



Institute for  
Family Business  
with UCG

# Family Business Challenges

## Maximising People Capital



## The *Family Business Challenges* series

This guide is part of the *Family Business Challenges* series commissioned by the IFB Research Foundation. The series offers practical guidance for family business owners seeking to manage the unique challenges and opportunities they encounter.

The series provides concise information on a broad range of topics – covering family business dynamics, governance, performance, succession and family business wealth.

Each guide, which is illustrated by a real-world case study, is divided into three sections:

1. **Defining the challenge** – clarifying the issues and summarising expert thinking.
2. **Actions to consider** – ideas and strategies to help family business people meet the challenge.
3. **Resources** – annotated further reading.

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## The publisher

### About the IFB Research Foundation with UCG

The IFB Research Foundation with UCG is a charity (no. 1134086) established to foster greater knowledge and understanding of family firms and their contribution to the economy and society, as well as the key challenges and opportunities that they face.

The Foundation's vision is to be the UK's centre of excellence for family business research, and to this end its publications are designed to create a better understanding of family business for the benefit of all stakeholders. Alongside *Family Business Challenges*, its work covers a broad range of publications, including:

- *Family Business Sector Report* – benchmarking the size and importance of the sector.

- *Family Business Research and White Papers* – thought leadership on key family business characteristics and issues.
- *Family Business Case Studies* – showcasing family business exemplars.

The Foundation disseminates knowledge and best practice guidance through printed publications, online media accessible via the IFB website and other activities, including the IFB Research Foundation Annual Lecture.

### About the IFB

The Foundation works closely with its sister organisation, the Institute for Family Business, which is a membership association representing the UK's family business sector. The IFB is a member of FBN International, the global network for family businesses.

[www.ifb.org.uk](http://www.ifb.org.uk)

# Maximising People Capital

## 1 Defining the challenge

**Family businesses create a special and positive relationship with their non-family employees.** IFB research highlights how tighter owner–manager links and long-term stewardship help produce greater employment security, job satisfaction and worker loyalty. But while these factors are a source of competitive advantage for family businesses, they also present special challenges.

**Challenges arise in particular as family businesses grow.** It becomes harder to maintain positive engagement with non-family employees as the company expands and becomes more complex (moving from being an owner-managed to an owner-governed business), and as succession becomes an issue.

**Family businesses need to work especially hard on recruiting and retaining non-family talent.** The job doesn't suit everybody, and candidates may think twice before applying to work in a family business (see Exhibit 1). And, if they get the job, they sometimes end up resigning because they've run out of opportunities (or out of patience) if family politics and emotional cross-currents have interfered with their work.

**Bringing in non-family executives, especially in a leadership role, can cause cultural and integration challenges.** The defining culture in family businesses is sometimes resistant to change, and families need to be sure about their objectives for the appointment and that there's a family consensus behind it. If outside executives have previous experience working in a family company, this may help them carry out their role in a way that's sensitive to the family's emotional involvement.

**Exhibit 1: Non-family managers and executives – worries about working for a family company**



Source: Adapted from Peter Leach (2011) *Family Businesses: The Essentials*. London: Profile Books.

**Family companies need to devise imaginative reward structures that motivate and retain top-performers.**

Non-family executives will want to know that their efforts and achievements growing the business will be recognised (see Exhibit 2). Such recognition may be in salary and benefits terms, and/or via an equity (or equity-equivalent) stake in the company.

**Confining equity share ownership to family members can place the company at a disadvantage compared with competitors offering share options.**

However, effective alternatives include:

- **Restricted voting shares** – identical to other equity shares, except they carry no rights (or restricted rights) to vote at general meetings.

## Exhibit 2: Making non-family employees full participants

“If all top positions in a company are held aside for family members, gifted, ambitious people will look elsewhere for a job. Similarly, if the family hangs on to all the tangible rewards of success, even the most empowered and dedicated employees will begin to feel aggrieved. By sharing their success with their employees, family business owners can increase their loyalty, motivate their future performance, and create a workforce that turns a contented, positive face toward the public – the business’s clients and customers.”

Source: Marshall B. Palsner (1999) *Sustaining the Family Business: An Insider's Guide to Managing Across Generations*, Cambridge MA: Basic Books, p.37.

- **Restricted transferability shares** – shares that must be offered back to the company, the family or an employee trust when the executive leaves (or before they can be sold).
- **Phantom share options** – a cash bonus plan where the amount of the bonus is tied to the increase in value of a notional share option.
- **Percentage bonuses** – not involving shares, real or phantom, but still enabling executives to participate in any appreciation in company value.

### Guidelines on developing an HR strategy to attract and keep the best people:

- **Develop employee ability:** Set up a system by which both family and non-family are recruited and evaluated on merit. Adopt sophisticated recruitment and induction techniques, formal assessments of employee development needs and increased training provision.
- **Motivate:** Look at all aspects of non-family executive rewards to ensure you are offering a competitive benefits package. Keep employees informed on financial matters and profits.

- **Provide opportunities to participate:** Regularly review job design and career development opportunities, promote family-friendly and equal opportunities policies, and work to instil a sense of responsibility, autonomy and fulfilment.

## 2 Actions to consider

- How does your family business measure success in relation to people capital?
- Are you doing enough to ensure family members fully understand the value of talented and committed non-family managers?
- As you grow and the family steps back from day-to-day involvement in management, what strategies will you adopt to maintain positive relationships with staff.
- Develop a human resources strategy and adopt HR best practices (e.g. sophisticated recruitment techniques and performance management) that are found in large, non-family owned businesses.
- To attract and retain the best people, work on establishing a strong employer brand that helps you to be competitive in the labour market.
- When inducting new recruits, emphasise your family values and your vision for the business.
- Build a family consensus on the big questions: “Can key employees own shares in the company?” and “Will we back non-family management even if they want to change the way things have traditionally been done?”

## Case study: William Jackson Food Group

Nicholas Oughtred, Group Chairman of sixth generation William Jackson Food Group, believes this is a time of golden opportunity for family businesses seeking to attract non-family talent. “The tarnished short-termism of PLCs and private equity stands in stark contrast with the family business world,” he explains, “where we’re able to offer longer-term perspectives and a special sense of stability and support delivered by our ownership structures.”



Nicholas Oughtred,  
Group Board Chairman

But family business people tend to be conservative by nature, and they sometimes worry that “outsiders” won’t be sensitive to the family’s emotional involvement. Nicholas accepts the concern, but

urges us to look at the other side of the coin: “As family businesses, we need to recognise that it’s not all about us taking them in, but just as much about them entrusting us with a portion of their career.”

“These are professional, talented people who have lots of choices,” he says, “and business to a large extent is fighting a ‘war for talent’. If you’ve got really good people, they can make a massive difference to your family business. In

particular, I think we can often attract clever people from matrix management in larger groups – people who yearn for autonomy and the chance to take responsibility for a whole business, backed by supportive family owners.”

Of course, non-family talent can be put off by frightening stories of where family conflict has undermined a business, and where commercial priorities have taken second place to family politics. “So there needs to be evidence that family governance is in good order,” says Nicholas, “to convince people that you’re as good as you say you are. One of the things that attracted our current CEO was the family’s efforts over 15 years to upgrade family governance, plus, bizarrely enough, the fact that we’d sold something. In 2004 we decided to dispose of our Jackson’s Convenience Stores division, and that was seen as an indicator that we were commercially minded, that we’d taken a firm grip on governance, and that it was the board leading decisions at William Jackson’s with the support of the family owners.”



## 3 Resources

### Articles and reports

#### Family Business People Capital

Researched and written by Nick Bacon, Kim Hoque and Stanley Siebert, and published in June 2013 by the IFB Research Foundation with UCG, and Cass Business School.

This report looks at the relative strengths and weaknesses of the family business model when managing people capital. The research findings include recommendations for improving family business human resources practices.

#### Non-family Managers

Phillip Shelton (available at: [www.familybusinesswiki.org](http://www.familybusinesswiki.org)).

This short Family Business Wiki article summarises some of the challenges family businesses face in this area, and also references interesting research findings.

#### How to Pay Non-Family Managers in Large Family Firms: A Principal-Agent Model

Joern Block (2011), *Family Business Review*, Vol.24, No.1, pp.9–27.

An academic study exploring the impact of incentives and the effectiveness of different performance measures in family-owned businesses.

### Books

#### The Critical Role of Non-Family Managers

Chapter 7 in *Family Business* by Ernesto J. Poza, published by South-Western (2004).

A research-based discussion of the most productive ways to manage relationships between family and non-family managers.

#### Rewarding and Incentivising Non-family Directors and Employees

Paul McGrath and Jason Ogelman, in Part III of *Business Families and Family Businesses: The STEP Handbook for Advisers*, edited by Ian Macdonald and Jonathan Sutton, published by Globe Law and Business (2009).

The authors review the challenges of providing effective rewards and incentives for non-family managers, and offer a technical analysis of the main instruments and schemes available. There is a particularly useful section on controlling equity and providing liquidity.

#### Developing Successors and Mentoring

Chapters 7 and 8 in *Succeeding Generations: Realizing the Dream of Families in Business*, by Ivan Lansberg, published by Harvard Business School Press (1999).

These chapters include some perceptive sections on the role that can be played by non-family senior managers in coaching and mentoring the next generation and leadership candidates in family businesses.

# Family Business Challenges

The *Family Business Challenges* series of guides offer practical guidance for family business owners. Each guide identifies issues commonly faced in a particular topic area, suggesting strategies for managing the tensions and competing demands that arise. Titles include:

## Family business dynamics

- Understanding Family Business
- Maintaining Family Values
- Developing Stewardship
- Promoting Sustainability

## Family governance

- Managing Differences
- Building Family Governance
- Strengthening Family Communication
- Fostering Responsible Ownership
- Managing Communication:  
Owners and the Board

## Family business performance

- Fostering Entrepreneurship
- Professionalising the Board
- Maximising People Capital
- Employing Advisers

## Family business succession

- Engaging the Next Generation
- Planning Succession

## Family business wealth

- Selling the Family Business

Growing successful enterprises  
for generations to come

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