Family Business People Capital

Researched and written by Nick Bacon, Kim Hoque & Stanley Siebert

June 2013
FOREWORD

In an earlier IFB Research Foundation report on Family Business Stewardship, we identified four distinct but interlinked resources underpinning family business success: family, people, financial and social capital. Of the four “capitals” people capital undeniably represents a strategic cornerstone for organisational success and sustainability. The Stewardship report defined people capital as: “The strength of knowledge, skills, behaviours, energy, loyalty and commitment which exist within the non-family members of a family business.”

Successfully developing the organisation’s human resources can create a vital source of competitive advantage. In today’s environment, knowledge is a strategic resource helping to underpin innovation. Also, notwithstanding the economic recession and high unemployment levels, companies regularly report skill shortages. In this context the war for talent continues to rage.

Family businesses must of course compete for talent in order to grow their enterprises. To succeed in attracting and retaining the best people, family firms need to establish a strong employer brand and embed high-performance HR policies and practices within their organisations. Against this background the IFB Research Foundation with UCG decided to commission research to investigate people capital in the family business context. This report from Cass Business School draws its evidence from the government’s highly respected Workplace Employment Relations Survey. The findings here build on an earlier report that the Unquoted Companies Group commissioned in 20111.

We hope that this report will promote more debate on how family businesses can further enhance their people practices, giving them greater competitive strength.

Grant Gordon
Foundation Director

# CONTENTS

3  FOREWORD
6  EXECUTIVE SUMMARY

8  PART 1  
INTRODUCTION: PEOPLE CAPITAL AND FAMILY BUSINESSES
8  PEOPLE CAPITAL
9  OVERVIEW OF THE DATA
9  DEFINING FAMILY BUSINESSES

11  PART 2  
WHAT DIFFERENTIATES PEOPLE CAPITAL IN FAMILY BUSINESSES?
11  INVOLVING EMPLOYEES IN FAMILY BUSINESSES
12  KEEPING EMPLOYEES INFORMED
13  TRUST AND FAIR TREATMENT IN FAMILY BUSINESSES
14  TRAINING AND DEVELOPMENT
15  JOB SATISFACTION
16  LOYALTY AND COMMITMENT IN FAMILY BUSINESSES
18  ACTIONS TO CONSIDER

19  PART 3  
FAMILY BUSINESSES IN THE RECESSION
19  JOB SECURITY
20  RESPONSES OF FAMILY BUSINESSES TO RECESSIONARY PRESSURES

22  PART 4  
IMPROVING PEOPLE CAPITAL IN FAMILY BUSINESSES TO DRIVE PERFORMANCE
22  TURNOVER, ABSENCE AND PERFORMANCE IN FAMILY BUSINESSES
24  HIGH PERFORMANCE WORK PRACTICES IN FAMILY BUSINESSES
27  HIGH PERFORMANCE WORK PRACTICES AND FAMILY BUSINESS PERFORMANCE
28  HR STRATEGY AND HR SPECIALISTS
30  ACTIONS TO CONSIDER

31  APPENDIX: DEFINITION OF HPWP VARIABLES
33  ABOUT US
34  ABOUT THE AUTHORS
34  ACKNOWLEDGEMENTS
EXECUTIVE SUMMARY

This report commissioned by IFB Research Foundation with UCG provides the key findings of new research into people capital issues in family businesses. People capital is defined as “the strength of knowledge, skills, behaviours, energy, loyalty and commitment which exist within the non-family members of a family business”. The findings are based upon an analysis of data from the UK government’s Workplace Employment Relations Study 2011. We highlight important differences in people capital in family businesses compared with non-family owned businesses. The findings show that family businesses create a distinct and positive relationship with their staff in the workplace.

Summarising these findings, in comparison with non-family owned businesses, employees in owner-managed family businesses:

- **Are more likely to regard their managers as good at responding to suggestions and allowing them to influence final decisions.** 51 per cent of employees in owner-managed family businesses regard their managers as very good or good at responding to suggestions and 39 per cent regard their managers as good or very good at allowing employees or employee representatives to influence final decisions. The comparable figures for employees in non-family owned businesses are 46 per cent and 34 per cent respectively.

- **Are more likely to report managers can be relied on to keep their promises and treat employees fairly.** In owner-managed family businesses, 55 per cent of employees strongly agree or agree that managers can be relied on to keep their promises compared with 49 per cent of employees in non-family owned businesses. 61 per cent of employees in owner-managed family businesses strongly agree or agree that managers will treat them fairly, compared with 59 per cent of employees in non-family owned businesses.

- **Report greater job satisfaction with regard to the sense of achievement they get from their work, the scope they have for using their initiative and the amount of influence they have over their jobs.** In owner-managed family businesses, 76 per cent of employees are very satisfied or satisfied with the sense of achievement they get from their work, 78 per cent with the scope they have for using their initiative, and 66 per cent with the amount of influence they have over their job. The comparable figures for employees in non-family owned businesses are 73 per cent, 75 per cent and 62 per cent respectively.

- **Report greater loyalty to their business.** 78 per cent of employees in owner-managed family businesses strongly agree or agree with the statement “I feel loyal to my organisation” compared with 74 per cent in non-family owned businesses.

- **Are more satisfied with their job security.** 65 per cent of employees in owner-managed family businesses are very satisfied or satisfied with their job security, compared with 61 per cent in non-family owned businesses.

---


In addition to this, family businesses have lower labour turnover and are doing just as well in terms of labour absence rates, labour productivity and the quality of products or services.

The analysis also identifies areas for improvement in people capital in family businesses:

- **Owner-managed family businesses provide less training for employees than non-family owned businesses.** 38 per cent of owner-managed family businesses had given at least 60 per cent of experienced workers in the largest occupational group time off from their normal daily work duties to undertake training over the past 12 months compared with 49 per cent of non-family owned businesses.

- **Family businesses report lower financial performance and have fewer of the HR best practices that are associated with high levels of financial performance in non-family owned businesses.** On average, owner-managed family businesses report the use of five HR best practices, owner-governed family businesses report the use of six HR best practices and non-family owned businesses report the use of seven HR best practices.

- **Family businesses are less likely than non-family owned businesses to have an HR strategy to improve people capital.** Only 20 per cent of owner-managed family businesses and 19 per cent of owner-governed family businesses have an HR strategy, in comparison with 35 per cent of non-family owned businesses.

- **Employees in owner-governed family businesses report less positive views than employees in non-family owned businesses on several issues.**

**Key recommendation**

As family businesses grow and the family steps back from day-to-day involvement in management, it is important that they find ways to maintain a positive relationship with staff. It is therefore necessary to develop an HR strategy and to adopt HR best practices (such as sophisticated recruitment techniques and performance management) as found in large non-family owned businesses in order to help deliver higher levels of financial performance.
PART 1

INTRODUCTION: PEOPLE CAPITAL AND FAMILY BUSINESSES

This research attempts to explore if family-run businesses develop distinctive human resource (HR) practices that help business performance. We might expect family-run companies’ tighter owner-manager link and long-term stewardship to produce greater employment security, and encourage more worker loyalty. Such positive people capital helps productivity and profits. On the other hand, as family-run companies achieve longevity and grow, they may develop greater complexity as well as encounter issues related to succession, which could reduce efficiency. We distinguish between family-run companies that are owner-managed and those that are not – i.e. where outside managers are brought in to widen the management pool and possibly drive the company through a period of generational transition. This second type can be termed owner-governed, where family members are no longer involved in day-to-day activities but continue to play a strategic role in the business, normally at board level. Both these types of business can be compared with non-family owned businesses.

The transition from owner-managed to owner-governed family businesses normally comes at a time when businesses are getting larger and the personal touch around family ownership and looking after staff arguably needs to be replaced with the disciplines of professional ownership and HR best practice. There is a potential risk that family businesses get stuck half way in making this change. Non-family businesses in contrast may not have the struggle of trying to retain the family influence over HR in the business while the change is taking place. As a result, non-family owned businesses could arguably find the transition to formal HR best practice somewhat easier as they have no family influence to replace.

People capital

We define people capital as “the strength of knowledge, skills, behaviours, energy, loyalty and commitment which exist within the non-family members of a family business”. It includes involving employees in decisions, training and skills development, the generation of high levels of trust and a sense of fairness, and the development of positive attitudes such as high levels of job satisfaction and commitment. These factors combined will encourage employees to give of their best at work and engage with the aims of the business to drive performance forward.

It is likely, however, that people capital will vary between businesses depending on the characteristics of those businesses and the actions of managers over time. We might suppose that a unique advantage of family businesses is that they are able to develop positive relationships with staff and provide a degree of pastoral care that may be lacking in larger businesses with more formalised employment practices and where there is greater separation between owners and managers.

This report shows in Part 2 that people capital does indeed differ between family businesses and non-family owned businesses, with more positive relationships being reported in particular in owner-managed family businesses where members of the family are involved in day-to-day management. In Part 4 we present evidence that as the size of the workforce increases and family members cease to be involved in day-to-day management (the owner-governed family business), it becomes necessary to adopt more formal HR best practices to improve financial performance.

Overview of the data

The analysis uses data from the UK government’s Workplace Employment Relations Study (WERS) 2011. This survey covers 2,680 workplaces, and is representative of all workplaces in Britain with five or more employees in all industry sectors (with the exception of agriculture, hunting, forestry and fishing, and mining and quarrying). In each workplace, a questionnaire on HR practices is completed by the most senior manager in the workplace with responsibility for personnel issues. Surveys are also completed by a sample of employees in each workplace to capture their views on a range of issues. In total, 21,981 employees provide such information. The data can be linked together, thereby enabling an analysis of whether employee views differ in different types of business (whether family owned or not, for example).

Further details on the sample and the academic analysis on which this report is based, including relevant references for interested readers, are available on the IFB website. This also provides details of the statistical tests conducted to establish the differences between family and non-family businesses described in this report. All results throughout the report are based on weighted data. The application of weights to the WERS data is essential if unbiased population estimates are to be obtained. This is because larger workplaces and workplaces in certain sectors are over-sampled within WERS to enable analysis by key sub-groups. The data are weighted to compensate for the unequal selection probabilities that this generates, and to compensate for non-response.

Defining family businesses

This report compares the following types of private sector businesses (Figure 1).

- **Owner-managed family businesses** have at least 50 per cent family ownership, and members of the family are actively involved in day-to-day management on a full-time basis. This includes 413 businesses and the views of 2,082 of their employees.

- **Owner-governed family businesses** have at least 50 per cent family ownership, and the family is not actively involved in day-to-day management. This includes 197 businesses and the views of 1,313 of their employees.

- **Non-family owned businesses**, of which there are 976 in the sample and survey responses from 7,843 employees (sole proprietorships and partnerships are excluded).

---


The first two of these categories combined represent all family businesses in the sample, accounting for 38 per cent of firms and 30 per cent of employees in the WERS sample. As will become clear, however, there are important differences between people capital in owner-managed and owner-governed family businesses. This reflects differences in size and operating structure. Whereas 78 per cent of owner-managed family businesses are small businesses with fewer than 50 employees, among owner-governed family businesses only 28 per cent have fewer than 50 employees. By contrast, only 11 per cent of owner-managed family businesses are large (250 employees or more) in comparison with 50 per cent of owner-governed family businesses. Further to this, most owner-managed family businesses are single site operations (69 per cent) compared with 20 per cent of owner-governed family businesses.

A number of differences in terms of industry sector also stand out. Owner-managed family businesses are particularly likely to be in the “manufacturing” and “construction” sectors, whereas owner-governed family businesses are particularly likely to be in the “wholesale and retail trade; repair of motor vehicles and motorcycles” sector (indeed 49 per cent of owner-governed family businesses fall into this sector).
PART 2

WHAT DIFFERENTIATES PEOPLE CAPITAL IN FAMILY BUSINESSES?

This part of the report shows the extent to which people capital differs between family businesses and non-family owned businesses. It does so by exploring the views of non-management staff in family and non-family businesses in relation to a number of people capital issues. The findings suggest that family businesses have been successful at creating a distinct and positive relationship with their staff in the workplace. For example, employees working for family businesses report greater influence on decisions that affect their jobs, higher levels of trust in their managers and a stronger feeling of loyalty than do employees in non-family owned businesses. However, people capital differs significantly between owner-managed family businesses and owner-governed family businesses – it is owner-managed family businesses that have been particularly successful in creating a distinct and positive relationship with their staff.

Involving employees in family businesses

Owner-managed family businesses are smaller on average than non-family businesses and often pride themselves on creating an atmosphere in which family owners know their staff, take an interest in their personal issues and are involved in the pastoral care of their employees. We would expect this to lead employees in family businesses to feel a strong sense of involvement and engagement. Our analysis (Figure 2) finds evidence that owner-managed family businesses are indeed more effective at involving staff in decision making. In particular:

- Employees in owner-managed family businesses regard their managers as particularly good at responding to suggestions from employees or employee representatives (51 per cent of employees in owner-managed family businesses regard their managers as very good or good at this, in comparison with 46 per cent of employees in non-family owned businesses and 44 per cent of employees in owner-governed family businesses).

- Employees in owner-managed family businesses are particularly likely to regard their managers as good at allowing employees or employee representatives to influence final decisions (39 per cent of employees in owner-managed family businesses regard their managers as very good or good at this, in comparison with 34 per cent of employees in non-family owned businesses and 33 per cent of employees in owner-governed family businesses).
Keeping employees informed

Given owner-managed family businesses are more effective at involving staff in decision making (Figure 2), it might reasonably be anticipated that family businesses will be particularly good at keeping employees informed. Our findings (Figure 3) suggest that owner-managed family businesses are slightly better than non-family owned businesses at keeping employees informed about changes in the way they do their job. They also suggest that family businesses are no worse than non-family owned businesses at keeping employees informed about changes to the way the organisation is run and changes in staffing, but worse at keeping employees informed about financial matters, including budgets or profits. In particular:

- **Employees in owner-managed family businesses are slightly more positive than are employees in non-family owned businesses in relation to how good managers are at keeping employees informed about changes in the way they do their job** (55 per cent of employees in owner-managed family businesses felt managers are very good or good at this compared with 53 per cent of employees in non-family owned businesses).

- **Employees in owner-managed family businesses are less positive and employees in owner-governed family businesses are slightly less positive about how good managers are at keeping employees informed about financial matters, including budgets or profits** (52 per cent of employees in non-family owned businesses felt managers are very good or good at this compared with only 41 per cent of employees in owner-managed family businesses and 44 per cent of employees in owner-governed family businesses).

These findings suggest, therefore, that owner-managed family businesses are better at keeping employees informed on matters affecting their daily work but are less forthcoming on overall business performance.
Figure 3: How good are managers at keeping employees informed (% indicating managers are “very good” or “good”)*

*These items were scored on a five-point scale, where 1 = “very poor” and 5 = “very good”

Trust and fair treatment in family businesses

High levels of trust between employers and employees help to build confidence in employees that their managers will treat them fairly. This is likely to motivate employees to provide discretionary effort, thereby helping to improve business performance. Given that we might expect family businesses to take a particular pastoral interest in their staff, we might also expect high perceptions of trust and fair treatment. Our analysis (Figure 4) shows owner-managed family businesses indeed have a distinct advantage in these respects.

- Employees in owner-managed family businesses are more likely to agree that their managers can be relied upon to keep their promises (in owner-managed family businesses, 55 per cent of employees strongly agreed or agreed with this, compared with 49 per cent of employees in both owner-governed family businesses and non-family owned businesses).

- Employees in owner-managed family businesses have slightly greater confidence that managers will treat them fairly than do employees in non-family owned businesses. They also have greater confidence with regard to this than do employees in owner-governed family businesses (61 per cent of employees in owner-managed family businesses strongly agreed or agreed with this, compared with 55 per cent of employees in owner-governed family businesses and 59 per cent of employees in non-family owned businesses).

Therefore, owner-managed family businesses outperform both non-family owned businesses and owner-governed family businesses with regard to creating high levels of trust in the workplace.
Figure 4: Trust in management and perceptions of fair treatment (% that “agree” or “strongly agree”)*

*These items were scored on a five-point scale, where 1 = “strongly disagree” and 5 = “strongly agree”.

Training and development

An important aspect of people capital is that employees have the abilities and skills to make a useful contribution to their organisation. As family businesses claim to take a particular interest in their employees, we might anticipate that they will be particularly keen to ensure that employees are equipped with the skills they need to do their jobs. The results with regard to this (see Figure 5) suggest the following:

- **Employees in owner-managed family businesses are more satisfied with the opportunity to develop their skills in their job** (16 per cent of employees in owner-managed family businesses felt very satisfied with this, compared with 13 per cent of employees in non-family owned businesses and 10 per cent of employees in owner-governed family businesses).

- **Employees in owner-managed family businesses are slightly more satisfied with the training they receive than are employees in non-family owned businesses** (16 per cent of employees in owner-managed family businesses felt very satisfied with this, compared with 13 per cent of employees in non-family owned businesses).

- **Employees in owner-managed family businesses are more positive than are employees in owner-governed family businesses and slightly more positive than employees in non-family owned businesses in terms of the extent to which managers encourage people to develop their skills** (19 per cent of employees in owner-managed family businesses strongly agreed that managers in their workplace encouraged people to develop their skills, compared with 13 per cent of employees in owner-governed family businesses and 15 per cent of employees in non-family businesses).
There is some evidence, therefore, of differences within family businesses with regard to training and development matters, depending on whether or not the business is owner-managed.

**Figure 5: Satisfaction with training and development**

(% “very satisfied” and % “strongly agree”)*

The first two items were scored on a five-point scale, where 1 = “very dissatisfied” and 5 = “very satisfied”. The third item was scored on a five-point scale, where 1 = “strongly disagree” and 5 = “strongly agree”.

**Job satisfaction**

The distinct and positive relationship between staff and managers in many family businesses identified thus far suggests we should also find higher job satisfaction in family businesses than in non-family owned businesses. Our findings (Figure 6) show that employees in owner-managed family businesses have more positive views than do employees in owner-governed and non-family owned businesses with regard to:

- **The sense of achievement they get from their work** (in owner-managed family businesses, 76 per cent of employees are very satisfied or satisfied with this, compared with 73 per cent of employees in non-family owned businesses and 70 per cent in owner-governed family businesses).

- **The scope they have for using their initiative** (in owner-managed family businesses, 78 per cent of employees are very satisfied or satisfied with this, compared with 75 per cent of employees in non-family owned businesses and 71 per cent in owner-governed family businesses).

- **The amount of influence they have over their job** (in owner-managed family businesses, 66 per cent of employees are very satisfied or satisfied with this, compared with 62 per cent of employees in non-family owned businesses and 59 per cent in owner-governed family businesses).

Employees in owner-managed family businesses therefore report the highest job satisfaction.
Loyalty and commitment in family businesses

Family businesses often report that their efforts to develop employee loyalty and commitment are a key strength and differentiating feature from other types of businesses. The findings with regard to this (Figure 7) are somewhat mixed:

- **Employees in owner-managed family businesses** are more likely than employees in non-family owned businesses and employees in owner-governed family businesses to agree with the statement, “I feel loyal to my organisation” (78 per cent of employees in owner-managed family businesses strongly agree or agree with this, compared with 74 per cent in non-family owned businesses and 73 per cent in owner-governed family businesses).

- **There are no differences between employees in owner-managed family businesses and non-family owned businesses in terms of the extent to which they share the values of their organisation or are proud to tell people who they work for.**

- **Employees in owner-governed family businesses** are less likely to report that they share the values of their organisation or are proud to tell people who they work for than employees in both owner-managed family businesses and non-family owned businesses (only 54 per cent of employees in owner-governed family businesses strongly agree or agree with the statement, “I share the values of my organisation” compared with 62 per cent of employees in owner-managed family businesses and 66 per cent of employees in non-family owned businesses; similarly, only 62 per cent of employees in owner-governed family businesses strongly agree or agree with the statement, “I am proud to tell people who I work for”, compared with 68 per cent of employees in owner-managed family businesses and 70 per cent of employees in non-family owned businesses).
There would appear, therefore, to be significant differences with regard to these outcomes between family-owned businesses depending on whether they are owner-managed or owner-governed.

**Figure 7: Employee reports of levels of loyalty and commitment**

*These items were scored on a five-point scale, where 1 = “strongly disagree” and 5 = “strongly agree”.*
ACTIONS TO CONSIDER

Leveraging people capital

- What actions are required to ensure managers keep employees informed about financial matters including budgets and/or profits?
- What actions, both in terms of training and general skills development, can the business take to develop employees’ ability to carry out their role?
- How can the firm create an environment where employees use their initiative and make suggestions to recommend improvements to the business?
- What actions are required to encourage employees to share the values of their organisation?

Leveraging people capital: Points for particular consideration in owner-governed family businesses

- What can managers do to increase employee involvement in decision making?
- How can the business increase levels of trust and employee confidence that managers will treat them fairly?
- How can the business foster greater loyalty to, identification with, and pride in their organisation?

Add your own questions here
PART 3

FAMILY BUSINESSES IN THE RECESSION

In this part of the report we turn our attention to issues that provide insights into how family businesses have fared in the recession. Two issues are explored with regard to this. The first is whether there has been greater job security in family businesses than elsewhere, and the second is whether family businesses have responded differently from other businesses to recessionary pressure.

Job security

Although job security has declined nationally since the financial crisis of 2008, we explore here whether there is any evidence that family businesses have been better at providing employees with a greater sense of job security in the current economic climate. Our findings (see Figure 8) suggest support for this:

- **Employees in owner-managed family businesses are more satisfied with their job security than are employees in non-family owned businesses** (65 per cent of employees in owner-managed family businesses are very satisfied or satisfied with this, compared with 63 per cent of employees in owner-governed family businesses and 61 per cent in non-family owned businesses).

- **Employees in owner-governed family businesses are as satisfied with their job security as are employees in owner-managed family businesses and non-family owned businesses** (the difference between owner-governed family businesses and non-family owned businesses, and between owner-governed and owner-managed family businesses, are not significant).

*Figure 8: Satisfaction with job security (% “very satisfied” or “satisfied”)*

*These items were scored on a five-point scale, where 1 = “very dissatisfied” and 5 = “very satisfied”.*
Responses of family businesses to recessionary pressures

This section considers whether family businesses responded differently compared with non-family businesses to recent recessionary pressures with regard to people capital issues. It is often argued that family businesses have a longer-term and more protective attitude towards their staff than do non-family owned businesses. Hence they may have been inclined to adopt measures to reduce staffing costs other than making staff redundant. On the other hand, the recessions since the 2008 financial crisis may have compelled all businesses to make difficult decisions. Overall, the data suggest (Figures 9a and 9b) that family businesses have responded in a similar manner to non-family owned businesses in terms of how they have dealt with recessionary pressures. In terms of the similarities:

- Family businesses and non-family owned businesses are equally likely to have: made employees compulsorily redundant; reduced non-wage benefits; reduced basic hours; reduced paid overtime; required employees to take unpaid leave; reduced the use of agency staff or temporary workers; and changed the organisation of work.

There is, however, some evidence that family-owned businesses responded differently from non-family owned businesses with regard to some measures:

- Fewer owner-governed family businesses (2 per cent) made voluntary redundancies than either non-family owned businesses (7 per cent) or owner-managed family businesses (4 per cent).
- Owner-governed family businesses (23 per cent) were more likely to make reductions in training expenditure than owner-managed family businesses (11 per cent) and slightly more likely to make such reductions than non-family owned businesses (15 per cent).
- Owner-managed family businesses (25 per cent) were more likely to postpone plans for expanding the workforce than non-family owned businesses (18 per cent), and slightly more likely to postpone such plans than owner-governed family businesses (16 per cent).
- Owner-managed family businesses (4 per cent) were more likely to increase the use of agency staff or temporary workers than owner-governed family businesses (1 per cent) and slightly more likely to increase the use of such workers than non-family owned businesses (2 per cent) (however only a low proportion of all businesses have taken this action).
- Owner-managed family businesses were slightly less likely to have imposed a temporary freeze on recruitment to fill vacant posts (22 per cent) than non-family owned businesses (28 per cent) and owner-governed family businesses (33 per cent).
- More owner-managed family businesses (46 per cent) and owner-governed family businesses (46 per cent) have frozen or cut wages than non-family owned businesses (31 per cent).

These findings are a useful reminder that economic conditions affect people capital decisions in all businesses.
Figure 9a: Employer responses to the recession (% of respondents reporting)

- Compulsory redundancies
- Voluntary redundancies
- Temporary freeze on recruitment to fill vacant posts
- Postponement of plans for expanding workforce
- Freeze or cut in wages
- Reduction in non-wage benefits
- Reduction in basic hours
- Reduction in paid overtime
- Employees required to take unpaid leave
- Reduction in the use of agency staff or temporary workers
- Increase in the use of agency staff or temporary workers
- Reduction in training expenditure
- Change in the organisation of work
- No action taken affecting the workforce

Owner-managed family businesses
Owner-governed family businesses
Non-family owned businesses

Figure 9b: Employer responses to the recession (% of respondents reporting)

Owner-managed family businesses
Owner-governed family businesses
Non-family owned businesses
In Part 2 of the report we showed that people capital differs between family businesses and non-family owned businesses in several respects, with family businesses appearing to be more likely to create a distinct and positive relationship with their staff in the workplace. The data also suggest that owner-managed family businesses are doing better with regard to this than are owner-governed family businesses. This may be the result of differences in workforce size. As discussed in Part 1 of the report, owner-managed family businesses are mainly small businesses. Within such businesses, the involvement of the family in day-to-day management may help to build strong interpersonal working relationships with staff. However, as family businesses grow and the size of the workforce expands, family members may increasingly cede day-to-day management to professional managers from outside the family. At this juncture, as the organisation shifts from being owner-managed to owner-governed, the long-term approach that owners have towards their employees may weaken. It may become difficult to maintain a sense of family atmosphere and strong working relations with staff.

In this part of the report, therefore, we consider the HR practices that family businesses, and owner-governed family businesses in particular, might adopt to maintain staff motivation and commitment, and to drive strong business performance as the workforce increases in size. We start by considering performance levels in family businesses and non-family owned businesses to demonstrate why it is important to consider underlying people capital issues.

**Turnover, absence and performance in family businesses**

How do family businesses and non-family owned businesses compare in terms of performance with regard to absence rates, labour turnover, labour productivity, quality of product or service, and financial performance? Our analysis shows:

- **Owner-managed family businesses have lower labour turnover than owner-governed family businesses and non-family owned businesses** (Figure 10 shows 52 per cent of owner-managed family businesses had zero labour turnover in the previous 12 months in comparison with only 28 per cent of owner-governed family businesses and 37 per cent of non-family owned businesses).

- **Family businesses are performing no differently from non-family-owned businesses in terms of labour absence rates, labour productivity and the quality of product or service provided** (Figures 11 and 12).

- **There is weak evidence that self-assessments of financial performance are poorer in owner-governed family businesses than in non-family owned businesses** (Figure 12).
Labour turnover is calculated as the number of employees that stopped working at the workplace in the previous 12 months because they left or resigned voluntarily, divided by the number of employees working at the workplace one year ago, tabulated by quartiles if greater than zero.

Absence rates are calculated as the percentage of work days lost due to sickness or absence in the past year.
High performance work practices in family businesses

In the past 20 years, strong evidence has emerged that businesses adopting a specific bundle of HR best practices with regard to the management of employees have better financial performance than do businesses without these practices. This bundle is therefore generally termed “high performance work practices” (HPWPs). Over 100 studies have confirmed this relationship, and it has been found to explain on average about 20 per cent of the difference in financial performance between businesses. Examples of such HPWPs include sophisticated recruitment, high levels of training and performance appraisals.

It is therefore appropriate to consider differences in the adoption of HPWPs between family businesses and non-family owned businesses. We measured the adoption of 19 HPWPs (as described in the Appendix to this report) to consider whether family businesses have greater or fewer HPWPs than do non-family owned businesses. Our analysis (Figure 13) shows:

- **Family businesses have adopted fewer HPWPs than non-family owned businesses.**
  On average, owner-managed family businesses report the use of five HPWPs, owner-governed family businesses report the use of six HPWPs and non-family owned businesses report the use of seven HPWPs.

- **Owner-managed family businesses have adopted fewer HPWPs than owner-governed family businesses.**
How can we explain the lower rate of adoption of these performance-enhancing practices in family businesses? The lower adoption of HPWPs in owner-managed family businesses can be explained largely (though not entirely) by their smaller organisational size, the industry sectors in which they are located, the fact that they are almost entirely UK rather than foreign-owned and their lower rates of union recognition for the purposes of collective bargaining. The lower adoption of HPWPs in owner-governed family businesses than in non-family owned businesses can be explained in particular by the industries in which they cluster and their lower rates of union recognition. When we control for these issues the predicted probabilities for the number of HPWPs used are 5.51 for owner-managed family businesses, 5.53 for owner-governed family businesses and 6.05 for non-family owned businesses. As such:

- **Once a range of background workplace characteristics are taken into account, there is weak evidence that owner-managed family businesses on average adopt fewer HPWPs than non-family owned businesses, but the difference between owner-governed family businesses and non-family owned businesses is not significant.**

Figures 14a, 14b and 14c show the results for each of the 19 HPWPs. In particular, family businesses should note the lower reported training levels, and the lower use of sophisticated recruitment practices, developmental appraisals, benefits packages, flexible working/family-friendly practices, equal opportunities practices and job security guarantees.
High performance work practices and family business performance

This section explores whether HPWP in family businesses and non-family owned businesses are associated with business performance in the WERS data. Arguably, we would expect family businesses adopting more HPWPs to see improved financial performance. Whether this is the case is more complex than it may appear at first sight. Figure 15 shows the significant associations between the number of HPWPs adopted and different measures of business performance. It is worth bearing in mind that in calculating these associations, a range of business characteristics such as the sector the business operates in, its size, the nationality of ownership and so forth was held constant. In particular, our analysis shows:

- In non-family owned businesses, the use of HPWPs is positively associated with labour productivity, quality and financial performance. It is not associated with employee absence or labour turnover.
- The use of HPWPs is positively associated with the quality of product or service in owner-managed family businesses.
- The use of HPWPs is weakly associated with employee absence in owner-governed family businesses.
- In family businesses overall (both owner-managed and owner-governed family businesses combined), the use of HPWPs is positively associated with the quality of product or service and weakly associated with labour productivity.
We also assessed whether individual HPWPs are associated with performance, but no individual HPWPs stood out as being particularly associated with performance in either family businesses or non-family owned businesses. This suggests that there are no silver bullets in terms of individual HPWPs that can be introduced to improve performance in family businesses, or indeed in any other businesses. What appears to matter is developing a more comprehensive package of HPWPs to manage, develop and motivate staff.

**Figure 15: Significant relationships between HPWPs and business performance outcomes**

<table>
<thead>
<tr>
<th></th>
<th>Owner-managed family businesses</th>
<th>Owner-governed family businesses</th>
<th>Non-family owned businesses</th>
<th>All family businesses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Absence</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Labour turnover</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Labour productivity</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Quality of product or service</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Financial performance</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Note:  
- “Strong positive relationship” = relationship significant at 5 per cent significance level.  
- “Weak positive relationship” = relationship significant at 10 per cent significance level.

**HR strategy and HR specialists**

This section of the report seeks to explore how well equipped family businesses are to address the people capital challenges that they face. In particular, we assess whether family businesses are more or less likely than non-family owned businesses to have an HR strategy (defined as a strategic plan that includes at least three of the following: employee development; employee job satisfaction; employee diversity; forecasts of staffing requirements) and employ HR specialists. Our findings (Figure 16) suggest:

- **Family businesses are less likely to have an HR strategy than are non-family owned businesses.** Only 20 per cent of owner-managed family businesses and 19 per cent of owner-governed family businesses have an HR strategy, in comparison with 35 per cent of non-family owned businesses. Where owner-managed family businesses are concerned, this is explained entirely by their smaller workplace and organisational size and their greater tendency to be a single-site enterprise. However, where owner-governed family businesses are concerned, the difference remains even in statistical tests that hold differences in workplace and organisational size, industrial sector and so forth constant. This confirms the finding that owner-governed family businesses are less likely to have a strategic plan considering people capital issues.
Owner-managed family businesses are less likely to employ HR specialists. HR specialists (for example, personnel or HR managers) are found in only 15 per cent of owner-managed family businesses in comparison with 28 per cent of owner-governed family businesses and 26 per cent of non-family owned businesses. However, this is fully explained by their smaller workplace and organisational size, and their greater tendency to be a single-site enterprise.

**Figure 16: HR strategy and HR specialists (% adopting)**
ACTIONS TO CONSIDER

Adopting a strategic focus on people capital
- How do you measure success in relation to people capital?
- How do you monitor performance in terms of people capital?
- What steps in terms of people capital could the business take to enhance financial performance?
- How can you translate positive HR indicators in the business into higher financial performance?

Embedding high performance work practices (HPWP)
- Consider how adopting more HPWPs may help improve the performance of your business.
- Identify those HPWPs that are suitable for your business and consider how you could adopt them.
- Consider which HPWPs you may require if you start to employ more people.
- What barriers might exist to implementing HPWPs in an effective manner?

Adopting strategic planning in HR
- How could you strengthen strategic planning in HR matters?
- What actions could assist in making the transition from informal management to formal HR systems as the firm grows?
- Do you have an HR strategy that identifies future needs in terms of employee development, employee job satisfaction, employee diversity and forecasts of staffing requirements?
- Could the business benefit from greater HR expertise – and if so how?
- In the light of the current level of HR expertise in your business have you considered if you need specialist HR advice?
- Is it necessary to employ HR specialists to access the advice you may require in the future?
- Are you using resources available through your business associations?

Add your own questions here
### APPENDIX: DEFINITION OF HPWP VARIABLES

<table>
<thead>
<tr>
<th>HPWP variable</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Sophisticated recruitment</strong></td>
<td>Either a personality/attitude test or performance/competency test is conducted in filling largest occupational group (LOG) vacancies.</td>
</tr>
<tr>
<td><strong>Induction</strong></td>
<td>A standard induction programme designed to introduce new non-managerial employees belonging to the LOG to the workplace.</td>
</tr>
<tr>
<td><strong>Training</strong></td>
<td>At least 60% of experienced workers in the LOG have been given time off from their normal daily work duties to undertake training over the past 12 months.</td>
</tr>
<tr>
<td><strong>Internal labour market</strong></td>
<td>Preference is given to internal applicants, other things being equal, over external applicants; or internal applicants are the only source when filling vacancies.</td>
</tr>
<tr>
<td><strong>Developmental appraisal</strong></td>
<td>At least 60% of non-managerial employees at the workplace have their performance appraised at least annually, and this is linked to training.</td>
</tr>
<tr>
<td><strong>Individual performance-related pay</strong></td>
<td>At least 60% of non-managerial employees at the workplace have their pay determined by their performance appraisal rating.</td>
</tr>
<tr>
<td><strong>Teamworking</strong></td>
<td>At least 60% of the LOG at the workplace are working in formally designated teams, in which team members depend on each other to do their job and team members jointly decide how the work is to be done.</td>
</tr>
<tr>
<td><strong>Team briefing</strong></td>
<td>Meetings are held at least weekly between line managers or supervisors and all the workers for whom they are responsible, in which 10 per cent or more of the time is usually available for questions from employees, or for employees to offer their views.</td>
</tr>
<tr>
<td><strong>Consultation committee</strong></td>
<td>Committees of managers and employees at the workplace, primarily concerned with consultation rather than negotiation (joint consultative committees, works councils or representative forums).</td>
</tr>
<tr>
<td><strong>Employee attitude survey</strong></td>
<td>Employer or a third party has conducted a formal survey of employees’ views or opinions during the past two years and the results of the survey have been made available in written form to employees that took part.</td>
</tr>
<tr>
<td><strong>Quality circles</strong></td>
<td>Groups of non-managerial employees at the workplace who solve specific problems or discuss aspects of performance or quality.</td>
</tr>
<tr>
<td><strong>Functional flexibility</strong></td>
<td>At least 60% of the LOG are formally trained to do jobs other than their own.</td>
</tr>
<tr>
<td><strong>Benefits package</strong></td>
<td>Employees in the LOG are entitled to three or more of the following non-pay terms and conditions: employer pension scheme, private health insurance, more than four weeks of paid annual leave (excluding public holidays), sick pay in excess of statutory requirements.</td>
</tr>
<tr>
<td>Flexible working/ family-friendly practices</td>
<td>Four or more of the following are practised at the workplace: workplace nursery or nursery linked with workplace; financial help with childcare; financial help with the care of older adults; a specific period of leave for carers of older adults; a specific period of paid parental leave; working at or from home in normal working hours; flexitime where an employee has no set start or finish time but there is an agreement to work a set number of hours per week or per month; job sharing schemes; the ability to reduce working hours (e.g. switching from full-time to part-time employment); compressed hours (i.e. working standard hours across fewer days); the ability to change set working hours (including changing shift pattern); term-only working.</td>
</tr>
<tr>
<td>Equal opportunities practices</td>
<td>Recruitment and selection have been monitored or reviewed to identify indirect discrimination by at least four of gender, ethnic background, disability, age, sexual orientation, religion or belief; or promotion procedures have been monitored or reviewed to identify indirect discrimination by at least four of gender, ethnic background, disability, age, sexual orientation, religion or belief.</td>
</tr>
<tr>
<td>Grievance procedures</td>
<td>Workplaces that have all of the following four items are deemed as having a formal grievance procedure: a formal procedure for dealing with individual grievances raised by any employee at the workplace; employees are required to set out in writing the nature of the grievance; employees are asked to attend a formal meeting with a manager to discuss the nature of their grievance; and employees have a right to appeal against a decision made under the procedure.</td>
</tr>
<tr>
<td>Job security guarantees</td>
<td>A policy of guaranteed job security or no-compulsory redundancies for non-managerial employees.</td>
</tr>
<tr>
<td>Communication schemes</td>
<td>Management communicates and consults with employees using at least four of the following: noticeboards; systematic use of management chain/cascading of information; suggestion schemes; regular newsletters distributed to all employees; regular use of email to all employees; information posted on company intranet, accessible to all employees.</td>
</tr>
<tr>
<td>Information provision</td>
<td>Management regularly gives employees, or their representatives, information about: internal investment plans; financial position of the workplace or the whole organisation; and staffing plans.</td>
</tr>
</tbody>
</table>
ABOUT US

About the IFB Research Foundation with UCG

Our mission

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.

Our research has highlighted that two in three firms in the UK are family businesses generating £1.1 trillion in revenues. Through its activities the Foundation, which is the only charity of its kind in the UK, plays a vital role in ensuring the sector’s continued success and sustainability.

Our vision

To be the UK’s centre of excellence for family business research.

Our activities

The Foundation’s publications are designed to create a better understanding of family business, for the benefit of all stakeholders. Our work covers a broad range of publications, including:

- Family Business Sector Report – benchmarking the size and importance of the sector.
- Family Business Challenges – practical guides on key family business issues supplemented by a complimentary online resource offering practical advice.
- Family Business White Papers – thought leadership on key family business characteristics.
- Family Business Research – investigative studies into the behaviour of family firms.

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

Our association

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.

Family businesses are some of the largest and most successful companies in Britain, producing well-known leading brands and services such as: JCB, Clarks, Warburtons, Dyson, Swire, Yorkshire Tea, Sir Robert McAlpine, Reed, Ginsters and Speedo.

The IFB is a member of FBN International, the global network for family businesses.

www.ifb.org.uk
ABOUT THE AUTHORS

**Professor Nick Bacon, Cass Business School, City University London**
Nicolas Bacon is Professor in Human Resource Management at Cass Business School. His research explores the impact of human resource management practices on organisational performance in a wide variety of settings including small firms, medium-sized enterprises and private equity-owned firms. He has worked as a consultant with a wide variety of businesses and governments in the UK, Europe and US. This work frequently involves using employee attitude surveys to identify practices that will drive forward organisational performance and improve employee well-being. At Cass Business School he teaches HRM courses on the Full-time MBA and the Executive MBA courses.

**Professor Kim Hoque, Warwick Business School**
Kim Hoque is Professor in Human Resource Management at Warwick Business School. He is an Associate Editor of *Human Relations*, a member of the McLeod employee engagement guru group, project adviser to the Japan Institute of Labour Policy and Research and a member of the Investors in People Advisory Board. His recent research has explored human resource management in small and medium-sized workplaces and the management of agency workers. He has undertaken consultancy projects for a range of organisations including Shell, NHS Scotland, the Chartered Institute for Personnel and Development, and the UK Commission for Employment and Skills. At Warwick Business School he teaches HRM courses on the undergraduate and masters programmes.

**Professor Stanley Siebert, Birmingham Business School**
Stanley Siebert is Professor of Labour Economics at Birmingham Business School, where he has worked since 1980. He gained his PhD at the London School of Economics. He has published widely in the major economics and industrial relations journals including the *Academy of Management Journal*, *British Journal of Industrial Relations*, *Industrial & Labor Relations Review*, *Management Science* and *Oxford Economic Papers*. He is the author of two texts on labour economics – *The Market for Labor: An Analytical Treatment* (with John Addison) and *The Economics of Earnings* (with Solomon Polachek). He has also edited a survey of European labour market regulation – *Labour Markets in Europe: Issues of Harmonisation and Regulation* (co-edited with John Addison). Stan is a member of IZA (Institute for the Study of Labour, Bonn) where most of his recent papers can be accessed (www.iza.org). He has recently gained an ESRC-Hong Kong RGC grant to study personnel practices in China.

Acknowledgements
We would like to thank the WERS sponsors – the Department of Business, Innovation and Skills, the Advisory, Conciliation and Arbitration Service (ACAS), the Economic and Social Research Council (ESRC), the UK Commission for Employment and Skills (UKCES) and the National Institute for Economic and Social Research (NIESR). They are not responsible for any of the findings or claims made in this report.

We would also like to acknowledge the contribution of the Review Panel, which included Chris Cracknell, Mark Hastings and Andrew Wates, whose comments on the report were invaluable. Dr. Carole Howorth, Professor of Entrepreneurship and Family Business at Bradford University School of Management was instrumental in helping to develop the project in the early stage. The IFB team including Elizabeth Bagger and Jack Neil-Hall also assisted in enhancing the content and presentation. Simon Perry was the proof editor ensuring consistency in the final report. Finally Dr. Sharon Ryan, IFB Research Foundation Manager steered the entire project from an early stage through to completion.
Growing successful enterprises for generations to come

Institute for Family Business
32 Buckingham Palace Road
London SW1W 0RE
Tel 020 7630 6250
Fax 020 7630 6251
www.ifb.org.uk

£12.50 (including p&p)