BRITISH JOURNAL of MANAGEMENT
BRITISH ACADEMY OF MANAGEMENT
Check for updates

British Journal of Management, Vol. 0, 1–19 (2021)
DOI: 10.1111/1467-8551.12493

Entrepreneurial Finance and HRM Practices in Small Firms

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As new ventures grow, they face significant challenges to their internal operations and organizational structure. These challenges are particularly evident in small, entrepreneurial firms, who have limited resources, under-developed capabilities and often seek funding from external investors to enable growth. We draw on institutional theory, particularly institutional logics, to explore the role of different investors on human resource management (HRM) in small, entrepreneurial firms. Using qualitative multiple-case study analysis of seven firms within the Irish agrifood industry, our study shows how external investors can prompt changes to HRM, illustrating three approaches to HRM practice: *operational* – aimed at improving efficiency and internal functioning through human resources; *strategic* – aimed at improving firm performance and competitive advantage; and *transformational* – leading to a fundamental redirection of the firm. These findings facilitate the development of a framework for how investor logic prompts changes to HRM practices of small, entrepreneurial firms. By examining the interaction of institutional logics, this paper contributes a more nuanced understanding of entrepreneurial finance and its implications on HRM practices in small, entrepreneurial firms.

Introduction

Small, entrepreneurial firms often seek funding from external sources to enable and scale up their growth, improve market positioning and access expertise and support (Cumming *et al.*, 2019a; Fraser, Bhaumik and Wright, 2015). External financing can significantly shape the internal organization of a growing firm in areas such as functional operations, governance or managerial practices (Bacon *et al.*, 2013; Cumming *et al.*, 2019b; Jelic, Zhou and Wright, 2019; Wright, 2013). At this stage of organizational growth, human capital and human resources are also pertinent in terms of their potential to facilitate innovation, competitiveness and performance (Colombo and Grilli, 2010; Rutherford, Buller and McMullen, 2003). In fact, the specific nature, role and formalization of human resource management (HRM) practices within small, entrepreneurial firms is often influenced by their access to financial resources and can substantially contribute to their survival and performance (Cardon and Stevens, 2004; Sheehan, 2014).

However, the impact of heterogeneous sources of external funding, both public and private, on the orientation and approach of HRM practices in small firms has not been fully explored (Bacon and Hoque, 2005; Bacon *et al.*, 2013; Wright, Bacon and Amess, 2009). A growing area of research relates to the differing institutional logics of external investors (Fisher *et al.*, 2017; Pahnke, Katila and Eisenhardt, 2015; Thornton, 2004). Premised on institutional theory, institutional logic refers to the material practices, assumptions and values of the firm, in terms of what is perceived as meaningful and appropriate for an organization, and the impact of this logic on how members

We are indebted to the participants at the BJM Workshop in Honour of Mike Wright for their insightful comments. We are also grateful for the constructive comments provided by the editor and reviewer. The authors wish to thank all participating institutions and organizations. Responsibility for any remaining errors is solely our own.

interact with others in the firm (Marquis and Lounsbury, 2007; Thornton and Ocasio, 2008). As small, entrepreneurial firms are faced with significant challenges to growth and access to resources (Wright *et al.*, 2015), and are more exposed to institutional logics of key stakeholders (Fisher *et al.*, 2017; Pahnke, Katila and Eisenhardt, 2015), an interdisciplinary perspective on the role of entrepreneurial finance on HRM practices is warranted to better understand how external financing can prompt changes within the firm.

In this paper, we explore the role of external financial investors on the HRM practices of small, entrepreneurial firms. In particular, we draw on institutional theory to ask: *How do small, entrepreneurial firms approach their HRM practices in light of different investor logics?* We examine this research question through case study analysis of seven small founder-led Irish firms operating in the agrifood industry, a €13.7 billion industry primarily focused on exports from small to medium-sized businesses (DFAM, 2019). Extant research on the impact of external finance on HRM has mainly focused on firms operating in sectors such as technology, retail and construction (Guery *et al.*, 2017; Stevenot *et al.*, 2018; Wood and Wright, 2009). Firms in the agrifood sector often grow and internationalize at a slower pace, but despite its nuanced strategic initiatives and business model orientation, the agrifood industry remains an under-researched industry (Brenes, Ciravegna and Marcotte, 2016). Extending the research to examine the impact of external capital on HRM in the agrifood sector provides an opportunity for a more fine-grained analysis of the impact of external financing in different industries, geographies and policy contexts (Cumming *et al.*, 2019a; Gilbert, McDougall and Audretsch, 2006).

We find that firms following external investment adopt an operational, strategic or transformational approach to their HRM practices, depending on the investor logic. Specifically, angel investors, with a market logic, were most associated with operational HRM, given their early-stage investment in the firm, whereas private equity (PE) firms, with a professional logic, sought to accelerate firm growth and a return on investment within a relatively short time horizon, thus driving strategic HRM. Government venture capital (GVC), with a state logic, facilitated strategic HRM practices while, depending on the degree of investment, corporate venture capital (CVC), which operates under a corporate logic, generated either a strategic or a transformational approach to HRM and, ultimately, the organization.

Our research offers two main contributions to theory. First, we develop a framework of how different investor logics and their varying time horizons prompt changes to HRM practices in small, entrepreneurial firms. As entrepreneurial finance generally reflects a discontinuous change for a small firm and may enhance growth opportunities (Hellmann and Puri, 2002; Shane, 2012), we show that it plays a role in how small firms approach their HRM practices. This insight contributes to the growing interest in HRM practices and firm growth (Avetisyan *et al.*, 2020; Bacon, Wright and Demina, 2004; Jelic, Zhou and Wright, 2019; Kuvandikov, Pendleton and Higgins, 2020). Second, the intersection of finance and internal operations is an increasing area of research (Bacon *et al.*, 2013; Burton *et al.*, 2019; Cumming *et al.*, 2017). Understanding the impact on the internal organizational logic of the firm, via the HRM practices, provides a more granular exploration of how external financing affects the growth trajectory of the firm (Burton *et al.*, 2019; Pahnke, Katila and Eisenhardt, 2015). Finally, this research also has important insights for policy, including greater understanding of the barriers to growth and of the challenges faced by small, entrepreneurial firms (Cumming, Johan and Zhang, 2018; Wright *et al.*, 2015).

Theoretical framework

Small firms and entrepreneurial finance

Generally operating under limited resource constraints, small ventures often seek external financial resources to create and accelerate their growth (Colombo and Grilli, 2010; Hellmann and Puri, 2002; Pahnke, Katila and Eisenhardt, 2015; Shane, 2012). In doing so, they form relationships with equity investors to access greater financial capital, which also allows for non-financial benefits such as strategic and managerial support, access to industrial networks and knowledge, as well as enhancing the firm's reputation and legitimacy (e.g. Colombo and Grilli, 2010; Hellmann and Puri, 2002; Pahnke, Katila and Eisenhardt, 2015; Sapienza, 1992). In advancing beyond the start-up phase, firms depend on resources and support from external financial partners, such as venture capitalists (VCs) and corporate investors, and also growth equity funds, PE and institutional investors investing directly (Denis, 2004; Hanlon and Saunders, 2007). While these external financial actors generate substantial benefits for growth, they often generate internal coordination changes, such as replacement of the CEO, functional specialization or new organizational structures (Burton *et al.*, 2019; Davila, Foster and Gupta, 2003). A key reason for this impetus to change is the differing institutional logics of financial investors and small, entrepreneurial firms (Fisher, Kotha and Lahiri, 2016).

Institutional logic underpins the aims and values of an organization. It influences how the organization operates internally and interacts externally (Marquis and Lounsbury, 2007; Thornton and Ocasio, 2008). As firms grow and mature, there is increased attention on their capacity to professionalize, stabilize and conform to institutional practices (Burton *et al.*, 2019). Financing has been identified as a key source of transition for small firms, whereby the institutional logic of financial investors has prompted developmental changes in the design and structure of new ventures (Pahnke, Katila and Eisenhardt, 2015). Different financial investors associated with small, entrepreneurial firms – namely VC, CVC, GVC, PE, angel investors or other institutional investors – are governed by different institutional logics (Fisher *et al.*, 2017; Pahnke, Katila and Eisenhardt, 2015; Thornton, Ocasio and Lounsbury, 2012) and often associated with a particular stage in the lifecycle of the targeted firms (Alemany and Andreoli, 2018; Fraser, Bhaumik and Wright, 2015).

First, angel investors tend to be a source of pivotal seed funding for small, entrepreneurial firms in terms of legitimacy and capital (Shane, 2012). Governed by a *market logic*, angel investors invest their own money to accumulate a significant return and personal value on their investment. As such, they may have a relatively short-term investment time horizon. To maximize this outcome, angel investors tend to be experienced entrepreneurs or industry experts, and are often passive investors (Thornton, Ocasio and Lounsbury, 2012).

A *professional logic* applies to firms, such as VC and PE firms, who utilize personal capitalism as their core economic perspective (Thornton, Ocasio and Lounsbury, 2012). VCs are a subsection of private equity firms which specialize in financing early-stage firms with high growth potential and guide entrepreneurs to exit with positive returns (Hellmann and Puri, 2000). PE firms tend to focus on more mature firms (Goergen, O'Sullivan and Wood, 2014; Wood and Wright, 2010) that have an established revenue stream and require funding and external expertise to scale. In comparison to VC firms, PE investors tend to invest larger amounts at a later stage, with a high degree of involvement in planning and managing the strategic direction of the firm. They often increase the leverage of the firm's capital structure where cashflow is sufficiently stable (Caselli and Negri, 2018). Both VC and PE firms are considered active and skilled business advisors, providing managerial support and strategic oversight of the firm, and thus tend to have a medium time horizon for their investment to allow time to enact change (Hallen, Katila and Rosenberger, 2014; Pahnke, Katila and Eisenhardt, 2015).

State logic tends to be more centred on welfare capitalism, often focused on providing grants and subsidies to early-stage companies, and may also provide equity to ventures in the growth phase (Thornton, Ocasio and Lounsbury, 2012). As government agencies, GVCs operate with state logic and have a medium time horizon for their investment. In general, financial resources from GVCs support ventures to pursue innovation and technological advancements that serve the public good, to further policy objectives such as investment in R&D and infrastructure, or to support the growth of a particular sector.

Finally, a *corporate logic* is based on the use of corporate resources to advance corporate objectives, where the foundational perspective is managerial capitalism (Thornton, Ocasio and Lounsbury, 2012). As such, decision-making is closely related to the corporate hierarchy, making it slow and dispersed (Basu, Phelps and Kotha, 2011). CVCs operate with a corporate logic, whereby they make investments in new ventures to access new and innovative technology, complementary products and potential acquisitions (Katila, Rosenberger and Eisenhardt, 2008; Pahnke, Katila and Eisenhardt, 2015). Therefore, CVC investors look for ventures in the early-stage and growth phase that can enhance the strategy and overall position of the corporation (Dushnitsky and Lenox, 2005) and have a longer-term investment time horizon. In a standard PE (and VC model), a PE firm raises capital from limited partners to form a fund, which typically has a fixed life of 10 years, to invest in high-return ventures with the goal of generating substantial financial returns (Manigart and Wright, 2013). By contrast, CVC firms are typically structured as subsidiaries of incumbent corporations, where they procure the funds for their investments from their parent corporations and take a minority equity stake in privately held entrepreneurial ventures (Paik and Woo, 2017).

Human resource management and entrepreneurial financing

The influence of organizational growth on HRM functions (i.e. recruitment and retention, compensation, training and development, labour relations, talent and performance management) is particularly evident in small, entrepreneurial firms (Aldrich and Langton, 1997; Baron, 2003; Rutherford, Buller and McMullen, 2003; Sheehan, 2014). As new ventures evolve, human capital can provide a fundamental source of competitive advantage and innovation (Cardon and Stevens, 2004). However, the nature of and approach to HRM practices in small, entrepreneurial firms remains an important empirical question due to its role in facilitating organizational performance and, in some cases, survival (Cardon and Stevens, 2004; Gilbert, McDougall and Audretsch, 2006; Sheehan, 2014).

Recruitment and retention are fundamental to a small, growing firm – particularly as identifying and onboarding key skills is more intensified in entrepreneurial firms (Cardon and Stevens, 2004). Training, performance appraisal and talent management are exemplar HRM activities explicitly associated with performance, yet are often less formalized for smaller firms (Cardon and Stevens, 2004; Sheehan, 2014). With regards to compensation, pay and related benefits in entrepreneurial firms tend to be more informal, higher risk and more closely related to rewards compared to established firms (Cardon and Stevens, 2004; Mayson and Barrett, 2006).

Research on entrepreneurial financing and HRM in small firms has identified important insights on later-stage financing and growth options, including management buyouts (MBOs), leveraged buyouts (LBOs), investment from PE or other institutional investors (Bacon *et al.*, 2013; Wood and Wright, 2009, 2010; Wright *et al.*, 1990). For instance, studies show that PE, MBO and LBO transactions affect firms' employment growth (Bacon *et al.*, 2013; Goergen, O'Sullivan and Wood, 2011; Weir, Jones and Wright, 2015), have a positive impact on employee compensation and wages (Amess, Girma and Wright, 2008; Wright *et al.*, 2007), adoption of reward systems and expanded employee involvement (Bacon, Wright and Demina, 2004). Similarly, these transactions improve firms' internal training and workforce capabilities, including merit-based hiring and promotions practices (Bacon *et al.*, 2007). Moreover, investors are found to be very heterogeneous, in terms of their objectives and logic, and these different logics may impact HRM practices in their investee firms (Guery *et al.*, 2017; Stevenot *et al.*, 2018). As this research was largely conducted in more established, larger firms, there is a call for greater insights into the science and practice of HRM in small, growing firms (Huselid, 2003; Mayson and Barrett, 2006), and the impact of investment on this process (Burton *et al.*, 2019; Gilbert, McDougall and Audretsch, 2006).

Research methods

Research design

We adopted an inductive qualitative case study research design to advance theory on the role of external investors on HRM practices of small, entrepreneurial firms (Edmondson and McManus, 2007; Eisenhardt, 1989). In line with the principle of replication logic and inductive theory building, we gathered information on seven firms in the agrifood sector, their investors, government stakeholders and industry experts, to facilitate generalizable findings and build new theoretical insights (Eisenhardt, 1989; Yin, 2014). The complexity of the phenomenon – the intersection of the financial investor's institutional logic with the HRM practices of small, entrepreneurial firms – was well suited to an in-depth case study approach and we also focused on a single industry (agrifood) in order to contextualize our research findings (see Yin, 2014).

Our research setting is small, founder-led firms in receipt of external financial investment in the Irish agrifood sector. The agrifood sector in Ireland represents a suitable context for our study due to its focus on exporting and capacity for scale. The agrifood sector is characterized by slow growth and low profit margins, and thus is in need of large capital investment and working capital, related mostly to production, distribution and marketing. Once the initial viability of the product has been established, firms need to scale to survive, and often require external investment to do so. A necessary aspect of firm growth in this sector is an increase in number of employees, which often results in changes to HRM practices. In 2018, the industry accounted for 10% of total Irish merchandizing exports, an increase of 73% since 2009 to €13.7 billion (DFAM, 2019). It is a dynamic sector, where financial support and funding opportunities are provided by a multitude of stakeholders and channels (Bord Bia, 2019), particularly aimed at marketing and organizational development strategies which have been shown to greatly support return on equity (Brenes, Ciravegna and Marcotte, 2016). Moreover, the characteristics of the agrifood sector are substantially different to those of the high-technology sector – the sector most often studied in the entrepreneurship literature, given its rapid growth, high profit margins and lower financial barriers to scaling (Colombo and Grilli, 2010; Fisher *et al.*, 2017; Monaghan and Tippmann, 2018; Pahnke, Katila and Eisenhardt, 2015), and therefore provides an alternative lens through which to advance understanding of entrepreneurial finance on small, entrepreneurial firms (Cumming *et al.*, 2019a; Gilbert, McDougall and Audretsch, 2006).

Theoretical sampling was used to focus our research on theoretically useful firms most relevant to our inductive research design (Eisenhardt, 1989). To classify as a small, entrepreneurial firm, the following criteria were used: (1) less than 250 employees; (2) founder/founding team involved at time of investment; (3) secured funding for future growth; and (4) operating as an agribusiness. These criteria ensured consistency in the sampling of our firms, but allowed for variation within the factors expected to influence patterns in HRM practices (e.g. different financial investment types). To identify suitable agrifood firms, we engaged with leading government agencies responsible for supporting the agribusiness sector. Following their advice, we identified 15 firms which met our sample criteria; seven of which were available to participate in the study. We only selected firms for which we could provide multiple perspectives, in order to provide depth to our findings, including both founders/CEO/employees and the external investor/investment advisor. Our sample firms are representative of the overall agrifood sector, as outlined in Table 1.

Finance comes from many sources and takes many forms in agrifood businesses in Ireland. Tables 1 and 2 provide an overview of the main characteristics of our sample firms and investors. Equity (or quasi-equity) investors included angel investors, VC investors, PE firms, banks, corporate investment and government bodies. The agrifood industry seldom attracts VC investors due its slow growth, relative to other industries; we found only one incidence of VC investment, which occurred concurrently with angel and government funding (BeerCo). The investment products used to provide funding included common shares (minority and majority shareholding), debt, convertible debt, convertible preference shares, government grants and tax-incentivized investment schemes (see Table 1).

Data collection

From February to July 2020, we conducted 34 semi-structured interviews and analysis of secondary archival documentation on our sampled case firms. In terms of archival data, we conducted a thorough online search of the firms, including extensive media articles and online postings in firm blogs and press releases. This data allowed us to create a timeline for each company, their key activities and investments, and real-time managerial accounts of the growth and financial position of the firm. Archival data was also used to probe for further information in subsequent interviews. Interviews were conducted with key stakeholders associated with each firm, including founder, CEO, COO and where possible the lead investor to gather information on the firm investment and approach towards HRM activities pre- and post-investment. Governmental agencies and advocacy groups were also interviewed to provide important contextual information about the nature of the industry and the role of financing for these firms. Given their different areas of expertise, interviews were conducted by all three authors to ensure greater reliability in the themes explored.

Where information concerned past events, measures were taken to minimize retrospective bias (Miller, Cardinal and Glick, 1997), including an emphasis on actual firm activities rather than personal opinions or beliefs. Interviews were semi-structured, using one core interview protocol for

Table 1. Overview of firm characteristics and funding status of sampled firms

	ChocCo	DairyCo	CandyCo	SweetCo	FrozenCo	JuiceCo	BeerCo
Agrifood sector	Chocolate	Dairy	Sugar	Chocolate	Frozen Produce	Beverages	Beverages
Year founded	2016	1987	1998	1992	2015	2008	2014
Investors	Bank equity fund and CVC	GVC and CVC	GVC and CVC	GVC, PE and CVC	Bank and PE	Angel investors and bank	Angel investors, VC and GVC
One or more equity investors	More	More	More	More	More	More	More
Type of funding	Common equity	Convertible preference shares and common equity	Convertible preference shares and common equity	Common equity and debt	Debt and convertible preference shares	Convertible preference shares and debt	Convertible preference shares and common equity
Current funding status	CVC-backed	CVC-backed	Acquired	Acquired	PE-backed	Angel-backed	Angel-backed
Stake of investor	Minority	Minority	Majority[a]	Majority[a]	Minority	Minority	Minority
Size	Small	Medium	Medium	Medium	Small	Small	Small
Employees	<50	<100	<100	<200	<50	<50	<50

[a]These firms were subsequently fully acquired. As this analysis is beyond the scope of our research, we did not explore the HRM practices during the full acquisition.

firm management (reported in Appendix A in the online supporting information). Our questions focused on the growth trajectory of the firm, the source, type and rationale for external finance, and HRM practices. We maintained an informal and fluid interaction throughout each interview to encourage respondents to share specific incidents and events. Where necessary, we prompted respondents to increase the detail of accounts by highlighting specific events in the timeline of the firm's growth. Most interviews lasted between 60 and 90 minutes and were recorded and transcribed verbatim. Table 3 provides an overview of our data collection.

Data analysis

Data analysis was conducted concurrent with data collection (Eisenhardt, 1989), to allow for additional probing of emergent themes and events in subsequent interviews. We used an inductive approach in which we followed grounded theory guidelines (Corbin and Strauss, 2008; Gioia, Corley and Hamilton, 2013; Strauss and Corbin, 1997), working iteratively between our data and the literature. As a starting point, we generated detailed case histories of each firm's growth and their receipt of external finance using the archival and interview data to triangulate information within and across data sources (Yin, 2014). Four analytic steps were performed to support our aim of building theory, as described below.

Step 1: Identifying first-order codes within individual firms. In this first phase, data was imported into the qualitative analysis software NVivo, where we identified any point or description related to funding and HRM practices for a systematic analysis. Open coding logic (Corbin and Strauss, 2008) was used to develop codes from verbatim statements such as 'the investor has suggested new hires' or 'since we invested, we have installed a share option scheme'. We identified 18 first-order codes, examples of which include *hiring*, *upskilling employees*, *employee share options* and *connections & reputation*.

Step 2: Building second-order themes. Next, axial coding was used to cluster the empirically based codes conceptually into second-order categories (Corbin and Strauss, 2008). This process involved the authors posing general questions, such as: Who was the source of financing? What was the logic of financial actors? How were HRM practices approached before and after investment?

Table 2. Overview of external funding and investor characteristics of sampled firms, including data on employment changes post-investment

	Investor type	Year	Investment horizon	Change in employment following investment
ChocCo	Investment Bank 1	2017	Short-term	75% increase
	CVC1	2018	Long-term	
DairyCo	GVC2	2000	Short-term	
	CVC2	2006	Long-term	36% increase
CandyCo	GVC3	2003	Short-term	
	CVC3	2014	Long-term	64% increase
SweetCo	GVC4	2011	Medium-term	
	PE4	2014	Medium-term	300% increase
	CVC4	2018	Long-term	3% decrease
FrozenCo	Bank Debt 5	2015	Short-term	50% increase
	PE5	2019	Long-term	
JuiceCo	Angel Investor 6	2000	Long-term	750% increase
	Bank Debt 6	2019	Short-term	
BeerCo	Angel Investor 7	2016	Medium-term	75% increase
	VC7	2016	Medium-term	
	GVC7	2016	Medium-term	

Note: Changes to employment in sampled firms are provided but given that all sampled firms are privately owned, access to information on the number of employees is limited.

We were cognizant of the literature on HRM practices and external financing, wherein we noticed that the themes manifest differently in our sampled firms. As such, the HRM practices were noted in nine conceptual categories. Examples include 'Formalization of Recruitment', 'Incentives', 'Business Philosophy', among others. For instance, the category 'Formalization of Recruitment' includes episodes where the external investor helped to bring more structure into firms' HRM practices, including formalizing the hiring process or defining roles and procedures; the category 'Incentives' refers to monetary rewards, including bonuses or share incentive schemes that firms established following the receipt of external financing in order to retain employees and management and to incentivize them to work towards the growth goals set by the external investors. These categories, together with additional supporting empirical evidence, are shown in Table 4.

Step 3: Developing aggregate dimensions. In this third stage, we asked whether the emerging second-order categories relate to existing constructs that might help us describe and explain the phenomena being observed (i.e. changes to how firms approach their HRM practices). In this regard, we paid particular attention to any mention of a specific rationale, change or modification to the internal organization of the firm following the receipt of funding. We developed three aggregate dimensions that make up the basis of the emergent framework (Gioia, Corley and Hamilton, 2013). We identified three approaches to HRM practices as influenced by the logic of different external financing actors. As illustrated in Table 4, the operational approach to HRM refers to practices aimed at improving efficiency and internal functioning through human resources; strategic HRM focused on improving performance and competitive advantage of the firm, while transformational HRM reflected a fundamental redirection of the firm.

Step 4: Mapping of the different logics of investors and firms in respect to financing and HRM practices. Finally, we further explored how the aggregate themes compared to the different time horizon of investors. We found that all firms, despite their size, lifecycle stage or sector, had a positive alignment with their external investor at the time of initial financing, as expressed by the founder of FrozenCo: 'We wanted a connector, someone who had displayed a good track record of exiting in non-hostile environments and also someone who was willing to take a long-term view on their investment versus a 3- or 4-year investment horizon which is pretty common within VC and PE.' Concurrently, the PE partner described their motivation for investing in FrozenCo: 'We do not take over companies; we are a collaborative investor, not hostile. It's very much

Table 3. Data collection details of interviews conducted with participant firms and their investment partners

	ChocCo	DairyCo	CandyCo	SweetCo	FrozenCo	JuiceCo	BeerCo	Other
Interviews	3	4	3	4	3	3	4	10
Firm	CEO International Sales Manager	Founder and CEO (2) Commercial Director	Founder and former CEO	Former CFO and CEO	Founder and CEO (2)	Founder and CEO COO	Founder and CEO Production Manager	SME Advisory Group (3) Irish Food Authority (2) Irish SME Development Agency (2) Agrifood Industry Experts (3)
Investor	Head of Equity Capital, investment bank	Advisor, GVC	Investment advisor (2)	Partner, PE firm (2) Advisor, GVC	Partner, PE firm	Angel investor	Angel investors (2)	

collaborative with founders. Often times, you can meet with different firms who offer a more secure investment but there is no chemistry. You need to always look for the alignment.' This account supports a core aspect of entrepreneurial finance, which illustrates that investment decisions are a cumulative result of a highly engaged process between the firm seeking funding, and the investor seeking a growing, high-potential firm (Colombo and Grilli, 2010; Manigart *et al.*, 2002).

Due to the slow and deliberate due diligence process of investors, but also the careful selection of investors by firms, a synergy of logic was evident. Nonetheless, we did notice that there was some variation in the investment and resultant HRM approach undertaken by our sample firms. To explain this variation, we sought to identify patterns across the different investor logics (Yin, 2014). Specifically, we used a cross-case comparison approach that defines categories by inspecting the cases to see whether groups based on the shared patterns can be formed (Miles, Huberman and Saldana, 2014). Our findings show that while all investment was aligned in terms of philosophy at initial receipt of investment, different synergies in logics and time horizons resulted in different approaches to HRM within the firm – operational, strategic or transformational.

Several steps were also taken to ensure the trustworthiness of our data and analysis. We guaranteed confidentiality to our case firms and respondents, to allow for depth of access and information. We also used a single protocol for all firms, used qualitative data analysis software to implement a systematic analysis and triangulated data evidence within and across data sources. Overall, there was a high level of agreement between the authors and only themes which all the authors agreed upon were included. In the case of any disagreement, the relevant themes were discussed at length and either redefined or abandoned. Emerging findings were shared with firms for validation and the feedback was integrated into the evolving analysis.

Findings

External financing from angel investors, PE, corporate investors (CVC) and government agencies (GVC) resulted in different effects on the firms' HRM practices. Below, we outline how these three approaches to HRM practices were represented in

Table 4. Data structure table with first-order codes and second-order themes within each aggregate theoretical dimension, and supporting empirical evidence

Aggregate theoretical dimension	Second-order themes	First-order codes	Representative quote
Operational	Formalization of recruitment	Hiring	Part of the money that we'd be investing would be to get people on board. Anywhere we see gaps like that at the outset, we would highlight in negotiations… in particular, the hiring of middle management of the firm. (Head of Bank Equity Fund discussing their investment in ChocCo)
		Roles and responsibility	They [angel investors] have been through the corporate world, and are bringing ideas and practices that they have seen in other companies. They are dragging me slowly up this hill. I'm very un-corporate and they are quite corporate, so they are dragging me with them. And I do see the benefits of it. (CEO JuiceCo discussing the impact of the involvement of angel investors)
	Basic training	Upskilling employees	We're working on training but it's not quick enough. We're slow and there's been a lot of firefighting going on. I'm a big believer in training but it's challenging to get the time and find the right thing for them (employees) to do. (COO JuiceCo after receipt of angel investment)
		Internal coordination	It has been a really exciting place and everybody in it feels really excited. But it has been hard work because we have had huge growing pains. Our internal controls weren't as they should be and we had to do major work on that and there has been a huge turnover of people. (CEO ChocCo)
	Compensation and benefits	Pay	So as board members, we technically have a say on salaries above a certain level – it has to all be approved at both levels. Anything like consent on growth shares or shareholding of the company requires all shareholders' consent. We would expect those kind of actions, remuneration and bonuses, to be reported back from the management team to the board, as we need to make decisions on that. (Head of Bank Equity Fund discussing their investment in ChocCo)
		Bonus	In the early days, before PE investment, I wanted to put in a performance-related reward as part of our performance appraisals and target setting. Initially we weren't able to afford it and I held back a year purely because putting it in without the monetary reward wasn't going to work for us. In order to have impetus behind it, I was looking to have a reward behind it too. We managed to put a reward in place the following year and this was the first time ever that staff were in a position where if it was a good year, they would be rewarded with a bonus, for a bad year they wouldn't be. This was really important for the staff. (Former CEO SweetCo, GVC investment)
Strategic	Targeted hiring	Unique skills of management	We had to identify someone who had more expertise in finance as well as global sales experience, and the PE firm were a valued asset in helping with that process. What they did was they put three people in front of me, I interviewed them and I chose the one most appropriate for us. They met with the board member then, we brought them in for strategy days and so forth. (Former CEO SweetCo on receipt of PE investment)
		Attracting talent	I know it's a cliché but it is so important to hire people that are better than you. It's easy to pick people like you who will fall in line but it's better for the business that you have multiple personalities. (Archival, CEO of FrozenCo on receipt of PE investment)
	Incentives	Shares for management	So, what happens is we will decide ourselves what portion of the equity will be going into what we call the MIP, the Management Incentive Plan… we decide that and then we would say to the CEO 'come back with a plan in terms of who you want to allocate it to, how much you want to allocate to them and let's discuss'. (PE investor, SweetCo)

Table 4. (*Continued*)

Aggregate theoretical dimension	Second-order themes	First-order codes	Representative quote
		Employee share options	As part of our investment, there was a discussion about [a] flowering share scheme, to help with people who have been with the founder from the beginning. We are big believers in equity incentives from people who contribute. The idea was, we invest, we set a share value, and any value above that shall be shared based on share ownership, both for the commitment prior to the deal and also for the ongoing work. (PE investor in FrozenCo)
	Specific training	Leadership training	I did a course in leadership, specifically to do with scaling a business and while I had done quite a lot of training, this course was exceptional because it got the whole team involved. All of the case studies and assignments were tied in with the business. All the projects were specific to what was going on with our company at the time, and it brought in my senior management team as well. (Former CEO SweetCo on PE investment)
		Investment in senior leaders	The recent fundraise has given the company extra firepower, allowing it to flex its muscles a bit more. The business has increased its spend on advertising and is looking to take on C-suite executives who have previous experience in scaling companies at speed. (Archival, FrozenCo)
	Board membership	Expertise	We hold 2 of the 6 board seats. The CEO still has full control of the board. The board is not just about money, it's also expertise… We offer strategic oversight. We don't just show up 4 times a year for the board meeting, we are side by side, helping where we can. (PE investor in FrozenCo)
		Connections and reputation	It's very much collaborative with the founders, we see ourselves as a strategic supplier – we provide value and add strategic money of a small amount. There are different philosophies to investment, but we see ourselves as offering help both ad hoc and strategic. We provide collaborative strategic oversight but no day-to-day management advice. We make connections to retailers that carry the product, and introductions to executives and PR firms. We would have monthly reviews on the business and sometimes weekly catch-up calls. (PE investor in FrozenCo)
Transformational	Integration to corporate portfolio	Focus on growth	I think tougher decisions were made that maybe wouldn't have been made under different circumstances… they had a different mindset and they came to us and said 'look this person is not working out', they became animals in terms of trying to get more sales and drive out costs, increase profitability. (Former CEO SweetCo discussing CVC investment)
		Loss of decision-making control	I was starting to get angry because I could see the mistakes they were making. But the writing was on the wall. I couldn't have stayed because I really didn't have the control or we didn't have the agility in the business to be able to do things. (Founder CandyCo on CVC investment)
	Business philosophy	Attitude shift	Their way of doing business was very different to what we were used to. Their culture in terms of their background is very different, like all of their emails. I did look at it and I did say it to them on many occasions that we would actually do better if they just gave us space but they wanted to do it their way. I suppose the difference for us was the culture was so dramatically different. (Former CEO SweetCo on CVC investment)
		Insecurity amongst staff	Corporate putting in place structures was not necessarily a bad thing. But it did cause a lot of fear and we would have had trepidation from staff that the business would not be there. For some reason they thought it was going to move to a different city. Now we are a few years down the line from the investment and we didn't move, but the trepidation was there, and it was real, because it was such a big corporate player. (Former CEO SweetCo on CVC investment)

our data, followed by our discussion of how these approaches are influenced by investors' logics.

Operational HRM

An operational approach to HRM practices focuses on improving efficiency and internal functioning through human resources. The COO of JuiceCo noted the core premise of this approach was putting structure in place to allow for greater formalization: 'What I've been trying to do is bring a little more structure without wrecking that kind of start-up image. We've been taking on full time employees… it's a slow process but the structure is changing.' The operational approach to HRM includes the fundamentals of HRM, such as formalization of the recruitment process, basic training and compensation and benefits.

While recruitment is a core element of HRM, we discovered differences in terms of the formality of recruitment practices across the firms. For example, JuiceCo, who were in receipt of angel investment, had very little in the way of formal staffing practices prior to receiving external financing: 'The founder and his partner were basically just hiring people as they needed them. Like other start-ups, they were just hiring who was needed until it becomes a management issue' (COO, JuiceCo). An employee in ChocCo, who was hired after the firm received funding from a bank equity fund, describes the hiring process:

> In terms [of] hiring, it was very much a structured process. I suppose in start-up organizations, one thing that can be missing is structure and process… but here, I went through the stages like you'd see in large organizations. (Sales Manager, ChocCo)

With basic training, firms were aware of the importance of upskilling to enable employees to become more specialized, proactive and autonomous in their work. This upskilling often related to quite primary competences, such as computer skills or manual handling courses, or greater functional specialization for management:

> At our last board meeting, we talked about training in particular, saying that we felt it was important for the employees to own that. If they felt they were short somewhere, training would be a good idea. So, some of the sales people have been on marketing analytics courses. (Angel Investor, JuiceCo)

Moreover, many of the training initiatives were focused on improving the overall functioning and coordination of the firm, as expressed by the COO of JuiceCo, who was hired after receipt of external financing:

> When I first came in, she [the Sales Director] would have thought that she was doing an unbelievable job… I've kind of widened her viewpoint. Beforehand, there was an approach of 'you're in sales, go and sell', or 'you're operations, go and look after operations' and there was no interlinking, no talking between each other… I want people to look beyond their roles at the overall growth of the company.

Finally, external investors were influential in terms of management's approach to remuneration. This influence was most evident through their position on the board of the company. For example, salary agreements for most firms required board approval, and the board were involved in advising on compensation and benefits: 'I'm on the board since investing and one of the first things they wanted was for me to start a kind of remuneration committee' (Angel Investor, BeerCo). There was evidence that benefits and incentives were important, but the structures were not sufficiently formalized to support them, as outlined by the angel investor of JuiceCo: 'At the moment, small bonuses and pay rises is the way to keep them [employees] interested. But I think it's relatively short-term.'

In essence, these HRM practices were operational, representing a formalization of traditional functions required for the basic functioning of employment. The firms considered these practices as reactive, responding to a particular need or demand illustrated by their investors, or required to support the employee size or activities of the firm.

Strategic HRM

Comparatively, we found that HRM practices became more strategic where expertise and guidance from actively engaged investors promoted a more performance-oriented approach to internal human resources. For example, the founder and CEO of FrozenCo stated: 'Since funding, we took a position that we didn't want to have a human resource department, we wanted a modernized version of what traditional human resources represents. With much less administration and closer to learning and development.' Here, we discuss the mechanisms which enabled this strategic approach within our firms, including targeted hiring, incentivization of management and employees, specialized training and changes in board composition.

First, the receipt of external funding facilitated new strategic hires, whose invitation to join the firm was enabled by the growth trajectory of the firm. In terms of executing on the high-growth strategy of the firm, and to realize the investment by external partners, a key focus for firms was to attract diverse experience and expertise to the senior management team. The impact of receiving CVC investment is described by the CEO of ChocCo:

> I had a blueprint for growth. We now have 14 people who are at the top of their game functionally involved in running the business. Some of them are full time, some are strong part time… they lead the strategy of the business. It has allowed us [to] take on much bigger strategic challenges than a company of our size or age would normally be able to do.

Attracting talented and skilled employees was not simply reserved for senior management, but also for talented employees with the composite skills to support the firm's growth objectives. When asked about the impact of PE investment for attracting talent, the CEO and founder of FrozenCo responded:

> The type of people that they [PE firm] have access to is just in a different league… moving up a level of resource than what we have had before. Now, we can either replace department heads with suitable skilled professionals – who have been the minority as opposed to the majority – and progress as many people up the ladder to take key positions… HRM has been a fundamental change of post-funding business for sure. (Founder, FrozenCo)

Related to the attraction and retention of key, skilled employees, there was a fundamental focus on how to motivate employees to deliver on the ambitious growth demands of the firm. Thus, incentivization was a central mechanism in facilitating engagement and enabling greater commitment from employees. In some cases, incentive schemes were revised upon receipt of funding from PE, where the investor was seen to 'super charge' the existing structures:

> [When we came on board] we brought 18 people into this equity scheme. That is right from the senior people at the top where the equity will be concentrated but right down to the people whose job it was to walk the production floor. That made them really pound the pavement that little bit more… Putting equity in the hands of the CEO and CFO was a fantastic decision. (PE investor, SweetCo)

From an employee perspective, this type of scheme was also a key benefit to joining a growing firm as it provided a degree of ownership in the firm and allowed for greater contribution to management:

> Since the funding round, we have committed to a particular level of share option scheme that we are in the middle of establishing at the moment. The goal is everyone owns a piece of it and that's something that is very important to us and to them. (Founder and CEO, FrozenCo)

In line with the strategic focus of investors, there was a more nuanced approach to training insofar as employees and management focused on advancing their expertise for leadership and growth rather than simply specialization. In terms of driving capabilities of the management team, four of our seven companies discussed a leadership training programme focused on supporting growth, employment and exports provided by state-supported agencies. The CEO of DairyCo describes training offered by their GVC investor:

> I did a course in [the] Senior Executive Programme… I used to think I was an island insofar as all of my problems were unique until I went on the (programme) and I met a lot of other entrepreneurs and we all have the same problems just with slight differences.

Finally, board membership was a typical feature of external investment, where the investor or a member of their institution took a position on the company's board. Given the ambitious growth expectations of the firm, board membership was not solely valuable for financial contribution but also allowed for greater access to expertise, connections and status: 'They also looked at the board and said there are areas that need more expertise, in finance and whatever' (Former CEO, SweetCo, on the receipt of PE investment). The contribution of expertise to the board through investors offered a pivotal opportunity to advance the strategic objectives of the firm. As mentioned earlier, it allowed for the hiring of key employees and it also created greater access to other important stakeholders in the industry:

> They [PE investor] introduced us to a secret superstar head hunter firm that help us hire very good people. They have also been able to provide mentorship for me from really experienced people in the field. (CEO, FrozenCo)

The contribution of external investment to HRM practices allowed for much more than financial support and resources. Given the alignment of investors towards growing the firm, there was a shared vision towards increased formalization and strategic positioning. One of the most effective means of achieving this vision was through current employees and management, stakeholders associated with the firm and potential employees that could be attracted.

Transformational HRM

For some firms, external investment represented a more discontinuous change to the existing operations, as was described by the former CEO of SweetCo:

> The CVC was a trade buyer and they were very different to the PE. We had a very collaborative approach with our PE, and most decisions were made at the board meeting once a month. The CVC wanted to be more involved but actually caused quite a lot of issues in that you had people coming in to look under the bonnet of everything.

Here, we discuss transformational HRM as a fundamental redirection of the firm and highlight two key aspects, including changes in the attitude and philosophy of employees and managers and the initial integration of the firm with the corporate.

For some firms, external investment signalled a complete transformation in their operations and management structure. CVC investment, which often involved a majority stake in the business, also resulted in a significant loss of autonomy and control. The firm was expected to adopt the different systems and structures of the CVC, as their main focus was on streamlining their overall portfolio to facilitate greater overall growth. The founder of CandyCo describes the firm's experience after receipt of CVC investment:

> They said to me 'you can continue to run this business', but the problem was that the tentacles started to come in from different areas… I had people coming in saying to change all of this and telling me the way it has to be done now. They wanted to put down their power and their mark. They were trying to make their way the ways of working or to integrate us into their systems to give them visibility on what we're doing. They were coming from a very big company and they were only thinking about volume and not really caring about the way we were doing things.

This focus on aligning the growth of the company with the corporate investor did result in fundamental changes to the culture of the firm and the mindset of employees. As the PE of SweetCo reported following their CVC investment: 'The shift in mentality was huge. There was a big shift in the culture. I do think that the senior management team maybe became more hardnosed about the people in their team.'

For CandyCo, the receipt of CVC created a lot of uncertainty for staff and prompted the founder, and then CEO, to enact some changes before leaving:

> Some people wanted to have contracts in place. They just felt a little bit insecure about the change, particularly as I was leaving. They were comfortable while I was there but as I got closer to the point that I was going to leave, I tried to make sure that people's positions were as protected as possible. And now that I've left, the entire marketing and sales force has been completely disbanded from Ireland.

These changes were also evident in terms of SweetCo, where it was announced that the year following CVC investment: 'directors' pay, including pension payments, reduced from over €400,000 to below €380,000' (Archival, SweetCo).

Discussion

Our findings illustrate three core approaches to HRM practices in small, entrepreneurial firms in light of external investment. Drawing on existing literature, we develop a framework on the intersecting logics and time horizons of investors and investees with the adopted approach to HRM practices. Our analysis advances research on entrepreneurial finance by elaborating on the role of investors in the approach to HRM practices adopted by small, entrepreneurial firms. Following the introduction of our framework, we elaborate on the theoretical contributions, discuss the limitations of the study and offer ideas for future research as below.

INVESTOR LOGIC	Short term (3-5 years)	Medium term (5-10 years)	Long term (10+ years)
Market Logic *(e.g. Angel Investors, Bank Equity)*	***Operational HRM*** Formalising the HRM practices to facilitate effective and efficient staff management Basic training to encourage functional specialisation and skills development Utilising reputation and legitimacy of investors to promote firm growth (e.g. expansion, employment, branding)		
Professional Logic *(e.g. PE)*		***Strategic HRM*** Utilising networks, expertise and connections to professionalise senior management Attract and retain talented employees Focus on senior leadership and management Strong incentivisation scheme to promote employee ownership and commitment to firm	
State Logic *(e.g. GVC)*		***Strategic HRM*** Access to training courses, esp. leadership training Support on growing exports and considering international markets Access to strong network of expertise and connections across other firms	
Corporate logic *(e.g. CVC)*		***Strategic HRM*** Benefit of financial capital and legitimacy from corporate entity (e.g. expansion, branding, access to resources) Influence of corporate management on HRM practices Greater focus on performance and profit than heretofore	***Transformational HRM*** Integration of firm into corporate portfolio Upgrading of HRM systems and processes to reflect corporate partners Attitude and commitment of staff is altered during the transition

TIME HORIZON OF INVESTMENT

Figure 1. Framework of investor logic on HRM practices, where the impact on HRM of different investor logics is categorized by time horizon

Framework of investor logic on HRM practices

Drawing on our extant understanding of entrepreneurial finance, we provide a framework of core investor logics – market, professional, state and corporate logic – and time horizon of investment – short, medium and long term – with the operational, strategic and transformational HRM practices identified in our sample companies. Figure 1 provides more detail on these intersecting logics.

Firms in the early stages of growth who receive funding from angel investors or bank equity tended to adopt an operational approach to their HRM. The short-term investment horizon of angel investors and the early stage of investment is consistent with the relatively under-developed nature of the HR function and thus, the need for an operational approach (Aldrich and Langton, 1997; Cardon and Stevens, 2004). Two firms were in receipt of angel investment, BeerCo and JuiceCo, while ChocoCo were also in receipt of investment from a bank equity fund. As such, most changes were operational, focusing on the formalization of HRM practices to allow for effective staffing, basic training and a compensation system to support rudimentary HRM systems. Also, given their *market logic*, investors – particularly angel investors – have a strong, supportive involvement with the management, where they often leverage the reputation and legitimacy of their angel investors to enhance their opportunities for expansion, attracting employment or marketing their firm (Fisher *et al.*, 2017; Shane, 2012)

Strategic HRM is most often driven by PE, GVC and CVC investment, given their respective professional, state and corporate logic and more medium-term investment. Operating under a *professional logic*, PE firms seek to increase firm value and market share for a substantial return on investment and a relatively quick exit strategy. In general, firms who take on PE investment seek both financial support and expertise in terms of growing the firm (Jelic, Zhou and Wright, 2019). Two firms received PE investment, SweetCo and FrozenCo. This strategic orientation is also applied to the internal human resources, whereby PE firms allow for greater growth of HRM. While existing research shows the potential risks of PE investment to HRM (Bacon *et al.*, 2013; Wood and Wright, 2009), we find that PE investors advance firm performance and growth through incentivization schemes and share ownership options, in addition to more direct access to networks of industry experts and talented individuals. We also found that the management team remained in place for the duration of the investment, primarily due to the strong alignment of investor logic with the growth stage of the firm, but perhaps also due to the small size and early organizational growth stage.

The third logic we discuss is *state logic*, which tends to have a medium- to long-term horizon as GVC investors believe that financial pressure over a shorter period of time can harm the firm's trajectory, especially in the agrifood business where growth can be slow. Their key role is to provide longer-term funding to small firms which might not otherwise be available, to plug 'funding gaps' and also to support a policy of increasing employment and encourage export growth in a key indigenous sector. This logic manifests as a strategic approach to HRM, where they encourage specialized leadership training, expertise in functional growth and networks to emerging firms. Three firms – BeerCo, SweetCo and DairyCo – received GVC support, either prior to or in joint partnership with other investments. It was most common prior to other investment, as it contributed state support for market feasibility, employment and early-stage development costs.

Finally, we found that CVC investors, operating under a *corporate logic*, either had a largely passive involvement with investee companies or enacted major directional change depending on the stake of their investment. Where CVC investors' investment held a minority stake in a firm, with a medium time horizon, we found that their influence on HRM – and indeed the firm – was strategic and sought to enhance firm value (Dushnitsky and Lenox, 2005). For example, the small firm could benefit from financial capital, reputation and legitimacy from the corporate partner, while also leveraging their experience and more advanced HRM practices and procedures. Two of our firms, DairyCo and ChocCo, experienced this investment style, while two other firms, CandyCo and SweetCo, received long-term CVC investment prior to a full acquisition.

However, for CVC investors who take a majority share in the firm with the intention of a full acquisition, there is evidence of transformational HRM. This finding is consistent with the insights on the role of HRM in acquisitions (Kuvandikov, Pendleton and Higgins, 2020; Marks and Mirvis, 2011), and other employment implications following external investment (Avetisyan *et al.*, 2020; Guery *et al.*, 2017). The CVC enacts major changes post-investment, where the local management is of less importance to a CVC investor than the firm itself. For example, the CEO/founder will often not be expected to remain with the company after the investment has been made, the mindset and philosophy of employees is altered and the key focus is on initiating the integration of the firm into the overall corporate portfolio. As an established company, they will have operational processes in place and will seek synergies across areas such as finance, HR, marketing and distribution. Overall, our framework illustrates that investors' logic and their time horizon prompt changes in the approach to HRM practices within the firm by generating either an operational, strategic or transformational approach.

Theoretical contributions

This paper advances research on entrepreneurial finance by exploring the influence of investor logics on the HRM practices of small firms and offers two core contributions to theory. First, our study elucidates the role of different external investors on how small, entrepreneurial firms approach their HRM practices. By using primary, qualitative data, gathering perspectives from firm management, employees, investors, investment advisors and industry experts, we develop a framework to provide deeper and more nuanced insights into HRM practices in small, entrepreneurial firms post-investment. This framework contributes to the important research area of how HRM practices are influenced by firm growth (Avetisyan *et al.*, 2020; Bacon and Hoque, 2005; Bacon, Wright and Demina, 2004), with a particular focus on small, entrepreneurial firms (Cardon and Stevens, 2004; Sheehan, 2014). Previous literature on the influence of external financing on HRM practices identifies changes to employment (Bacon *et al.*, 2013), training (Bacon *et al.*, 2007) and compensation (Wright *et al.*, 2007), yet these are most common in more established, larger firms

(Guery *et al.*, 2017; Stevenot *et al.*, 2018), with a single source of financing (Wood and Wright, 2009) or with aspects of growth other than changes in HRM practices (Jelic, Zhou, and Wright, 2019; Kuvandikov, Pendleton and Higgins, 2020). This research contributes a more nuanced, empirical explanation of how small, entrepreneurial firms approach HRM in light of the institutional logic of external investors.

Relatedly, a second contribution is a more fine-grained understanding of the interaction of external financing with the internal operations of firms (Burton *et al.*, 2019; Cumming *et al.*, 2017). In line with the nature of this special issue, and the growing discourse on entrepreneurial finance and internal firm operations (Wood and Wright, 2010; Wright, Bacon and Amess, 2009), we illustrate that while external finance represents an important threshold of growth for a small firm, the institutional logics of investors can result in different approaches to the firms' HRM practices. We propose that HRM practices in small, entrepreneurial firms are more susceptible to changes due to the specific time horizon and institutional logic of external investors. We garner these insights from a breadth of investors and financial advisors within a specific industry, namely agrifood, and thus a key implication of our study is that sources of entrepreneurial finance depend uniquely on the sector characteristics (Cumming *et al.*, 2019a). For example, the relatively slow growth of agrifood firms attracts little VC investment, in contrast to other sectors such as technology, while GVC investment is common, given potential 'funding gaps' and a strategic importance of the sector for policy.

Research limitations

We recognize that our framework portrays a much more stratified illustration of entrepreneurial finance than what occurs in reality. The core focus of our research question was on determining approaches to HRM practices of small, entrepreneurial firms and therefore, we acknowledge some limitations in our research design. First, we only considered the most active investor or dominant logic, even when different combinations or configurations were represented in the data. We recognize that investment sequencing and syndication represent an important determinant of entrepreneurial finance on growth (Fraser, Bhaumik and Wright, 2015), and believe that the intersection of different sources, combinations and sequencing of entrepreneurial finance offer a positive avenue for future research on HRM practices in small, entrepreneurial firms (Cumming *et al.*, 2019a).[1] Second, we do not account for internal changes and costings, such as labour costs (e.g. recruitment costs, wages, benefits) and operational costs (e.g. manufacturing, distribution). As most firms were privately owned, it was difficult to gather this information. Third, despite our efforts to have a holistic representation of both firms and their investors, we were unfortunately unable to access respondents from CVC investors. However, this area offers a highly interesting, and relevant, avenue for future research (Avetisyan *et al.*, 2020; Kuvandikov, Pendleton and Higgins, 2020).

Future directions and policy implications

Focusing on Irish agrifood firms provides a new perspective in the field of entrepreneurial finance, which mostly focuses on high-technology companies (Colombo and Grilli, 2010; Fisher *et al.*, 2017; Pahnke, Katila and Eisenhardt, 2015). Future research can build on our findings, specifically in their analysis of entrepreneurial finance and HRM practices across other sectors, and more specifically looking at international differences in entrepreneurial finance, for instance across the United States and the European Union (Bacon *et al.*, 2012; Guery *et al.*, 2017; Stevenot *et al.*, 2018). Moreover, empirical testing can identify much more causal relationships and generate specific insights into the effect of one form of investment over another.

In terms of management implications, our framework provides an insightful reference for small firms seeking external financing. For many small, entrepreneurial firms, internal dynamics is often not fully considered in the decision to take on investment and firms need to consider ways to maximize the value of their relationship with investors (Burton *et al.*, 2019; De Clercq *et al.*, 2006). While we focused on traditional types of financing investors, further research can look at how new entrepreneurial finance players, such as crowdfunding, prompt changes in firms' internal practices and HRM activities. Finally, our research also has

[1]Thanks to an anonymous reviewer for highlighting this point.

important insights for policy, including greater understanding of the barriers to growth and challenges for small, entrepreneurial firms, the role and interplay of different investor logics and the importance of HRM to the performance and survival of these firms (Cumming, Johan and Zhang, 2018; Reuber, Tippmann and Monaghan, 2021; Wright *et al.*, 2015).

Conclusion

Theoretical understanding of HRM practices in small, entrepreneurial firms is a black box for future research and given their contribution to the economy, in terms of job creation and innovation, we believe there is great potential to provide more rigorous insights into this key function of a growing, small firm. Drawing on an inductive, qualitative case study of seven entrepreneurial firms in the Irish agrifood industry, the paper illustrates the HRM practices of small firms in light of external investment. We build a framework to demonstrate how different sources of external financing, in terms of their different institutional logics and investment time horizons, prompt firms to adopt an operational, strategic or transformational approach to HRM. Maintaining the tradition of Professor Mike Wright, this study contributes a more nuanced understanding of entrepreneurial finance and its implications on HRM practices in small, entrepreneurial firms.

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