



## Let's Get Professional: Establishing Human Resource Practices for Your Family Business

### Student Instructions

Establishing professional practices to manage an organization's relationships with its employees helps family members understand their own relationships to the family business. Human resource practices establish how people are treated by the firm, serve to clarify employment expectations, and ensure that the family plays a positive role in the business. These practices communicate to family members that a job is not an entitlement or a birthright. When shared with *all* employees, the practices communicate the business's emphasis on fairness and equality.

Developing and implementing a formal set of human resource practices informs young family members about expectations for employment and how they can best prepare. 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.

Although each family business should establish human resource practices that best suit their family culture and business type, there are common elements that should be considered. Best human resource practices that successful family businesses tend to establish include:

- 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 the family asks others to do tasks that it will not do itself
- 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

In this exercise you will create human resource practices for your family business. Below, key issues are presented that need to be addressed. To help you devise practices that best suit your family's culture and business type, considerations and sample practices are presented below. Be prepared to present your human resource practices in class and to explain how each will assist in the future of your family's business.



## Sample Human Resource Practices

### **Subject: Family Employment Philosophy**

**Considerations:** What is your family's basic philosophy regarding the family's role in the business? How does the family view the relationship between the business and family now and in the future? How does the family view nonfamily employees? What is the role of family versus nonfamily employees?

**Philosophy Statement Example:** Family are expected to set a positive example for employees in terms of work ethic, dedication, performance, cooperation and conduct.

### **Subject: Eligibility for Employment and Specific Positions**

**Considerations:** What are the minimal criteria to be considered for a job? Are in-laws, stepchildren, and significant others able to join the business? Will top positions go to non-family members? To non-blood relatives? Who is *able* to be considered as a successor (the next President/CEO)?

**Example:** *To be hired for a full-time position, a four-year college degree from an accredited university is required in a field that is useful or related to our company.*

### **Subject: Education**

**Considerations:** Is education beyond high school needed? If so, how much and for which positions? Does major matter?

**Example:** *A graduate degree is required in a field that is useful or related to our company to be considered for a management position.*

### **Subject: Work Experience**

**Considerations:** What type of work experience is desirable? Is outside work experience required? What type and how much? Will internships and/or summer employment be made available?

**Example:** *A minimum of three years of employment in a different firm is required before being hired for a full-time position. For management positions, at least one promotion should be achieved.*

### **Subject: Ownership**

**Considerations:** When will ownership be transferred to the next generation? Under what conditions? To whom?

**Example:** *Majority ownership of voting common stock will only transfer to family members employed by the firm on a full-time basis. Other family members may be offered ownership, but without a voting position. Once a family member retires, his/her voting stock should be passed to his/her descendants.*

### **Subject: Hiring Process**

**Considerations:** How will family members learn of job openings? What is the procedure for them to apply for positions? Will jobs be created for family members? Under what conditions?

**Example:** *A job at our family business is neither a birthright nor an obligation for family*



*members. Family members must formally apply for an open position to be considered for employment. The selection process will include an interview with both family and non-family managers.*

**Subject: Organizational Tenure and Leaves**

**Considerations:** Are there consequences if a family member leaves the business? Under what circumstances can s/he return to the business? Are family members able to alter their schedules to work part-time? How does a change in schedule affect their career path with the business and compensation?

**Example:** *If you leave a full-time position for reasons that are not medical- or education-related, chances for rehire may be compromised.*

**Subject: Age Limits**

**Considerations:** How long can the next generation wait to make their career choices? Is a position always available for family members regardless of their age? Is there a retirement age?

**Example:** *Next generation family members interested in full-time employment must complete education and experience requirements and commence working for the family business by age 35. Family members should plan to retire by age 75.*

**Subject: Compensation**

**Considerations:** Will all family members be paid the same amount or will their compensation be based on market wages? What benefits can they expect? What about nonfamily employees?

**Example:** *Family members will be paid market-based salaries and will be given benefits appropriate to their position. They should not expect greater salaries or benefits than non-family colleagues with similar positions.*

**Subject: Performance Review**

**Considerations:** Who supervises family employees and leads their performance reviews? How and when will performance reviews occur? What are the consequences for poor performance?

**Example:** *Family members will report to a supervisor who is not a family member. Performance reviews will occur every six months, highlighting both positive and negative qualities. Continued employment will depend on a consistent record of high performance.*

**Subject: Authority**

**Considerations:** How much input will family employees have in strategic decisions? When will they earn the right to participate in strategic decisions? How should they offer ideas regarding strategy?

**Example:** *Only managers are included in discussions on firm strategy. Being family does not give one authority to participate in strategic decisions. However, suggestions are welcome and should be shared with one's manager.*