



In the last article, we looked at nepotism - favoritism shown to family members or relations - a common practice in small/family business environments. The crux of the story came down to one question: will a family enterprise that surrounds itself with family relations, be prepared for the pushback that will occur when it's time to bring someone new and different into the fold?

While nepotism is a practice few speak of because of its Western social unacceptability, succession/estate planning and transference of a family business to the next generation (sons & daughters) seems quite noble, honorable - transparent. Is it fair to say that the practice isn't all that bad, as long as you're upfront about it?

### CONSIDER THE ROYALS

The Queen has been on the throne for 50+ years, and during that time has seen the arrival of her children, grandchildren, and great grandchildren. Complicating matters is the fact that she doesn't look to be going anywhere soon; leaving her 1<sup>st</sup> born son, Charles to wait. He's been waiting his entire life, and having recently turned 65, would technically be looking to retire from whatever his life's work has been. Charles' son, William, is set to follow his father, and his grandson, George, will one day take his turn at the plate. But for now, what we have is a family in a holding pattern. The Royals have a plan - a very specific one. However part of that plan doesn't include an option to 'hire' from outside. They have to work with what they are given in the family.

### IN PURSUIT OF CONTINUITY

Coming back to the local family business environment, we know that even the most prepared will experience challenges with the preparation for succession and transition. Canadian businesses enjoy relatively greater freedom and opportunity to introduce new players, skill sets, and diverse opinions, etc. This extends for private business through to the selection of successors or alternatives such as sell the business instead of transferring it to the next generation.

Let's remember that at the root of the family business are the family members. Just as parents raise children to become productive, contributing members of society, so will a responsible owner of a family business carry out the perfectly legitimate enterprise of preparing others for employment and succession. In fact, unlike larger organizations where employment infrastructures are more specialized and rigid and mobility is more measured and hierarchical; family business members are known for having been trained in various aspects of the business, including management, to ensure the continuity of the company in the event key members of the earlier generation retire or die. It is this generalization and wide scope of skills that sets many small/medium enterprise and family business employees apart from others.

## **LOGIC AND EMOTION**

The cost of hiring, training, and maintaining an employee is a metric known to many in finance. It's often far less expensive and more efficient to retain and motivate existing employees rather than recruit someone new. This is sometimes referred to as the "grow or buy" concept. Do you develop/grow your own talent from within, giving them opportunities along the way (specific to your business), allowing them to assimilate your culture etc., or do you go into the market and 'buy'/hire an individual who comes with a ready-to-roll set of all required skills, but lacks the history and cultural dimensions.

Harkening back to the post War era, when men and women began to share the workplace at a much higher ratio; spouses, children, and other close relations often became too valuable or too challenging for the company to lose in entirety. For the small business, playing on loyalties and a deep familial obligation to serve, the practice of hiring family is a proven method of filling vacancies with dedicated individuals who see employment as a life career of sorts, and often a fulfillment of family expectations. These hiring decisions are often successful in the short term and problematic in the long term.

A reasonable person will understand and support almost anything but if they feel they've been slighted, loyalty and reasonableness may reset to work against you. Most non-family employees recognize the legitimacy of preparing family members to assume a company's reins down the road. However, this comes from clear communication and strong relationships. This is important to understand because non-family employees may feel that emotional ties between people who are related may negatively affect leadership's decision making abilities and impact their own personal professional growth. Newly hired family members may be seen by some as roadblocks to advancement, the non-family employee may perceive no recourse or opportunity to resolve these issues. This perception creates a no-win situation for all involved. Left

unchecked, the simple act of mixing family with non-family employees can develop into a major morale problem.

## **TYING IT ALL TOGETHER**

This reality must be mitigated by the business owner; recognizing first that emotional bonds between family members can actually have a positive effect on individual performance and company results; and secondly, in fostering and sharing a culture that all employees, including family members, are held responsible for their performance.

So how do we continue to reap the benefits of purposeful hiring, while ensuring we aren't negatively affecting other non-family employees or damaging our company name/brand in the public eye? Is there a way to prepare for the pushback that will occur when it's time to bring someone new (and different) into the fold?

The details are specific to each company but could include:

- Merit based assessments for hiring of relatives/friends
- Performance processes conducted by a committee of peers (mixed, non-relatives)
- Reporting/supervisory policies prohibiting direct management of one's family members
- Promotion criteria which include specific external achievements (schooling, years of alternative employment, association membership, etc.)
- Formalized compensation schedules with well outlined and communicated detail
- Implementation of a family advisor/ombudsman/HR professional
- Publication/accessibility to the company succession/transition (big picture) plan

Ultimately, it's about building upon the groundwork of the organization to achieve a new, more transparent framework that clearly outlines the intentions, expectations, and practices the company will undertake in pursuit of business continuity and in support of their widely held succession plan.



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To have a deeper conversation about how this subject will affect your business, please contact:

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