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Why Family Businesses Need Formal HR Policies

Kimberly Eddleston (Northeastern University)
Roland Kidwell (Florida Atlantic University)

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Informal people practices can create favoritism, confusion and conflict. Formal HR rules help family firms treat employees fairly and improve performance.

Hiring, training, appraising and compensating the right people in the right way is a crucial element to the success of any organization. It is commonly assumed that many growing family firms are not as sophisticated as larger corporations in establishing human resource rules and practices for selecting and developing employees from inside and outside the family. However, research indicates that forming and implementing these rules and practices can have a positive effect on family firm performance. Formal practices have been shown to have a positive effect on human resource management effectiveness, alignment with company strategy, and firm profitability relative to the industry.

Some, but not all, family firms have formal rules and practices that relate to recruiting and selection procedures, training and development of employees, performance appraisal, compensation criteria, and standards of employee behavior. Without formal human resource management (HRM) rules, an informal people management system may develop and grow in their place. Both family and non-family members, and other organizational stakeholders, may view this arbitrary approach as unfair and capricious. Without rules that govern hiring, training, compensation and behavior, the outcomes could be financially costly to the family firm: grievances, lawsuits, ambiguity, increased employee turnover, decreased motivation and performance by disgruntled employees, and serious interpersonal conflict within the business family.

This exercise can be used to demonstrate to family businesses or students in family business classes the importance of establishing an effective HRM system in their own family firms by designing formal human resource practices. The well-being and performance of family members, non-family employees and the family firm itself depend on having appropriate HRM practices and rules that treat employees and family members fairly.

Overview

The purpose of this exercise is to help family business members and students understand the importance of creating and implementing clear policies and practices for human resource management. These guidelines include several key issues:

- Who can join the company
- Criteria for promotion and career development
- Compensation
- Termination
- Behavior standards

This exercise is integral in strengthening an understanding of the unique challenges and opportunities that arise in family businesses. Additionally, a formal set of guidelines will help inform young family members about expectations for employment and how they can best prepare for employment in the firm. Such practices should be implemented before younger family members begin educational and career choices. It is also best if they are developed *before* issues arise and through a participative process.

To achieve successful learning outcomes, participants should take an organized approach that allows them to understand their priorities and their relationship to the family business. These guidelines communicate to *all* family members that there is commitment that surrounds their employment and formalizes the business practices.

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When shared with *all* employees, the standards also demonstrate the business's commitment to fairness and equality.

Although each family business should establish guidelines that best fit their family culture and business type, common elements should be considered. Successful family businesses tend to address the following issues in their human resource management practices:

- Defining expectations for education and outside work experience for family members and non-family members before joining the firm on a full-time basis
- Avoiding situations in which family members ask non-family members to do tasks that they won't do themselves
- Creating reporting relationships whereby family employees do not report to a supervisor who is a family member
- Compensating all employees at "market" value and ensuring internal equity
- Establishing regular performance reviews that include the gathering of anonymous feedback, and if possible, 360-degree assessments
- Establishing measurable goals that are tied to performance reviews

The Exercise

This exercise can be performed either individually or in small groups, over as many sessions as necessary to cover the material as deeply as needed. If necessary, students who are part of a family business should be given time to research and understand their own family's approach to managing others.

If all students come from a family business, it is often worthwhile for each student to perform this exercise; they can either do this individually or in small groups that discuss each family business in turn, then create unique human resource practices to suit the needs of each family and business. However, if only some students in the class come from a family business, this exercise works best if small groups are formed around these students. Group members then work together to create human resource practices for the student's family business, after s/he has described the firm's current practices and any human resource issues that it faces.

To help the students devise guidelines that best suit their family's culture and business type, considerations are presented as well as sample rules **(Download the Classroom Exercise above).** Upon completion, students must be prepared to present and discuss the practices in class. Furthermore, this should help them understand and explain how each will assist in the future of their family's business.

Approximate Timing

Explanation and Small Group Assignment	5 – 10 minutes
Time Allocated for Exercise	30 – 45 minutes
Class Discussion	15 – 20 minutes

Discussion

This exercise is an engaging way for students to see the importance of establishing human resource practices within their family businesses. Specifically, it pushes them to envision how they would join their business, and clarify specific expectations they have of their employment. In turn, this helps them to comprehend how to identify potential issues in a family business and devise strategies to prevent many of the challenges that may arise. By discussing each human resource practice in a small group or with the class, fellow classmates have the opportunity to identify key issues and to debate their recommendations. The exercises also provide a springboard to a discussion of how a professional human resources manager might benefit the family firm.

Read More

The Practice and Science of Family Business (https://familybusiness.org/)

Additional Search Terms: entrepreneurship courses, teaching ideas, teaching resources, classroom ideas, entrepreneurship classes, business schools, business school classes, entrepreneurship students, professors

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