Tackling Difficult Talent Management Challenges in Today’s Family Business

A Comprehensive Look at the Talent Challenges Faced by Today’s Family Businesses and How to Avoid These Hurdles

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Overview

Just hearing the term “family business” can bring to mind ideas of a mom-and-pop shop with a handful of employees, but taking a deeper look at the concept it’s possible to see how pervasive family-owned and operated businesses really are. Some of the world’s most recognizable companies are considered family businesses including Walmart and Samsung.

According to data from the U.S. Census Bureau, family businesses make up a staggering 90 percent of North American enterprises. These businesses also account for more than half of all employment in the U.S. (Fallon, 2015)

While that may be surprising to learn, it’s also shocking to learn that of those businesses only 5 percent of owners plan to have their enterprise remain a family business after they leave, and nearly 70 percent said they plan to completely close their business upon their departure. (Hiscox, 2014)

This research is in line with something that’s important to realize about the state of American family businesses today: one of the primary challenges these organizations are facing in the quest for competitiveness and longevity is the ability to form a viable talent management strategy that’s valuable both in the present and well into the future.

Family businesses may account for a tremendous portion of both the American and global economies, but they also face perilous risks they’re often not equipped to handle, particularly pertaining to sourcing and retaining top talent. It can also be difficult for family businesses to handle talent-centric issues because they can be intertwined with the personal dynamics that are part of working together as family members.

In this paper we’ll take an in-depth look at the challenges faced by family businesses right now, as they relate to talent management. We’ll also outline some possible solutions and best practices for family business owners, and address not only talent sourcing and retention but also succession planning.

Talent Management Challenges for Family Businesses

One of the most interesting and challenging dynamics of doing business as a family is often the emotional component that comes with working alongside people with whom you’re related. It can be of great value in some instances,
whereas in others it can be a hindrance.

Often family-owned businesses suffer from problems including infighting or business leaders who are unwilling to make the hard decisions when it comes to dealing with another member of their family.

PwC conducts a study about the state of family businesses not just in the U.S., but on a global scale. In the 2014 Family Business Survey, PwC found that 40 percent of respondents said professionalizing their business would be a key challenge they expected to face over the next five years. (PwC, 2014)

Another challenge typically faced by these cornerstones of the American economy is a lack of fresh perspectives. Family-owned businesses tend to lend to an insular environment and without an infusion of fresh ideas, which most often stems from the hiring of new outside talent, these family businesses are failing to thrive and remain competitive with larger enterprises.

According to The Family Business Survey, 49 percent of family businesses surveyed were “apprehensive about their ability to recruit skilled staff in the next twelve months.” This demonstrated a 7 percent increase from 2012. The survey also showed retaining skills and talent is proving to be a challenge, with 61 percent of business respondents saying it was a primary issue they would have to address in the next 5 years. That number was 58 percent two years earlier. (PwC, 2014)

One of the reasons this is a challenge for these businesses is because top talent often doesn’t feel as if there’s a future within a family business structure.

Recruiting talented and skilled individuals is also difficult due to a lack of standardized processes and guidelines. This lack of a professionalized structure makes it difficult for individuals outside the family to feel as if they’re able to perform at a peak level.

The following is an excerpt from the PwC report: “32% of family firms are looking to pass on ownership, but not management, to the next generation - up from 25% in 2012. Only 16% of family firms have a discussed and documented succession plan in place. The majority (83%) of family businesses have at least one procedure in place to deal with conflict up from 79% percent two years ago.” (PwC, 2014)

When looking at the specific challenge of succession planning, there are a few components that are coming together and making this a particularly difficult area to navigate for family-centric organizations.

One is that more business leaders are staying in the workforce longer, which means there’s more time for the family to grow larger and for succession planning decisions to become more complex and wrought with conflict. As a family grows larger through the years this often increases the likelihood that family members with little or no experience may be brought in, without a clear understanding of even what it is the business really does.

Succession planning can also be a challenge within these business structures because oftentimes leaders, particularly if they’ve created the business, don’t want to discuss the issue. It’s one that can become emotional and it can make older family members and leaders feel as if they’re being pushed out, contributing to conflict and emotionality.

These talent management issues certainly aren’t a death sentence for family enterprise, but are rather a roadblock that needs to be tackled in a way that’s realistic, effective and direct so these cornerstones of the American and global economy can continue to thrive and succeed.
Despite these challenges, if businesses are able to plan and overcome them, the overall future of family enterprise looks bright. 65 percent of survey respondents reported growth in the year leading up to the collection of the data and 15 percent reported plans to grow aggressively over the next five year period. (PwC, 2014)

We’ll continue to look at these challenges throughout the remainder of this paper. We’ll begin by looking at some key characteristics often shared by successful family businesses, and then delve into the specific talent management challenges mentioned above, along with possible solutions.

Traits Shared by Successful Family-Based Enterprises

McKinsey & Company created an in-depth article exploring “The Five Attributes of Enduring Family Businesses.” It can be valuable to explore these attributes a bit before leaping into the particular challenges mentioned above.

Some of these attributes, particularly as they pertain to talent management, include (Caspar, 2010):

- The McKinsey article highlights the fact that enduring family businesses are able to “permeate their ethos of leadership with a strong sense of purpose.” This means these businesses often have written and spoken agreements that address a variety of business issues and decisions including conditions dictating which family members can and can’t work there, and boundaries for strategic decisions and actions.
- Thriving family businesses often have plans in place for ownership and ones that dictate how certain transitions will be managed.
- Successful family-run enterprises take a long-run view of their growth and performance, rather than focusing on short-term successes or failures.

Challenge #1: Professionalizing the Family Business

Professionalizing the family business isn’t directly related to talent management, but it’s a concept that affects every area of operating an enterprise including how issues like sourcing, recruiting and retaining talent are handled. It also has a significant impact on succession planning.

KPMG’s Christophe Bernard outlined the following characteristics that often set a family business apart from a corporation (Bernard, 2014):

- A commitment to family values
- The entrepreneurial spirit
• A casual approach to processes and procedures within the business
• Informal recruitment, HR and employment policies
• A lack of definition in terms of strategy and planning
• A less conventional approach to management
• A hands-on, do-it-yourself approach that can mean outsiders are often excluded

While these aren’t inherently bad qualities in many cases, they do reflect a casual approach to business that can often become the downfall of family operated enterprises.

Unfortunately family business owners can be cautious when it comes to professionalizing their organization out of fear that it will become too corporate, yet a sense of professionalized standards is almost always a necessity to move forward and position a business for growth.

Even for family business owners and operators who aren’t striving to become a billion dollar multinational corporation, some sense of professionalization is necessary to maintain or achieve success, even on a smaller scale, and it’s also necessary to implement a value-creating talent management strategy.

So how is this achieved? There are a number of ways, but three overarching concepts that can help businesses work toward the goal of becoming more professionalized in their approach to talent management, without a loss of culture, values or vision:

• **Create clearly defined job roles.** In a family business there can be the feeling that the leaders have a hand in every area of the organization, but that’s not necessarily a good thing. There can also be family members who aren’t pulling as much weight as others, leading to conflict and resentment. A lack of clearly defined roles also becomes problematic when hiring outside of the family because top talent is going to feel as if they’re being sidelined or they may feel like their duties are unclear, leading them to feel unhappy in their position. Define roles rather than taking an “everyone does everything,” approach. This is important in even the smallest of family businesses.

• **Create formal channels of communication.** In a family business communication often becomes unprofessional and casual. Along with these formalized communication channels, the same should be done in terms of decision-making processes.

• **Create and follow human resources-related guidelines.** As so many family businesses say it’s a struggle to find and keep great talent, by professionalizing the approach to recruiting and managing talent it’s going to become easier and it can also reduce conflict both amongst family members and between business leaders and the outside talent that’s brought in.

**Challenge #2: A Lack of Fresh Ideas and Talent**

Family businesses are often built on ideas of the entrepreneurial spirit but the initial building blocks of these businesses can disappear through the generations. Family businesses can become seen as unwilling to embrace new ideas, talent and innovation, which leaves them on the sidelines as their competitors are able to take on new concepts and move forward.
It can be challenging for family businesses to not only find the new talent that could breathe freshness into the organization, but it may also be difficult to embrace new talent and to handle transitions that may occur, from an emotional standpoint.

To avoid these concerns consider the following:

- Before creating a talent management strategy or working to recruit new talent it’s important for the top leaders in a family business to have a shared idea of where they’re coming from and where they want to go. By understanding your company’s culture and values, it can become easier to then find and retain talent who are going to operate in-line with these concepts. You may think that every member of the family understands the businesses’ mission and values, but it’s surprising to realize this usually isn’t the case. Outline these ideas and ensure they’re a central part of any recruiting or talent management strategy.

- With the above tip comes the next concept—hire for cultural fit. So many companies like Amazon and Google are embracing this idea but it’s even more important in many cases for family businesses. Yes, skills and experience are important but to improve the likelihood of everyone involved being happy with a hiring decision it’s a good idea to heavily weigh cultural fit in the hiring process. Truly get to know candidates to gauge how well they’re going to fit in with the culture and values of an organization. Think outside the box in terms of how you recruit and also how you interview candidates and take cues from larger corporations who have set the tone for this unconventional hiring style.

- Be strategic in planning—this doesn’t just apply to overall business strategy, but also to talent management strategies. Look toward the key skills needed for success not just presently, but well into the future and align talent management strategies with larger business goals.

- Clearly understand the shortcomings of family members and be able to hire externally when necessary. One of the biggest challenges for family businesses can be the ability to identify and recognize when a certain member of the family is unable to fulfill the duties of a role to which he or she may be currently in, or may be filling in the future. By being able to step outside of the family perspective and take an honest look at what’s happening in a business it then becomes easier to gain an understanding of which roles within the business are best suited to being filled by external individuals. Just because someone is in the family doesn’t mean they’re a great fit for a particular position within a business. By taking a hard look and clearly defining what’s required in a certain position, it’s easier to see where shortcomings exist and to appropriately address them.

- Consider a dedicated HR department with a leader who’s not part of the family. Having a full HR team may not be realistic for smaller family business, but having at least one individual to fulfill this role can be a valuable way to source new talent and also handle the recruitment and hiring process in a streamlined, professional way.

**Challenge #3: Managing Transitions and Talent**

Even if members of a family business are able to look outside to recruit talent the next challenge becomes how to manage that talent.

Oftentimes if family businesses recruit great talent they find it’s incredibly difficult to keep these individuals on board and problems can even enter the equation when it comes to the willingness of
family and business leaders to accept these individuals and transitions that may occur through the hiring process.

To avoid these hurdles in talent management:

- **Create clear pathways to success** for great talent. One of the reasons many family organizations can’t retain talent is because these outside individuals feel as if it’s a dead end to work for a family business. The idea is “why work there when the top positions are always going to be awarded to family members.” Challenge this line of thinking by not only defining the requirements of specific roles, but also by creating equal opportunities for everyone within an organization to get there. Let recruits and new hires know there is potential for growth within your organization.

- **Demonstrate transparency.** Transparency is a buzzword in today’s talent management sphere because it’s something employees at all levels and within all industries are demanding, but it’s perhaps most important when it comes to managing talent in a family business. Employees who aren’t family members can quickly feel like outsiders, particularly if there’s the sense they’re being shut out of important discussions and conversations amongst family members. Work to define how communication is handled, outline communication pipelines and put in place things like employee newsletters and regular employee reviews to keep everyone regardless of family status, in the know. Not only is clear and open communication going to be of value in terms of talent management, but it’s also going to help family members eliminate gaps in communication amongst one another, paving the way toward smoother and less conflict-filled operations.

- **Create a culture of inclusiveness.** As mentioned above, one of the primary reasons family businesses aren’t able to hold on to great talent is because these individuals inherently feel like outsiders. Just as large corporations are now moving toward the idea that culture is an imperative part of talent management, smaller family-owned and operated businesses should also head in this direction. Have regular meetings and even social events where everyone, including non-family member employees, can collaborate, socialize and truly start to feel as if they’re part of the organization.

**Challenge #4: Succession Planning**

Succession planning is challenging for all businesses and it’s something leaders often aren’t willing to dedicate time to doing, which becomes a major downfall. This effect is often magnified for family businesses, particularly when they have leaders at the helm who are unwilling to accept the possibility of leaving the business, or who aren’t accepting of the concept of looking outside the family to fill positions.

Consider the follow **guidelines for family business succession planning:**

- **The sooner it’s started, the better.** Succession planning is a long-term proposition, and one of the biggest issues faced by businesses of all types is waiting too long to begin the process, which leaves business leaders scrambling in the event of an unexpected situation. Make succession planning part of an overall short and long-term business strategy.

- **Consider turning to third-party advisors** to guide your business through the process of succession planning. This will give you not only a higher level of expertise in the issues you’ll be
facing, but will also help **improve the level of objectivity** demonstrated in the process, which can be difficult when dealing with family members.

- **Define succession plans** in a clear way and communicate them to not only members of the family, but also potential hires. The more clearly defined succession plans are, the more attractive a business will be to recruits during the hiring process and the more likely you’ll be able to mitigate future problems amongst family members.

- **Put development plans and programs in place for both family members and non-family members**, in order to gauge how well individuals may fare in certain roles and also to prepare them for these positions. Formalized development plans and programs are a valuable way to groom future employees both within and outside the family, to look at whether or not necessary skills and characteristics are present and they give family members a chance to see whether or not they would actually be a good fit for a particular position.

**Conclusion**

As today’s family businesses look toward the future there’s the potential for great success, if certain pitfalls can be avoided. Primarily those pitfalls center on issues of talent management.

Family-owned business owners should consider the following:

- Professionalize operations by clearly defining roles and HR position

- Bring in top talent from outside the family through a clearly defined talent management strategy, with a primary focus being cultural fit and a dedication to remaining on track with corporate goals and vision.

- Be transparent and inclusive with employees, both within and outside the family.

- Succession planning isn’t option in a family business and the sooner it’s tackled the better. By not only creating succession plans but also strategic development plans, a family-owned business becomes positioned for long-term success.

Looking to remain competitive, family businesses must strive to gain a fresh perspective and remain innovative through the introduction of new talent. The above outline some of the ways this can be accomplished as family businesses grow and change in the midst of an ever-evolving marketplace.

**References**


