a market type of organization, productivity-based HR configuration should be the complementary practices. We summarize our typology of employment models in Figure 2. Our discussions on the change and stability of employment models will be based on such a conceptualization. Using the dual-facet of core values and HR practices to examine the underlying dynamics of employment models in entrepreneurial firms provides the added flexibility of capturing change and stability with either one, or both of the dimensions. As the study conducted by Baron and colleagues (1996, 1999), many startups may not have a clear set of HR practices in place from the beginning, but they do have a set of
ideas/core values on which blueprints of employment models based. Based on that, we can still trace the stability and change of employment models in entrepreneurial firms from their core values and HR practices present in the growth phase.

Figure 2  Types of employment models based on values and HR practices

<table>
<thead>
<tr>
<th>Clan-type - Human relations value</th>
<th>Adhocracy-type - Open system value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commitment-based HR practices</td>
<td>Collaboration-based HR practices</td>
</tr>
<tr>
<td>Hierarchy-type - Internal process value</td>
<td>Market-type - Rational goal value</td>
</tr>
<tr>
<td>Compliance-based HR practices</td>
<td>Productivity-based HR practices</td>
</tr>
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THE CONSTRUCTS OF CHANGE AND STABILITY

To define change and stability, we will first examine the theoretical assumptions behind the two constructs, draw out their relationship, and then move on to sum up our conceptualization in this section.

Rational Adaptation versus Path-dependency

Whether organizations should pursue continuous change or hold on to their founding principles and practices have been the center of the debate between two major theoretical camps for the last 30 years or so. The rational adaptation school posits that ongoing change is necessary and inevitable for organizational survival and well-being. Two key
perspectives from the adaptation school are represented by contingency theories and institutional theories. Contingency theories emphasize structural changes that match organizational structures to technology environment pairs (Thompson, 1967, Blau, 1970). Under the assumption of organizational rationality (abide bounded), managers navigate for the best course for the organization in shielding its core technologies from environmental fluctuations, by constantly adjusting the operational mechanics, that is, the organizational structure (Thompson, 1967). Since organizations may adapt different technologies, and operate in different environments, there is no prediction of a specific trajectory development or “best practices” under the contingency perspective (Van de Ven & Poole, 1995). This approach, however, has been largely supplanted by the institutional perspective suggesting that organizational structures are rationally adapted to prevailing, normatively endorsed modes of organizing (Baron et al., 1999), moving toward prefigured final end state. Through the three change mechanisms of coercion, normative and mimesis, institutional theorists argues that institutional isomorphism leads organizations in the same field toward homogeneity over time (DiMaggio & Powell, 1983; Washington & Ventresca, 2004). Coercive isomorphism is the result of formal and informal pressures on organizations on which the anchor firm depends on for sanction and resources, including governmental bodies and powerful firms (Guler et al 2002; Honig & Karlsson, 2004; Palmer, Jennings and Zhou, 1993). Mimetic isomorphism is often a result of organizations attempting to limit uncertainty by modeling their behavior after other organizations perceived to be successful, or within the same network (Guler et al 2002; Honig & Karlsson, 2004; Levitt and Nass, 1989). Normative isomorphic forces influence customary and professional procedures and activities transmitted through
formal educational organizations, professional organizations, and professionals in the firm (Guler et al. 2002; Honig & Karlsson, 2004; Palmer et al., 1993)

Organizational ecologists, on the other hand, argue that while change occurs at the population level over time due to survival of the fittest, core elements within organizations rarely change (Hannan and Freeman, 1977, 1984). Initial structures (especially those that are most central) are thought to be subject to strong inertial forces, due to various internal and external factors (see Hannan & Freeman, 1984, pg. 149). Hannan and Freeman define organizational cores according to their bearing on resource mobilization (Hannan & Freeman, 1984, pg. 156). Hannan et al. (1996) suggest that structures adopted in the process of initial organization building are likely to have the broadest and longest-lived consequences, and thus be most core-like (pg. 507). Core elements of organizations rarely change because they are the sources of organizational reliability and accountability. Reliability is the distinctive competence of organizations to have the capacity to generate collective actions with relatively small variance in quality. Accountability refers to the ability that organizations can make internally consistent arguments that appropriate rule and procedures existed to reproduce rational allocations of resources and appropriate organizational actions. Reliability and accountability require that organizational structures to be highly reproducible, and it is based on such qualities that organizational legitimacy lies (Hannan & Freeman, 1984, pg. 153 to 154). In the context of entrepreneurial firms, potential members, investors and other interested parties apply test of reliability and accountability to proposed new ventures. Such testing continues after founding. Unreliability and failure of accountability at any stage of the organization threaten an organization’s ability to
maintain commitment of members and clients, and affect its ability to acquire additional resources (Hannan & Freeman, 1984, pg. 154). Hence, organizations stand to benefit by developing and institutionalizing coherent blueprints for employment relations, and once such a blueprint gets adopted, it is risky and costly for organizations to alter it.

**The Relationship between Change and Stability**

Most of the extant literature on organizational evolution subscribes either to the adaptation or the path-dependency school (March, 1981, Volberda & Lewin, 2003), making the relationship between change and stability an “either…or” scenario. Yet stability and change are simultaneous experience in organizational life (Leana & Barry, 2000; March, 1981). Depending on the interplay between different contextual factors, both internal and external, organizations may enact different paths of development, with different degree of change and stability, and choices of what to change and what to maintain.

Hence when we discuss change and stability in employment models in entrepreneurial firms in this paper, we treat change and stability as interrelated responses to different external and internal forces experienced by organizations, and at the same time trace their simultaneous existence when organizations make their choice of changing one component of the employment model while keeping the other stable when they transit from the startup to the growth phase.

To capture organizational change (or stability) involves the transformation of an organization between two points in time (Barnett and Carroll, 1995). In this paper the two points in time refer to the startup and the growth phase of entrepreneurial firms. The *transition from the startup to the growth phase* can be signified by four contingents -
though not necessarily concurrent - from the stage-model literature (Churchill and Lewis, 1983; Hanks et al., 1993; Smith, Mitchell and Summer, 1985): the formation of a clearly articulated growth strategy, additional capital injection, expansion of the general workforce and the core team, rapid positive growth for the three years after transition. Based on the typology we presented for core values and HR practices, the extent of change and stability can be captured with an index that sum up the movement within types from one time to another, whereas the content of change (or no change) can be captured by examining whether the dominant quadrant has shifted from one to another at the two time points, for core values and HR practices respectively.

**CHANGE AND STABILITY OF EMPLOYMENT MODELS IN ENTREPRENEURIAL FIRMS**

Mainstream HRM literature have been driven mainly the adaptation school of thought, making the assumption that firms can change and will change their employment model to meet different environmental constraints and challenges. Some recent studies, however, challenge such an assumption, and have presented arguments and evidence in support of the path-dependency school. The fundamental difference between the adaptation and the path-dependency schools lies in the different assumption on whether organizations should actively adapt their internal structures over time to meet changing external environmental challenges and constraints, or stay with a set of stable elements owing to value commitments and established interests within the organization. More and more scholars have pointed out, however, that change and stability should be viewed in context, and in relation to each other (Astley & Van de Ven, 1983; Levinthal, 1991; Pettigrew, 1987). In
this section we will first review the extant literature on employment models using the adaptation and the path-dependency arguments respectively. We then move on to our theoretical integration of the two schools of thought using an institutional perspective, making propositions which capture the dynamics of stability and change in employment models in light of the interplay between internal and external institutional forces.

**Rational Adaptation of Employment Models**

Within the HRM literature, employment models, or employment systems, are mostly covered by the strategic human resource management (SHRM) stream. There are three dominant modes of theorizing the adaptation of different employment systems: universalistic, contingency and configuration (Delery & Doty, 1996). The universalistic perspective asserts that some HR practices are always better than others, and all organizations should adopt them (Pfeffer, 1994). The contingency and configurationally perspectives both argue that in order to be effective, an organization’s HR policies must be consistent with other aspects of the organization, especially with organizational strategies (Miles and Snow, 1984, Delery & Doty, 1996). Using the ‘system approach’ rooted also in contingency theory, the configurational approach stresses additionally the internal alignment of HR practices as a system, and its alignment with the business strategy (vertical and horizontal fit, see Delery, 1998).

Recognizing the predominantly static approach in extant SHRM research, Wright and Snell (1998) highlighted the needs for flexibility in human resource management in adapting to diverse and changing requirements. Taking the view that the primary role of strategic HRM should be to promote a fit with the demands of the competitive environment, the authors posit that in a stable, predictable environment, organizations
might efficiently achieve such a “fit” by using transaction-based systems that focus on developing a human capital pool with a narrow range of skills, and HR systems that elicit a narrow range of employee behavior. By contrast, in a dynamic, unpredictable environment, organizations might pursue dynamic fit by using more commitment-based HR systems that promote the development of a human capital pool possessing a broad range of skills and that are able to engage in a wide variety of behavior (Wright and Snell, 1998, pg. 758).

SHRM literature as a whole, be it focusing on “fit” at a snapshot of time, or on “flexibility” to change over time, a universal set of “best practices” or different configurations according to different context, all subscribe to the adaptation school of thought. The underlying assumption of the adaptation arguments is that firms can change and will change their employment model to meet different environmental constraints and challenges. Such an assumption, however, rarely acknowledge the possibility that firms may wish to retain their core values and routines sprang from their own specific developmental path because these inimitable resources give them an edge over their competitors (Barney, 1991). Furthermore, structure and strategies may not be neutral, merely functional constructs connecting to efficiency or adaptability, they can also be harnessed to reflect the values and protect the interests of dominant groups (Pettigrew, 1987, pg. 659). In the next section we examine the arguments from the path dependency school which highlights such institutional forces from within the organization.

**Path-dependency in Employment Models**

Challenging the assumption underlying most organizational theories that an organization either exists in a stable equilibrium or can continuously adjust its structure and practices
in response to changes in its external environment and internal constraints, a series of papers based on research findings from the Stanford Project on Emerging Companies (SPEC) argue for the path-dependency of organization core elements such as employment models and business strategies (Baron, Burton & Hannan, 1996; Baron et al., 1999; Baron & Hannan, 2002; Hannan et al., 1996). Specifically with employment models, Baron and colleagues found that organizational blueprints envisioned by founder managers during the startup phase generally prevailed in the later years of the organization, suggesting a strong path dependency effect and stability over time (Baron & Hannan, 2002). Even among firms in a single region (Silicon Valley) and economic sector (high-tech) facing similar labor market and environmental conditions, as well as some institutional influences thought to shape structures, organizational blue-prints varied significantly from commitment-based employment models at the one end of the spectrum to transaction-based bureaucracy at the other. Such differences in turn shape the different evolution path of human resource management in those firms (Baron et al., 1996), and influence organizational structures in the years to come (Baron et al., 1999). With regard to the organizational effect of change and stability, Barons and colleagues suggest that change in employment models over time has an adverse effect on employee turnover and organizational success (Baron, Hannan & Burton, 2001; Baron & Hannan, 2002).

The arguments for path dependency and thus stability of employment models over time are grounded on theories of population ecology of organizations, especially on the arguments of organizational inertia (Hannan & Freeman, 1977, 1984). Structural inertia suggests that core elements of organizations rarely change over the course of
organizational development, owing to various internal and external factors. Firms whose structures do not fit with the environment are selected out when their structures no longer fit with the environment. Such a selection view, however, does not explain how some organizations can successfully transform and revitalize when their old systems and structures are challenged by changed environment (Siggelkow, 2001), and how young, small firms with simple structure and informal employment relationships evolve into large, complex bureaucracies (Astley & Van de Ven, 1983).

The review on current literature on employment models from both the adaptation and path dependency schools leave unanswered the questions of how organizations come to have different forms of employment models, and why some organizations change and some maintain the same employment model over different phases of their development. To comprehend the different dynamics leading to stability and change in employment models, we need to integrate the two schools of thought, and examine the interplay between the two seemingly competing forces. We attempt to achieve these goals in the next section.

INSTITUTIONAL DUALITY BEHIND STABILITY AND CHANGE IN EMPLOYMENT MODELS

The arguments from both the adaptation and the path dependency school can be traced back to a common theoretical ground within the spectrum of the ‘old’ and ‘new’ institutional theories, which we view as the dual institutional forces from both within and outside of the organization. Different internal and external contexts underpin the evolution path of employment models in entrepreneurial firms. High isomorphic pressures lead to change, and a homogeneous and stable core team lead stability. Firms
experiencing high isomorphic pressures and high internal institutional forces at the same time may decouple their core values with actual practices, trading internal consistency for legitimacy.

**New Institutionalism and External Institutional Forces Linking to Change**

Institutional theory is one of the most prominent theories in explaining organizational change through rational adaptation (Baron et al., 1999; Hannan & Freeman, 1984; Greenwood & Hinings, 1996; Washington & Ventresca, 2004). Sharing the basic assumption of the strategic choice school (Child 1972) and contingency theory (Thompson, 1967) that organizations are basically rational actors (though bounded by uncertainty and incomplete information), institutional theory suggests that organizations make ‘rational’ decisions based on socially accepted rules and norms, rather than purely on operational and efficiency concerns (March, 1996). Without being considered as a legitimate player in the field, pure efficiency will not lead to organizational survival and success (Selznick, 1996). In order to gain legitimacy, new entrants in the field will have to adjust their organizational forms and practices according to those of the established players, and adhere to accepted rules and norms, be they legal or conventional (DiMaggio & Powell, 1983). The same logic applies to the field of human resource management (Williamson, Cable & Aldrich, 2002). The idea that organizations change due to institutional forces exerted from their environment is most clearly illustrated by the new, or neo institutional school (Baron et al., 1999; Greenwood & Hinings, 1996). Through the three change mechanisms of coercion, normative pressure and mimesis, new institutional theorists argue that institutional isomorphism leads organizations in the same field toward homogeneity over time (DiMaggio & Powell, 1983; Washington & Ventresca, 2004).
It is interesting to note, however, that population ecologists brought forward the same environmental forces in arguing for path dependency and stability of organizational forms over time. According to Hannan and Freeman (1984), organizations receive public legitimation and social support as agents for accomplishing specific and limited goals. Their legitimacy is not built on technical advantage of efficiency, but rather on reliability and accountability. **Reliability** is the distinctive competence of organizations to have the capacity to generate collective actions with relatively small variance in quality. **Accountability** refers to the ability that organizations can make internally consistent arguments that appropriate rule and procedures existed to reproduce rational allocations of resources and appropriate organizational actions. Reliability and accountability require organizational structures to be highly reproducible, and it is based on such qualities that organizational legitimacy lies (Hannan & Freeman, 1984, pg. 153 to 154).

If gaining external legitimacy is used in the argument for both change and stability in organizational forms, we may surmise that both the adaptation and path dependency schools accept that there are institutional forces in the environment that organizations must adhere to, and such isomorphic pressures tend to drive organizations toward the homogenous forms over time (DiMaggio & Powell, 1983). Depending on the nature and characteristics of the industry, the level of isomorphic pressures may vary (DiMaggio & Powell, 1991, Greenwood & Hinings, 1996). More structured and technology driven industries in the high-tech sector, for example, may face a much higher isomorphic pressure than traditional low-tech industries in their human resource policies and practices. We can therefore expect that entrepreneurial firms in a field with highly
institutionalized norms and practices are more likely to change their employment model towards the normative order as they transit from startups to growth oriented firms.

*P1. Isomorphic pressures is positively related to change in employment models in the entrepreneurial firms such that, the higher the isomorphic pressures experienced, the more likely firms will change their employment models during their transition from the startup to the growth phase.*

Old institutionalism and Internal Institutional Forces Linking to Stability

If institutional isomorphism is all that is at work, we can expect employment models among firms to converge towards a dominant model. Empirical studies, however, have shown a high degree of variability among established and emerging firms (Baron et al, 1999; Capelli & Crocker-Hefter, 1996). The missing link, in an institutional context, may be traced back to the ‘old’ institutionalism stressing value commitment and established interests within the firm (Greenwood & Hinings, 1996). To understand how organizations interact with their environmental context, therefore, one needs to pay attention to the level of value commitment and established interests of those who have the power to define directions and interests (Greenwood & Hinings, 1996; Selznick, 1996). When arguing for stability in organizational core elements, scholars from the path dependency school also refer to such internal forces as important contributing factors (Baron et al., 2002; Brittain & Freeman, 1980; Hannan & Freeman, 1977). In this paper we refer to value commitment and established interests within the organization as the internal institutional forces, the dynamic of which will in turn affect the stability and change of employment models over time.
Business organizations are generally formed with the process that a single person (founder) has an idea for a new enterprise; he or she then brings in one or more other people and creates a core group that shares a common vision with him/her (Schein, 1986, pg. 210). The initial core team’s prior organizational experience and exposure may cause them to favor one type of employment model to another. If members from the founding team have extensive exposure to a certain type of employment model, and the experience has been positive, they are more likely to adapt such a model (Brittain & Freeman, 1980). The values, experience and world views of the initial core team, therefore, influence the culture and the organizational design of the new organization.

Once the blueprint is put into practice, it may be held stable over time through the emergence of two forces. The shared mindset (in other words, value commitment) may allow firms to blend the various competencies exist within the firm into distinctive competence embedded in unique organizational routines and processes, which is hard for others to imitate (Wright, Dunford and Snell, 2001; Barney and Wright, 1998). The people management systems (employment models in our term) are what organizations rely on to ensure that the competency remains as specific employees leave and new employees must be brought in to replace them (Wright, Dunford and Snell, 2001). There is, therefore, an compelling argument why we should keep employment models stable over time. On the other hand, early core team members who help build the organizational blueprint may attach their sentiment and belief to it, transforming a rational deliberation into a beloved institution (Clark, 1972). They may resist change also because structural change almost always leads to redistribution of power (Hannan & Freeman, 1984). Specifically for employment models, changes in the premises governing
employment relations can cause skills and routines that employees have learned to become obsolete, alter bases of power and status within the organization, and violate the implicit and explicit contracts specifying the expectations and entitlements of employee’s vis-à-vis the firm (Baron et al., 2002). Hence, internal institutional forces in the form of value commitment and established interest within the organization, if unshaken, will become strong advocates for stability in organizational elements.

The strength of internal institutional forces can be linked to the composition and the stability of the core team in the firm. Core team members in entrepreneurial firms are those who people who hold key positions in the company and are involved in the company’s management and strategic decision process (Leung, 2003; Leung, et al., forthcoming). Homogeneous teams tend to share a stronger value commitment and perpetuate their organizational values through selecting people with like-mind as their new members (Ruef, Aldrich and Carter, 200; Schneider, Smith and Fleenor, 1998). If the team membership remains relatively stable over time, the desire for stability in organizational structures, including employment models, may also be stronger, understandably since, as discussed above, the people who built the structures would wish to retain them due both to their value convictions as well as to their desire to protect the status quo for their own interests.

P2. Homogeneity and stability of the core team are positively related to stability in the employment models of entrepreneurial firms such that, the higher the team homogeneity and stability, the more likely firms will maintain a stable employment model during their transition from the startup to the growth phase.
The Interplay between Stability and Change in Employment Models

Instead of emphasizing the one-sided effects of adaptation and path dependency on change and stability of organization elements over time, there have been increasing research attentions on the interplay amongst different factors leading to stability and change, both conceptually and empirically (Barnett & Carroll, 1995; Brown & Eisenhardt, 1997; March, 1996; Siggelkow, 2001; 2002; Van de Ven & Poole, 1995). Our review of extant literature on employment models in the earlier part of this paper, however, revealed that little research has been done in capturing the simultaneous dynamics of stability and change over time. In this section we will elaborate the core of this paper: To what extent employment models change or remain stable over time, and what element change and what stay the same, are the results of the interplay and relative strength between external and internal institutional forces.

While the level of external institutional pressures may predict change in employment models over time, as predicted in our proposition 1, the impact of such forces may be dampened if the value commitment within the firm is very high, and the desire to hold on to the existing power structure high. Thus, firms with a homogeneous and stable core team functioning in cohesion may not feel as strongly the need to change their way of organizing in imitation of other firms simply because external pressures push for it (Schneider, et al., 1997). Should such firms subside to the external pressure for changing certain elements of their employment models, it is also more likely that they will try to keep their core values intact and make tactical changes at the HR practices only. Institutional theorists refer to such a strategy as decoupling, employed when competing organizational forces are pulling in different directions (Meyer and Rowan, 1977;
Specifically on environmental versus internal contexts, Miller (1992) observed that internal and external requirements are not always consistent, thus leading to a conflict between external and internal fit. Applied to the context of employment models as defined in this paper, the decoupling can be between the organizational core values and actual HR practices. Faced with a high level of isomorphic pressure, growing entrepreneurial firms may feel the need to move from the simple, family-like structure towards more formal bureaucratic or transaction-based employment models in order to gain organizational legitimacy. We can also expect, however, that firms with the original founder and management team relatively intact may hold dear their original ideas underpinning the blueprint of the employment model. Trading internal consistency for legitimacy, decoupling may one natural outcome of such a tension between external and internal institutional forces.

**P3a. Stability and homogeneity of the core team moderate the relationship between isomorphic pressures and change in employment models, such that higher stability and homogeneity of the core team result in a lesser extent of change in the employment model as a result of isomorphic pressures.**

**P3b. Stability and homogeneity of the core team impact on the relationship between isomorphic pressures and change in employment models, such that the higher the stability and homogeneity of the core team, the more likely firms may decouple their core values and HR practices.**

In sum, rational adaptation school focuses on the imperative of organizational change in order to survive in an ever changing environment; path dependency school, on the other hand, posits that the value commitment and established interests within the
organization make it very difficult for organizations to steer away from the course they set off from the beginning. Complex organizational phenomena, however, may not be represented by taking one normative stand or another. We argue that an institutional perspective, taking into account of the dual institutional forces from within and outside of the organization, can reconcile the arguments of the two schools, and capture the dynamics of both change and stability over time.

**CONSEQUENCES OF CHANGE AND STABILITY IN EMPLOYMENT MODELS**

The debate between the adaptation and the path-dependency school not only reflect different view on the evolution path a firm may take, but also whether change is helpful or harmful to organizations (Hannan and Freeman, 1984; Haveman, 1992; Zajac and Kraatz, 1993). Empirical findings so far, however, have yielded mixed results, suggesting that the relationship between change and performance may not be a simple linear slope, be it negative or positive (Barnett & Carroll, 1995; Greve, 1999). Following the same line of arguments we have made so far on the importance of environmental and organizational context, we suggest that the effect of change and stability of employment models on organizational performance depends on the relative strength of the internal and external institutional forces.

Extant literature advocating change or stability in employment models focus mainly on organizational level consequences, and rarely go further to uncover how change (or stability) in the human resource management systems may affect individuals in the firm. People management systems, however, can have their effects on
organizations only through the people they manage. Without filling in that missing link, any discussion on the organizational effects of human resource management system can be dubious (Ostroff & Bowen, 2000; Schneider, Smith & Sipe, 2000). Hence before we possible organizational outcomes of stability and change in employment models, we will first look into their possible effects on attitudinal outcomes of core members.

The Effect of Change and Stability in Employment Models on Individual Outcomes

The institutional view suggests that the motives of human behavior extend beyond economic optimization to social justification and social obligation (Zukin and DiMaggio, 1990). They are also relatively intractable creatures of habit and tradition (Scott, 1995; Zucker, 1987). Given a choice, employees in organizations will prefer stability and predictability. Hence in the event that entrepreneurial firms start off with a coherent blueprint, a shift of course in employment models may have adverse effects on organizational members. Arguments from the path-dependency school suggest that efforts to change organizational core elements can potentially antagonize existing members by eroding skills, altering bases of power and status, and calling cherished belief systems into question (Baron and Hannan, 2002). Likewise, change in employment models violates the implicit or explicit contracts specifying the expectations and entitlements of employees vis-à-vis the firm (Baron, et al., 2001). Based on such assumptions, we may expect that employee organizational commitment, job satisfaction, and intention to leave may be negatively related with change in employment models.

P4a. Change in employment models are negatively related to employees’ organizational commitment, job satisfaction, and intention to leave
Not all the firms, however, have a clearly defined employment model from the start (Baron et al., 2001). Whether firms change towards congruence in their employment model or not will have a bearing on members’ attitudes and experience as well. For those starting with an incongruent employment model, a change that moves the employment model closer to an ideal type may mean increased internal consistency between core values and practices, transmitting a clearer vision and experience to organizational members, though we may expect there could be a time lag for new values or practices to take root in organizational members’ experience (Baron et al., 2001; Baron and Hannan, 2002; Greenwood & Hinings, 1996).

4b. A congruent employment model will moderate the relationship between change in the employment model and individual outcomes, such that the higher the congruence level of the employment model, the lesser the negative effect of change on employees’ organizational commitment, job satisfaction, and intention to leave.

Even if the employment model is not internally consistent (incongruent), however, when there is a strong set of shared values persisting in the organization, the negative effect of change in the employment model (in this case, in the dimension of HR practices only) on individual outcomes may be dampened. Shared values bound organization members around a common goal, increasing their capacity and tolerance for change (Fiol, 2001). A clear set of core values provide a stable organizational anchor in the face of change. Organization members’ deep identification with what they value and with the outcomes they wish to produce make it easier for them to accept the changes needed for organizational survival and well-being (Collins & Porras, 1994; Fiol, 2001). For
example, a firm with a commitment-based employment model may not be able to offer employment security in current economic structures. Yet if the organization has a strong believe in the values of human relations, they will execute organizational restructuring in a caring manner, ensuring transparency as well as fairness during the process. Hence,

_P4c. A strong set of core values will moderate the relationship between change in the employment model and individual outcomes, such that the stronger the core values, the lesser the negative effect of change on employees’ organizational commitment, job satisfaction, and intention to leave._

The Effect of Change and Stability in Employment Models on Organizational Outcomes

Linking human resource management directly to financial outcomes of the firm can be problematic (Pfeffer, 1997; Truss, 2001). The impacts of change and stability of employment models are most likely to first be felt at the individual level, before being reflected in organizational outcomes most directly linked to individual performance (Ostroff & Bowen, 2000; Schneider, Smith & Sipe, 2000). Two most commonly examined outcomes of HR/employment systems are employee turnover and productivity (Baron, et al., 2001; Hourselid, 1995; Sway, 2001). Other multidimensional measures have also been used to indicate operational performance, such as product service quality and customer satisfaction, which are linked closely to human resource management (Wiklund and Shepherd, 2003; Yeung, et al., 1991). Our propositions on organizational performance will hence be focused on these four indices: employee turnover, productivity, product/service quality, and customer satisfaction.
Employee turnover at the organizational level can be closely linked to individuals’ organizational commitment, job satisfaction and intention to leave (Hom and Kinicki, 2001; Currivan, 1999). If we take the view that there is a causal relationship between job satisfaction, organization commitment, intention to quit and turnover rate, we would expect that the individual outcomes in our conceptual model will mediate the relationship between change and stability of employment models and organizational level outcome of turnover:

P5a. Change in employment models, mediated by individual outcomes of job satisfaction, commitment and intention to quit, is positively related to employee turnover.

P5b. The congruence level of employment models, mediated by individual outcomes of job satisfaction, commitment, and intention to quit, is negatively related to employee turnover.

P5c. The strength of core values in employment models, mediated by individual outcomes such as job satisfaction, commitment and intention to quit, is negatively related to employee turnover.

Similar arguments can be made with regard to the performance indicators of productivity, product/service quality and customer satisfaction, under the assumption that satisfied, committed employees deliver better results. Hence, our propositions on the effect of change and stability of employment models on these organizational outcomes are made with expected mediating effects of employee satisfaction and commitment in between.
P6a. Change in employment models, mediated by individual outcomes of job satisfaction and commitment, is negatively related to productivity, product/service quality, and customer satisfaction.

P6b. The congruence level of employment models, mediated by individual outcomes of job satisfaction and commitment, is positively related to productivity, product/service quality, and customer satisfaction.

P6c. The strength of core values in employment models, mediated by individual outcomes of job satisfaction and commitment, is positively related to productivity, product/service quality, and customer satisfaction.

CONCLUSION AND FUTURE DIRECTION

Change or stability in organizations is an iterative, multi-level process, with outcomes emerging not merely as a product of rational or boundedly rational debates, but shaped by “the interests and commitments of individual and groups, the forces of bureaucratic momentum, gross changes in the environment, and manipulation of the structural context around decisions (Pettigrew, 1987). In this paper we propose a conceptual framework which encompasses arguments from both the adaptation and the path dependency arguments on organizational change. We posit that change or stability of organizational core elements such as employment models cannot be attributed solely to environmental forces only. While the pressure of institutional isomorphism in the environment may tend to mould organizations into common forms, dominant coalitions within organizations also generate dynamics which drive stability or change. Likewise, there may not necessarily be better or worse outcomes associated with stability or change as
the theorists from the two different camps of change might have us believe, but rather the path of change, and whether there is internal consistency in the organizational structure or not.

As more and more scholars have noted in recent years, there is a need to examine action and structure together to explain continuity and change, and to explore exogenous and endogenous sources of change (Barnett & Carroll, 1995; Pettigrew, 1987; Van de Ven & Poole, 1993; Volberda & Lewin, 2003). Recent empirical studies on the evolution of organization core elements have demonstrated with rich qualitative data how organizations may develop on a specific path of stability or change, and yet still achieve success in coping with the changing environment (Siggelkow, 2001 & 2002). Yet such studies are still the exception rather than the norm. Even rarer are studies that conduct cross-level examination of how change and stability on core elements in an organization may influence organizational members’ attitudes and experience, before examining organizational level outcomes. Adopting a multi-level approach is especially important for the study of human resource management, for the whole purpose of the field is to make an impact, or make a difference, on the human resources in the organization. Understanding the outcomes of organizational design at both the individual level and the organizational level is therefore an important agenda for future research. Our proposed framework, when applied to future empirical studies, can contribute to theory, approach, and utilization of human resource management research.

Theoretically, our framework puts the arguments of rational adaptation and path dependency under an institutional umbrella. For twenty years the focus of institutional theories may have been heavily focusing on the isomorphic pressures in the environment,
led by new institutional theorists such as DiMaggio and Powel. However, the normative forces of values and norms run not only in the environment but within organizations as well (Greenwood & Hinings, 1996; Meyer & Rowan, 1977; Scott, 1987). When change is introduced into organizations, the interplay and balance of the dual institutional forces from within and without are what determines the outcomes (Kostova, 2002). Similarly, the continuity of organizational elements depends on the intricate balance in meeting environmental challenges and appeasing the dominant coalition within the firm. Our proposed framework highlights the importance of a duality view in considering institutional forces.

In recent years, human resource management as well as organizational scholars have made repeated calls for multi-level approach in organizational research (Schneider et al., 2000; Ostroff & Bowen, 2000). The need for integration from multiple levels and perspectives is particularly evident in the area of human resource management. In order to evaluate the effect of human resource management on organizational well-beings, we first need to understand how HR practices influence individual behavior and attitudes in organizations, and then assess how such attitudes and behavior impact organizational effectiveness (Ostroff & Bowen, 2000). Our proposed framework, when applied, will add to the pioneer efforts of multi-level research and provide further justifications on the appropriateness of such an approach.

Our framework carries important practical implications as well. Amidst normative calls for constant transformation, organizations may enact change for the sake of change, without considering internal and external contextual factors which may doom their change effort, and endanger the organization’s future. Conversely, fear of change
and the uncertainty it brings about may cause organizations to hang on to elements which
no longer fit with the environment. Dominant powers within the organizations may resist
change due to value commitment or established interests. Understanding the various
dynamics which will inhibit or facilitate change, entrepreneurial firms can make more
informed decisions on how they should evolve towards the future, and what steps to take
to expedite change, or to ensure continuity.

To test the theoretical framework proposed in this paper, future research may
need to adopt a hybrid approach combining the qualitative and quantitative method. To
understand the context, content and process of change (or stability), the qualitative
approach is appropriate because it will provide us with the rich data (possibly through
interviews with founder managers or management representatives using structured and
open-ended questions) needed to examine the relatively unexplored field, allowing
additional themes to emerge. To test the effect of change and stability on individual
perceptions, attitudes and performance, survey and quantitative analysis may be
appropriate. The research process may be complex, but the insights we can gain from
such studies will be worth the effort.
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