Among the biggest questions facing CEOs in 2009 are: if and when to cut staff; which staff to cut; and how best to minimize the effect of the reduced workforce on the long-term health of the enterprise? These decisions are hard enough, but consider the added burden of the CEOs of family-owned businesses. They are being faced more and more with the unique consideration: what to do about the owner’s sons and daughters — and other close relatives — who expect a position in the family enterprise when opportunities dry up in their outside professions. What happens when a family member in the company is underperforming and should be laid off in such a weak economy.

This is a huge conundrum for family businesses and for society at large...

If the desire to hire family members outweighs the desire to hire the most qualified individuals for jobs, then it’s a lose/lose/lose/lose situation.

While our organization, the Aspen Family Business Group, does not yet have firm statistics, we do know that more and more relatives of family-run businesses are returning to the fold. As Poet Robert Frost once wrote, “Home is the place where, when you have to go there, they have to take you in.” But should CEOs of family businesses give a job to every family member who comes knocking? Should these organizations make room for sons and daughters, nephews and nieces and, if so, under what circumstances?

Family businesses operate in a “value paradox,” not found in other businesses. Membership in the family is by right of birth and as such members have unconditional acceptance. For example, a brother is still a brother even if he tries the patience of you and everyone else in the family. On the other hand, membership in the family business should be conditional, based on contribution and behavior.
Here are the important principles for CEOs to follow in hiring laid-off relatives:

1. **Determine if there is a business need.** Making a place for a family member where there is no business need can create resentment among non-family employees, especially if job cuts may be a looming threat for the company. This can also create issues with currently employed family members who may feel resentment toward the family member who, unlike them, showed no interest in the family business until time of compelling personal need. This second point isn’t insurmountable but needs to be addressed directly and worked through.

2. **Use the same selection process for the position that you would for non-family members.** A great deal of research shows that many family businesses have double standards, perhaps even lower standards, for bringing family members into the family business. One study found that 64 percent of family businesses don’t require that family members have the necessary qualifications or experience for success. Another study of smaller businesses found even more dismal results. When asked to evaluate the statement “Family members in our business would be successful in comparable jobs with other companies” a survey of 45 family businesses making $100 million or less ranked this statement at the bottom of the scale. This dangerous heart-over-head characteristic makes family businesses weaker competitors and less viable businesses than they could otherwise be.

3. **Be sure to have an updated family-member employment policy.** If you don’t have one, then this is a good time to create one, with the advice and counsel of your board, legal counsel and other trusted advisors. Such a policy can head off much intra-family conflict.

4. **Use testing tools for hiring and placement, not just your gut feel or soft heart.** If you aren’t doing so right now, start to use evaluation tools to get the right family member placed into the right job. In the last 15 years the quality, viability and predictive power of personality tests and cognitive tests have improved greatly. Adding these tools to the hiring protocol can add empirical information and help rectify the heart-over-head imbalance. Your HR people or family business consultants can help you choose the right tools to fit your needs.

5. **Perform a gap analysis for each family member being considered for hire.** How large is the gap between the skill set they currently have and the skill set they’ll need to be successful? Discover the current and desired state for each potential family member. The gap analysis can be the basis for a development/mentoring plan, either in the business for those chosen, or in the family for those not.

Here are important characteristics to look for.

- **Self-knowledge, self-mastery, “coachability” and emotional intelligence.** A recent study of over 5,000 hiring managers found that 46% of new hires fail within 18 months because they cannot receive and act on feedback from others and they lack the ability to perceive, understand and manage their own emotions and those of others.

- **Leadership skills,** if the position is a leadership job.

- **Knowledge of the family business, its mission, values and operations.**

- **Knowledge of the market, suppliers, customers, competitors.**

- **General business knowledge.**

- **Relationships, networks, trust, influence and credibility within the family** (the family member entering the business will have to live in both worlds).

- **Relationships, networks, trust, influence and credibility within the business** (if the family member has had involvement in the business previously.)

Family businesses have two leadership pipelines—the business pipeline, like any other business. And the family pipeline, which can be used to create a mentoring/development plan to bridge key gaps in each area. Many families also have processes to help family members in need, or help them find jobs that are a better fit for their situation.

Solving family problems in the family and business problems in the business makes for better families as well as better businesses. Without taking these careful steps, family-owned companies may become their own worst enemies, just when the economy is also cutting into their profitability and viability. Don’t let a culture of caring become one of carrying.