

# Managing the Complexity of Human Resources in Family Firms

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People matter, so Human Resource Management matters. This is certainly true in all businesses, but HR is even more important in family firms for the following reasons:

- Family businesses often treat employees – whether family or nonfamily – as family, thus putting more attention and pressure on the need to handle HR issues with great care and respect.
- Family dynamics complicate the emotional environment of a family business.
- Family relationships and the family’s reputation are at stake.
- The livelihoods and fortunes of business families are often tied up in the enterprises they run, so they need to maximize the value of the business.

Because of these factors and the multi-layered relationships in family firms, the HR function has even more potential to contribute to the vitality of both the business and family.

Recent research indicates that businesses with an actively engaged workforce report 2.6 times the growth in earnings per share than counterparts with disengaged employees.[i] In fact, over 30 studies have correlated employee engagement to variables including better sales, profits, productivity and customer service,

along with decreases in turnover, absenteeism, product defects and safety incidents.[ii] While HR might seem like a relatively “easy” business function, creating thoughtful systems that maximize engagement, productivity and satisfaction is far from simple, and requires a strategic approach to both the crafting of HR practices and their implementation.

## Understanding HR

The conventional definition of HR is the variety of activities required to manage employees and employee-related policies and practices in a business. We prefer a broader view of HR that includes all activities related to the HR “life cycle” within a company, along with the values-based cultural features that inform every stage of that life cycle. The five components are briefly described below:

- **Recruiting:** Recruiting is about where to find the right people to hire. We believe it is more effective and efficient to do significant upfront thinking by asking key questions about what is best for the business and family – and then using the answers and themes that emerge to identify potential candidates from within and outside the family.
- **Selection:** Selection is the natural step after recruiting, which involves choosing the best candidates to hire from the small pool of candidates

you have considered more seriously. While many family businesses approach selection in a casual, informal manner, we recommend a systematic approach to selection.

- **Onboarding:** Onboarding is the specific way in which you bring new hires into the firm. More narrowly known as “orientation,” onboarding is better conceived as an important form of integration, a continuing program and process that helps assimilate employees seamlessly into the firm. The optimal approach to onboarding takes a long-term view of the process as unfolding over months rather than days, and is built on the idea that the arrival of new employees means a two-way merger, creating value for both the business, the new hires and the family.
- **Development:** Development is the means by which you grow the capabilities of your people, aligned with the strategy, vision, culture and needs of the firm. As we see it, an ideal development system reflects a continuous process of learning and growth. The process of development includes sensitively managing the review and development of family and nonfamily employees with a focus on continually improving the business’s ability to develop its people.
- **Exit:** We believe that regardless if the exit is voluntary or involuntary, and whether the individual is likely to return to the business in the future or not, it is important to develop a process that helps employees depart from the company in the most mutually beneficial way. In addition, an effective exit process helps prevent the exit of a family member from the business from becoming an exit from the family.

## Who is Responsible for HR Management?

The HR function is not just the responsibility of the HR department. Every manager should be aware of their role in nurturing strong, performance-based and values-based corporate cultures. This is easy to perceive in early-stage businesses, which are usually too small to justify a standalone HR department. However, even if your business has moved out of the entrepreneurial stage and employs dedicated HR resources, you can keep the entrepreneurial flame alive by continuing to involve front line management in key HR processes.

HR can and should be a strategic partner within the firm, rather than just a transaction-focused administrative function. Despite the potential value of HR, too many firms fail to use this function strategically, relegating it to an administrative and/or policing “personnel” role, with a focus on the nuts and bolts of the employee experience or the perfunctory enforcement of routine policies. As such, HR becomes more like a metaphorical finger-wagging librarian than a trusted, value-generating partner. These firms are missing out on potentially larger opportunities for creating value on multiple dimensions – or at the very least for involving HR when dealing with complex employee-related and cultural issues.

There is mounting evidence for the strategic value of HR – both the people and the systems/processes involved. One piece is the rise of the chief human resources officer or CHRO. A recent *Harvard Business Review* article notes that HR leaders at many firms now report directly to the CEO (rather than the COO or CFO) and serve as key advisers to the top executive and board, requiring higher-level leadership and strategy skills.[iii]

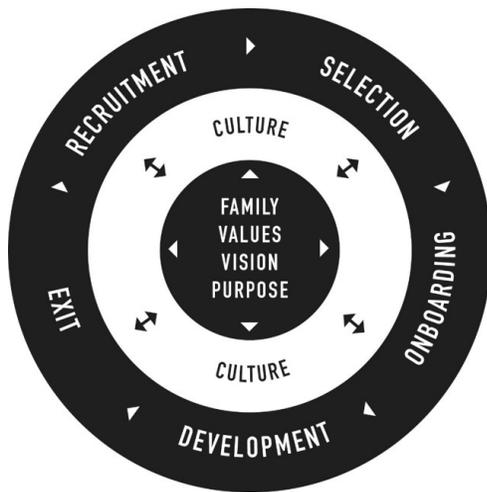
## HR & Family Business Essential Ingredients

Because your business’s performance is so highly dependent on your people, HR is a crucial contributor to the superior performance of family firms. So, maximizing the effectiveness of your HR systems and practices will help maximize your performance across the board. We believe strongly that HR can be an enabler rather than a disabler, a builder rather than a blockade, a partner rather than a peripheral player. In short, the ideal role for HR is as a true champion of engagement of all firm resources, not just the human ones. In many firms, that will mean taking clear, practical steps to transition HR into a more strategic role.

If your business’s ownership and senior management already view HR as a strategic partner, then you are well on your way. If not, then you will have to demonstrate the strategic value that the HR function can provide. In our experience, that demonstration begins with taking a holistic and strategic view of the HR function within the broader business – take the initiative to understand the broader business, not just your functional area. If you proactively work with other functional areas to understand their goals and challenges, and then offer

appropriate HR-driven solutions that help each function and the business as a whole, you will ultimately be seen as a strategic partner by many others.

Family firms face an added complexity regarding human resource management. In contrast to nonfamily firms, family businesses have many overlapping dimensions and layers of complexity to navigate due to the integration of family, business and ownership systems. Our experience dealing with complex HR issues in a range of family businesses has resulted in a dynamic, multilayered model of HR in family firms, as depicted in the figure below:



Family values, vision and purpose are at the center of our model which illustrates the crucial role these components play in establishing a foundational platform from which the business can operate. The family vision, purpose and values influence and shape all aspects of a business including the culture and the five components of the HR Cycle. The model is multidirectional and dynamic in its nature which means that each component is influenced by, and then in turn, influences the others. Culture, though not a specific stage or phase of the HR life cycle, influences every stage of that cycle.

## Finding “both/and” Approaches to the Business/Family Dilemma

When facing tough HR-related decisions, many business-owning families and family business executives feel they have to choose between family and business. Which should prevail? This question is often directly related to HR policies and practices. Generally, do HR

decisions tend to favor the business or the family? For example, are hiring criteria relaxed when hiring family members, or are higher levels of qualification and experience made mandatory?

The family-or-business question is the wrong question to ask. It is not an “either-or” but a “both-and.” We believe in finding approaches that are best for the business and the family. There is a growing school of thought on the power of paradox in family business. This approach sees the most successful family firms as having a well-developed capability to embrace paradox, turning each “either-or” into a “both-and,” rather than avoiding the issue and crafting suboptimal compromises.[iv] This “both-and” approach can be very useful for managing common family business paradoxes related to HR functions, including tradition and change, merit-based and entitlement-based, and exclusive and inclusive. By accepting paradoxes as special problems that cannot be “solved” but can be managed, many leaders find innovative approaches that value and tap the power of both elements of the paradox, often in mutually reinforcing ways.

By recognizing the inherent complexities of family business, managing the occasional paradoxes, and taking a more strategic approach to HR issues, you will be well-positioned to not only manage current issues but also to effectively anticipate future complexities. Doing so will allow you to create long term value for your business and the family.

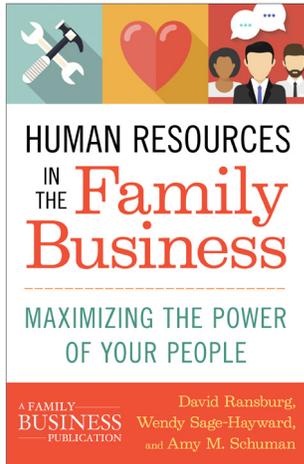
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[i] Marcia Conner, “Now that People Finally Matter to Businesses, HR Is the Next Big Thing,” *Fast Company*, 9/30/11.

[ii] As noted in Kevin Kruse, “Employee Engagement: The Wonder Drug in Customer Satisfaction,” *Forbes*, 1/7/14.

[iii] Ellie Filler and Dave Ulrich, “Why Chief Human Resources Officers Make Great CEOs,” *Harvard Business Review*, 12/14.

[iv] For much more on how to understand and handle paradox in family business, see Amy Schuman, Stacy Stutz, and John L. Ward, *Family Business as Paradox* (New York: Palgrave Macmillan, 2010).



More information about this topic can be found in *Human Resources in the Family Business: Maximizing the Power of Your People* by David Ransburg, Wendy Sage-Hayward and Amy M. Schuman.

Filled with case studies, frameworks and practical tools, this book addresses how to successfully anticipate and manage people issues and opportunities in a family business.

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