HR Can Help Ensure the Success of Family Businesses—From Mom/Pop Stores to Wal-mart and Ford

By Darrell Beck

About 80 percent of U.S. employees work for family-owned or family-controlled companies, from the mom-and-pop establishments across the country to many of the largest corporations in the United States, including Wal-Mart Stores, Inc., Ford Motor Company, Cargill Inc., Koch Industries, Inc., and Motorola, Inc., to name a few.

With so much human capital working for family businesses in this country, it’s critical for HR leaders to understand the uniqueness of family businesses and their many challenges. For example, today, family businesses face a record level of leaders stepping down and transferring the reins—in addition to wealth—from one generation to the next, yet the state of readiness for major transitions of leadership and ownership is not good.

Given that an organization’s future depends on its ability to successfully identify, prepare and retain the next generation of leaders, the following statistics are downright alarming:

- Thirty-nine percent of family businesses will change leadership in the next five years, yet 71 percent do not have a written succession plan. In fact, only slightly more than half even have a written strategic plan.¹
- Only three in ten will successfully make the handoff from one generation to the next. The rest will fail. And only 3 percent of generation one will make it to the fourth generation!
- Part of the problem lies in the fact that family members, poised to take over leadership positions, are often unprepared. Consider the following statistic: 64 percent of family-owned businesses don’t require family members entering the business to have qualifications or experience necessary for success!
- Small businesses may fare even worse on this score. When asked to rank 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 it at 99 out of the 100 questions listed, clearly indicating that family members themselves rank competence as unimportant for entry into the family business.²

Imagine a relay race in which only 3 percent of the teams that start the race ever make it to the finish line. The rest drop the baton somewhere in the handoff, and everybody on those relay teams loses. If 97 percent of companies in the United States fail during this transition, what happens...
to the employees—both family and non-family members—who work in these organizations and whose families rely on them for their livelihood? And what happens to the wealth of the owners and other investors who have their wealth tied up in these family businesses? The studies show that 93 percent of the investor/owners have little or no income diversification. All of their eggs are in the family-business basket. What happens to all these individuals’ future security when so many businesses fail during a transition of leadership?

Wealth lost, hopes dashed, business gone. This is reality, not a myth. Yet much of this can be prevented with better planning and better processes, and HR has a key role to play.

THE UNIQUE ROLE OF HR IN FAMILY BUSINESSES

Beyond the required expertise to deliver the usual HR services—recruiting and staffing, training and development, performance evaluation and promotion policies, compensation and benefits, and employee relations, to name a few—HR management in family-owned businesses offers unique challenges and opportunities.

The model above shows the three kinds of relationship characteristics that HR professionals must maintain with their family-business clients. Depending on one’s personality, HR managers will probably find that they have some if not all of these required traits. Yet demonstrating only one or two, not all three, spells failure. HR professionals must hold all three: control, collaboration, and service.

Control (oversight and compliance) is the fiduciary part of the job. Collaboration is the part of the job where you combine your expertise with the expertise of another, such as working with a manager to help him or her position and implement a delicate structural change. Or it could be working with a manager who knows the deliverables expected in a new position, and you assist him or her in defining the competencies required of the new hire along with a selection process to ensure that the manager gets the right person. Service is pure support, such as your helping a manager with the wording and placement of a job posting.

Collaboration Is More Challenging

What’s different about family businesses is that the collaboration functions are more challenging than in non-family businesses. The family-business HR professional must be fully competent at:

- Operating as a change agent
- Earning credibility as a knowledgeable trusted adviser
- Gaining the respect of myriad family individuals and
- Navigating the family business culture

Without these skills, HR will not be allowed to address family succession and role-clarity issues (described in detail below). Succession and role clarity are often the issues thought of as “for family members only—others by select invitation.” The role of the HR professional will be marginalized if he or she is not invited in.

Two stories can illustrate this, in the same company with the same family. The first HR vice president had been with the company for seven years before his retirement. During that time, the family hosted several meetings and social events for family members and a select group of non-family managers to which he was always invited. Because these were voluntary and he already worked long hours, he rarely attended these affairs, preferring instead to spend this time with his own family. While he was praised at his retirement as a competent professional who had done a good job, he knew that he had never been a truly trusted adviser. Throughout his career, key HR and leadership decisions were made without him, and he got involved only in the mop-up work. In short, he was not invited into the inner sanctum of the family business.

The next head of HR of this company was less concrete as a thinker but more emotionally intelligent. He attended all of these special events, preferring instead to spend this time with his own family. While he was praised at his retirement as a competent professional who had done a good job, he knew that he had never been a truly trusted adviser. Throughout his career, key HR and leadership decisions were made without him, and he got involved only in the mop-up work. In short, he was not invited into the inner sanctum of the family business.

The next head of HR of this company was less concrete as a thinker but more emotionally intelligent. He attended all of these special events. In addition, when family members visited the company, he always made an effort to say hello, or escort them around if appropriate. When younger family members had internships in the company, he always took a
special interest in them and their future. He understood that family businesses are really two organizations, not one. One is the business with an organization chart, like any other business. The second is the family organization – the owners, tomorrow’s leaders, and other emotional stakeholders who are not in the business but have great influence over it. He managed both sets of relationships and was invited into the kinds of issues that his predecessor had been excluded from.

There are books, workshops, and networks HR can access to better understand what it takes to become a trusted adviser. In addition, there are also excellent consulting groups that can help in this area, such as the Aspen Family Business Group, a premier international consulting resource for families in business. I’ve been a partner in this group for several years and it has become one of the premier organizations in the country that help families maximize the potential of their business and promote family harmony among other achievements.

Emotional intelligence and influencing skills can also be learned, measured, and further developed. And cultural competence—the ability to read an organization’s culture, assess its match to strategy and execution, and work to bring about alignment where it does not exist—is a key skill set that can also be mastered. All of these elements are desirable for HR professionals in non-family businesses; they are critical in family businesses.

YOUR TWO LEADERSHIP PIPELINES

Once you have the confidence of the family members – and enter the inner sanctum, it’s important to then manage effectively the two leadership pipelines. First is the company pipeline, like that of any other organization. Second is the family leadership pipeline, unique to family businesses.

The business leadership pipeline begins at the time of hire, when the company can begin to assess and develop individuals for future roles in the company. The family leadership pipeline of assessment and development can and should begin much earlier—often in childhood. This provides greater development opportunities for the family, since many of both the "drivers" and "derailers" of leadership success begin to show up early in life, well before employable adulthood. This gives the family unique and powerful mentoring possibilities.

As head of HR, you automatically have the professional position to be involved in the company’s leadership pipeline. But, as was described previously, one has to earn an invitation to be involved in the family leadership pipeline.

Both companies and families can improve the quality of their leadership pipeline in several ways that are described below.

PERSONALITY CHARACTERISTICS OF GOOD AND BAD LEADERS

By no means are personality characteristics the only predictors of success or failure. Business knowledge, connections, intelligence, and a number of other factors also predict. But they constitute such a large component of prediction that it is well worth identifying the key characteristics. And, since assessment tools are now available to allow you as an HR professional to identify both kinds of predictors, fairly early in one’s career or young adulthood,
it’s an unforgivable oversight not to do so.

These efforts should precede training efforts since you can’t train in a skill or ability that’s incompatible with core traits. Training that is done based on the results of trait assessment as compared with training done not based on any trait assessment shows significantly more behavior change. Assessment and development plans that are based on trait assessment and 360-degree feedback provide an empirical foundation for success that is lacking in most companies’ training.

**Personality Characteristics of Good Leaders**

Most successful leaders aren’t a perfect fit to this template. They have a gap or two that can be bridged. But for leaders with several large gaps, the compensatory effort is unrealistically daunting. Here are the most important personality characteristics.⁵

- Exceptionally persistent
- Humble (the self-sure charismatic leader image doesn’t fit the research findings)
- Relatively calm, not moody or explosive, with a healthy core self-esteem
- Ambitious with drive and a social potency in interacting with others
- Conscientious, with a willingness to play by the rules and a strong goal orientation
- Curious and visionary

Every one of these characteristics can be identified through psychological assessment and can be developed if the core traits are present to some degree. This is the basis for targeted training and the foundation of leadership success.

**Personality Characteristics of Bad Leaders**

What are the most common causes of leadership failure and what can you do about them to improve the business and family pipeline? Because most of these characteristics begin to show up early in one’s young adulthood, family businesses have a huge advantage over non-family businesses as these traits can be spotted early and remedial action taken early.

The following derailing behaviors detected in early adulthood that are ignored, tolerated, enabled, or actually rewarded can turn into adult leadership causes of failure.

- **Inappropriate engagement with others.** Two kinds of problems occur here. The first is combative, abrasive, bullying, overbearing leadership, which creates defensive, compliance behavior on the part of others. This leader will fail to get the best thinking of others. The second engagement derailer is coldness, aloofness, and arrogant detachment. This form of leadership sends the loud and clear message “I don’t care at all about you.” Poet Robert Frost speculated whether the world would end in fire or ice. After examining both he concluded, “either will suffice.” So, too, it is with leadership behavior that is either too hot or too cold.

- **Problems with trust.** Trust is a highly reciprocal feeling. The leader who cannot trust others cannot get others to trust him or her. When we do not trust our leader, we withhold our full commitment and productivity.

- **Problems making personal transitions.** What made one successful may not keep one successful. Effective leaders must be able to manage personal transitions in their careers. Joe was successful in his first several jobs because his linear, concrete thinking helped him excel at tactics and implementation. Now the same pattern is dooming him as an executive, charged with strategy formation and development of a vision for the business. Sue was successful in several jobs in the finance department because of her hands-on perfectionism, hard work, and attention to detail. Now as the CFO she is a workaholic who nit-picks the work of others, can’t delegate, and makes her employees feel that whatever they do is not good enough. For both Joe and Sue, their job demands changed, and they didn’t.

- **Self-serving ambition.** People don’t want to follow someone whose ambition is self-serving and personalized to advance his or her own cause only. They do want to follow someone whose ambition is socialized—who is working for the greatest good for the greatest number.

- **Failure to staff or build a team.** The leader who cannot assess competence in others, or who prizes blind loyalty and yes-man behavior over competence will have team-performance problems, and the business will suffer.
• Inability to learn from one's own mistakes or failures. *Mistakes Were Made (But Not by Me)* is the title of a fine book. The leader who fits this pattern is perhaps the most dangerous of all. An inability to reflect on one's own poor decisions and accept personal accountability means that the same mistakes will happen again and again.

**BRINGING FAMILY MEMBERS ON BOARD**

Identifying successors is a major problem for family businesses. Thankfully there is clear research to help. A McKinsey study (www.mckinseyquarterly.com) in 2006 found the following: of typical kinds of successor selections in family businesses, primogeniture, or choosing the eldest son, is the worst. (Eldest sons run 30 percent of family firms in the United States.)

Family businesses in which successors were chosen from a search process covering all eligible family members fared the same as businesses in general. Family business in which outside leaders were chosen to run the businesses fared significantly better than businesses in general. There seems to be some unique chemistry for the good of the business from having the perspective of an outsider, guided and supported by the culture of the family businesses. These cultures are often value-driven, stable, and long term in their focus. So, the clear message is to cast a wider net in the search for successors.

Whether bringing in a new person or managing the career of someone already in the business, decision makers in both non-family businesses and family businesses use objective and subjective information to guide them. **Objective** information, most heavily relied on by nonfamily companies, is often focused on credentials, experience, references, interviews, and assessment tools for traits and abilities. Family companies tend to use the same kinds of information, except for the assessment tools, but also rely heavily on subjective information. **Subjective** information for family businesses often includes emotions, memories, old rivalries, loyalties, and alliances. Thus, family businesses have an unbalanced score card, heavily weighted in favor of subjective, intangible elements, compared with non-family businesses.

In the last 15 years, the power, clarity, and predictive validity of assessment tools have improved greatly. They show a person’s core traits, which are remarkably stable over time and circumstance. Traits predict the kinds of competencies the person will naturally have, or be able to learn, if given the right opportunities. Effective assessments can heighten the accuracy of placing the person in the right position by identifying key attributes of personality, cognitive ability, and emotional intelligence that will predict success in key family-business roles. They also identify the at-risk patterns for an individual, possible derailers of the person’s success, and give the individual coping methods for prevention, exactly as one would with health-risk factors following a physical exam.

Assessments can identify the person’s motives and values—who he or she is at the core—so the person can pursue a career direction full of meaning and joy, not hollow success at the price of happiness. And they can assess and improve the individual’s emotional intelligence, critical and unique for navigating the complex social, emotional, and relational complexities that are part of every family business. The use of personality tests, cognitive tests, and value/culture fit has almost doubled in the last five years. Yet, family businesses, especially small family businesses, are less likely to use them.

As an HR professional, getting your company to make intelligent use of tests for selection and promotion can achieve better talent management, better assessment of family members wanting to enter the business, and better development planning throughout the organization.

**ADDRESSING ROLE PROBLEMS**

One common problem that bedevils family businesses arises from the fact that all family members in the business have to wear at least two hats, the family hat and the business hat. The family hat requires unconditional acceptance based on membership in the family. The business hat requires conditional acceptance based on job performance.

Three main conditions arise from the two or more hats phenomenon. They are *role conflict*, in which two struggling perspectives prevent action, *role confusion* in which the situationally incorrect role prevails, and, finally, *role clarity*, which
means balancing the sometimes paradoxical demands of each.

1. **Role conflict.** The director of purchasing needs to tell her father that his good-ol’-boy vendor relationships and his pork-barrel purchasing practices cost undue money and reduce the company’s competitive position. Yet she is the youngest daughter of the family, sponsored, mentored, and promoted by the father who believed in her when others did not, and she is gripped by feelings of loyalty, fealty, honor, and obligation toward her father. The role stalemate struggle results in silence.

2. **Role confusion, or wearing the wrong hat.** The sales vice president knows that one of his directors should be fired for substandard performance, violation of the company’s drug and alcohol policy, and personnel actions that border on hostile workplace. Yet he’s also the older brother and wants at all costs to give his younger brother another chance—dad was always harder on him—and in the end the older brother hat prevails, and he makes a bad business decision in an attempt to solve a family problem via the business.

3. **Role clarity.** Stew Leonard, founder of the legendary Connecticut supermarket by the same name, once told this story to a Family Firm Institute conference several years ago. He called one of his sons into the office, put on his boss hat, and fired the son for job performance reasons. He then took off the boss hat, put on the dad hat, and said, “Son, I understand that you’ve just lost your job. What can I do to help you?” Would you be invited into any of these three situations and asked for wise counsel? Would you be able to address the double standard issues in the role confusion example? It depends on the relationships you’ve established and the credibility you’ve developed. It also depends on the clear policies, protocols, and values established in the organization, making sure that family problems and issues stay home, and aren’t to be addressed in the workplace.

HR in a family business contains the complexities of HR in general, with the added challenges of dealing with the shadow organization of the family. But the rewards can be great. Family cultures don’t go up and down with the market. Well-run family businesses don’t fear hostile takeovers by a company or a raider with exploitive values. Most small businesses in the United States are family businesses. And small businesses, not the Fortune 500, are the real job generators, creating employment opportunities for all. For the right person, it is an HR challenge worth taking.

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**Notes**

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