

How Family Businesses Can Attract and Keep the Best People

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Despite the COVID-19 pandemic being mostly behind us, many organizations, particularly family-led small and medium-sized businesses (SMEs), are still grappling with the fallout. During a crisis or recession, SMEs are more vulnerable than large corporations (Portuguez Castro & Gómez Zermeo, 2021), since they lack sufficient resources to respond quickly and are less likely to react effectively to unanticipated disturbances (Bartik et al., 2020). The pandemic brought to light the difficulties family-led SMEs often have with attracting and keeping the best employees.

Yet, family businesses can overcome these difficulties and improve employees' mental well-being, satisfaction, productivity, motivation, and health and safety at work (Mohammad et al., 2021). This requires that they evaluate their current human resource management practices and make the changes needed to attract and retain the best employees.

We interviewed four founders of family businesses (Xiaohan Shi, founder of Qixiong Construction Engineering Group, Yongfeng Shang, founder of Electromechanical Technology, Weimin Yang, founder of Weiwen Mental Technology, and Yi Pei, founder of Yibeisen New Material) to discuss their experiences and learn what they are doing to attract and retain great people.

How The Pandemic Created Employee Retention Problems

Work satisfaction plays a critical role in an organization's employee turnover (Mudor, 2011). During the pandemic, many businesses laid off workers because they lost business and revenue, resulting in a sense of job insecurity, organizational instability, and job dissatisfaction (Nemteanu et al., 2021). When job satisfaction falls, employees often choose to leave the organization.

Xiaohan Shi, founder of Qixiong Construction Engineering Group, explained how "the lockdown created a disruption in the manufacturing process. Employees were unable to work on a set schedule and hence received a reduced wage, leading to high turnover in the company. This was a disaster." According to Prudential Financial's Pulse of the American Worker poll, 25% of employees planned to look for new jobs as a result of the pandemic.

Additionally, it has become more difficult to promote job satisfaction among employees since their work habits have changed and they have become accustomed to working remotely. According to an interview with Yongfeng Shang, the founder of Electromechanical Technology, employees want to continue working remotely rather than return to the office. Mr. Shang's view is well-supported by research. For example, a study conducted by Barrero, Bloom, and Davis (2021) revealed that 42% of US employees would look for a new job or quit immediately if their organization required them to return to full-time in-person work.

Employees are also seeking higher salaries due to the rising cost of living caused by inflation. The lockdown affected global supply systems, aggravating inflation and raising living costs at the same time (Santacreu & LaBelle, 2022). According to Mercer, a human resource consulting organization, more than 40% of companies report that employees are requesting increased pay to compensate for inflation (McGregor, 2022). The study also showed that approximately half of all firms pay employees a wage higher than the market rate to increase employee retention. Yet, while salaries and the employment rate have risen considerably since the inflation spike of 2021, people have become increasingly pessimistic about economic prospects (Weber et al., 2022). As a result, employees are continuing to request higher pay -- and if they don't get it, they are likely to search for new, more lucrative jobs.

Amidst these challenges, what can a family business do to ensure they are meeting the needs of today's workforce? Here is some advice based on our interviews with the four family business founders, supplemented with research findings.

Tip 1: Offer hybrid work.

Because the pandemic forced organizations to adapt by offering their employees more flexibility and autonomy in how and where they work, the labor market has become intensely competitive (Barrero et al., 2021a). As a result, businesses that require employees to always be physically present lose a competitive advantage in attracting top talent (Barrero et al., 2021b). In contrast, businesses that support a hybrid work environment are able to attract more talented employees. Offering remote work can therefore provide a business with a significant opportunity to attract and retain top talent, and thus, improve its performance (Galanti & colleagues, 2021).

As remote work becomes more accepted and popular, businesses should also update their HR policies to further improve productivity. This could include offering training before moving work online, setting boundaries between work and personal life, encouraging remote workers to maintain frequent contact with their coworkers (George et al., 2021), and providing timely feedback to allow everyone to stay in sync (Nawaz, 2020). Three of the family business founders we interviewed made significant changes to their HR practices to better accommodate remote work, recognizing that the practice is "here to stay" and necessary to attract and retain the best workers. However, one entrepreneur also mentioned being nervous since the long-term effects of increased remote work on productivity and collaboration are not yet known.

Tip 2: Create a comfortable workplace.

Family business leaders should pay attention to both their organization's culture and its physical environment since a high-performing work culture can minimize employees' "emotional pressure, economic pressure, and inertia" (McGregor & Doshi, 2015). Frequent absences, a high turnover and a decrease in labor productivity are all signs of trouble. Firm leaders should convey the firm's values and objectives to employees to help them understand the business's value proposition

and encourage employees to identify with the business. In turn, employees should feel comfortable sharing their personal concerns with firm leadership, particularly when they are dealing with problems that create stress and affect their work performance. This is where smaller businesses have an advantage: the close relationship they are able to create with employees makes each party vested in the well-being of the other.

Yi Pei, CEO of Yibeisen New Material, emphasized the need to assist employees whenever possible to reduce their stress and demonstrate the company's care for their well-being. He gave the example of a key technician who was dealing with significant medical expenses for a family member. Yibeisen New Material helped the technician by paying many of the medical fees. Mr. Pei believes this helped to reduce the technician's stress and likely contributed to his continued employment with the company.

Family business leaders should also conduct regular "culture audits" to assess how employees feel about their work environment and find ways to make it more welcoming and supportive (Goffee & Jones, 2013). This is particularly important for businesses hoping to lure their employees back to the office, even if it's only for part of the time. For example, Weimin Yang, founder of Weiwen Mental Technology, suggests adding plenty of "green plants to decorate the office since they make the environment more comfortable and help to reduce stress." Indeed, research shows that work environments with plenty of live plants "significantly increase workplace satisfaction, self-reported levels of concentration, and perceived air quality" (Nieuwenhuis et al., 2014). Family business leaders should also consider creating various types of physical workspaces to allow for both individual work and team interaction. For example, create comfortable spaces designed for socialization and team work, and also offer spaces that allow for quiet work, solitude and privacy. Having these options helps you achieve the best balance of individual job productivity and collaboration (Peterson & Beard, 2004).

Tip 3: Reward employees appropriately.

Although many family-led SMEs are struggling with the effects of inflation and rising cost of supplies, they must reward employees well since compensation enhances employee motivation and job satisfaction (Ali & Ahmed,

2009). Because employees are also being affected by the rising cost of living, generous salaries are necessary to attract and retain them. Family business leaders need to understand that employee turnover costs money (O'Connell & Mei-Chuan Kung, 2007), and that paying higher salaries may actually save money in the long term. Indeed, Mr. Xiaohan Shi emphasized how cutting salaries in response to the pandemic would likely increase employee turnover. However, because family-led SMEs are often strapped for cash, it is not always easy for them to pay their employees more – so they may need to be creative.

These creative options might include transportation subsidies, dividends, and special rewards. Two of the founders we interviewed, Yongfeng Shang and Weimin Yang, explained how they now give employees free parking and transit subsidies for daily commutes to help them deal with high transportation and gas prices.

Yi Pei, the founder of Yibeisen New Material, emphasized the importance of taking into account the “whole” employee experience so that their focus is not solely on pay. He explained: “We want employees to not just focus on income, but to also be concerned about advancement prospects, vacations, the work environment, and the company's well-being.” His company uses an arsenal of benefits and rewards to keep employees committed and vested in the business's success. For example, they routinely give gift cards to employees who go above and beyond, and hold festive company events that promote camaraderie.

In determining how best to reward employees within a firm's budget, it is important to recognize that employees' behaviors and attitudes are influenced by both material and psychological rewards (De Gieter & Hofmans, 2015). As such, offering expensive salaries or rewards is not always necessary to attract and retain the best employees. For example, given the desire for remote work, some employees may be willing to take lower compensation for the benefit of working from home and having greater flexibility. As Yi Pei explained, giving employees advancement opportunities and interesting projects also help firms retain the best talent. Family businesses can also create unique rewards that encourage long-term dedication. For example, Yongfeng Shang explained how his company, Yongyue Electromechanical Technology, presents employees with a custom 24k gold medal on their tenth employment anniversary.

Tip 4: Build effective communication channels.

Nonfamily employees working in family businesses often complain that they feel like outsiders whose opinions don't matter (Tabor, Chrisman, Madison, & Vardaman, 2018). To prevent such problems, family businesses should create organizational practices that increase employee participation and make nonfamily employees feel valued and included. Building more effective communication channels is a recommended solution to promoting nonfamily employee involvement (Tabor et al., 2018). These could include informal coffee breaks, creating a dedicated CEO mailbox (for receiving advice or complaints), and one-on-one private chats with family business leadership. Family business leadership can also conduct “listening tours” to learn more about their employees' setbacks and successes and increase communication (Lawler III, 2008).

Consider allowing employees to express concerns anonymously. All employees should feel that their opinion matters, and that leadership is interested in hearing their comments and suggestions. Additionally, employees should receive feedback and answers to their queries, even when the response is negative. The goal should be to create open channels of communication where all employees feel welcome to contribute and leadership demonstrates their interest in receiving feedback from employees.

Because business-owning families are notoriously private, they often need to increase transparency to build more effective communication. For example, by informing employees about the company's revenue and business model situation, they can build trust with employees and better rely on them to create firm value in the long run (Liguori & Pittz, 2020). Honest information about firm performance allows employees to better understand why tough decisions may need to be made by firm leadership, such as cutting back on growth initiatives or limiting pay increases. This can even create a forum where employees have input into the decision process and can suggest solutions. Effective communication also includes giving employees useful feedback about their performance, something that can be challenging in a family-led SME where everyone knows one another quite well. One of the most recommended practices is the use of 360-degree feedback, which includes insight from bosses, peers, and subordinates about each employee's strengths and

weaknesses.

Conclusion

Attracting and retaining the best employees is a struggle, and competition is keen for good talent. While the pandemic made many employees prefer remote work, its aftermath has created pressures that increased employee stress about the cost of living and job stability. Our overall message: family businesses need to create environments that support remote work, offer comfortable workplaces that entice employees to come to work, reward employees creatively and well, and foster open communication.

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