

Employment Planning for Family Businesses in the 21st Century: Integrating the ‘Hard Stuff’ and the ‘Soft Stuff’



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“**M**anaging strictly by numbers is like painting by numbers. Some things that you want to encourage will be quantifiable, and some will not. If you report on the quantitative goals and ignore the qualitative ones, you won’t get the qualitative goals, which may be the most important ones. Management purely by numbers is sort of like painting by numbers — it’s strictly for amateurs.” — Ben Horowitz (2014), co-founder of a leading venture-capital company.

Successfully managing a family business often requires even more skill than nonfamily businesses because of the added complexities involved in managing not just the business but the family dynamics as well. Recognizing these challenges led to the development of a multidisciplinary approach in the authors’ work with family businesses. This approach integrates several traditional strategies with new strategies based on applying insights from scientific fields such as positive psychology, behavioral economics, evolutionary psychology and social neuroscience.

The authors acknowledge Leo Tolstoy’s wisdom when he observed that “All happy families are alike; each

unhappy family is unhappy in its own way.” While every plan should be customized to fit a family’s unique constituency and circumstances, “happy families” — flourishing families — are very much alike in how they approach employment planning. Some of these families approach this subject in a methodical fashion. Others, however, seem to have benefited from thoughtful leaders whose judgment and instincts serve their families and businesses well. The goal of this article is to share an “employment planning road map” from which any family business or their advisers might benefit.

The challenges that family members often have in working together frequently can be traced to the age-old “fight or flight” instinct. Long ago, this instinct served an existential imperative, but now tends to rear its head more typically in “modern forms of fear,” such as not getting sufficient recognition, not being rewarded fairly, losing control (or not having sufficient control) and so on. We do, however, have the ability to override this instinct by pausing, thinking more slowly and rationally, and drawing on positive feelings and practices such as compassion, forgiveness and appreciation (Kahneman 2013; Baker 2004). Many of the suggestions offered here are based on the science related to our human nature and have general applicability to other forms of business in which two or more people are working together, including partnerships, closely held companies and other organizations.

The approach is rooted in the notion that families would benefit by enhancing their focus on thoughtful employment planning. This will not only provide the benefits typically anticipated by such efforts but, in the long term, also will enhance succession-planning initiatives. Indeed, without thoughtful employment planning, families increase the risk of business failure, including succession-planning failure, for multiple reasons. For example, potentially qualified successors, concerned about not being compensated fairly, may elect to work outside the family business or, if employed, might find themselves contending with family members and other stakeholders who, lacking relevant insight, hinder their path toward a smooth transition into leadership positions.

The authors also have seen how a disregard for organizational culture can lead to misunderstandings, isolation and organizational silos, then to backbiting and, inevitably, to unhealthy conflict and ruined relationships. By contrast, a growing body of research-based data confirms that healthy companies — ones, for example, in which employees are aligned around vision, core values and a supportive culture — are much likelier to generate healthier bottom lines than their counterparts, thus flourishing through the generations. As McKinsey & Co. observed, “health, in short, isn’t some survey artifact: it’s something you can see and feel when you’re inside a healthy company and a prerequisite for sustained performance” (Gagnon, John, and Theunissen 2017).

A well-constructed plan to attract, retain and train qualified employees who collaborate well with other colleagues and stakeholders is imperative to business success and effective succession planning. With that in mind, the framework is

designed to integrate what is often referred to as the “hard stuff” with the so-called “soft stuff.” In this article, hard stuff refers to any aspect of business that can be quantified with numbers and data, such as profit, volume, inventory and other traditional metrics. By contrast, soft stuff refers to business aspects that have been unquantifiable, such as morale, team spirit, integrity and emotional intelligence. (Increasingly, however, work is being done to quantify many of those historically qualitative aspects, and several recognized and valuable assessments now exist that can provide important guidance to family businesses and their stakeholders.)

6 CRITICAL ‘HARD STUFF’ COMPONENTS

President Harry Truman wisely observed that “the best way to give advice to your children is to find out what they want and then advise them to do it.” Unfortunately, experience suggests that while being in the business was lucrative, expected and/or convenient, too many children wind up frustrated and unfulfilled in their family’s business. While the “finding out” process is admittedly not always easy, there are six employment-planning strategies that can benefit family-owned businesses.

Measure Employment Qualifications

Simply giving children the opportunity to test their interests through academic coursework, summer jobs and internships through the high school and college years often is the best approach because it offers children the chance to discover what work energizes them — and what doesn’t.

Beyond encouraging diverse academic and job experiences, family business owners also can help their children by providing clear criteria, set forth in a formal policy that must be met before a family member becomes eligible for employment. While the content of those policies is tailored to fit the requirements of each business, the most effective policies require defined minimum levels of education and work experience outside the family business. The authors have found that the most successful families don’t simply require family members to be capable of performing the jobs for which they are assigned. Instead, their standard is whether family members are at least as qualified as the best nonfamily members who might otherwise be available for a particular position.

Family members typically are assigned appropriate entry-level positions based on their experience that, among other things, provides continuing training and career development opportunities as well as opportunities to assess their capabilities over time. Such policies not only help children by enforcing some level of career experimentation, but also, if they do choose to work in the family business, they begin in a position that is a good fit. No less importantly, establishing job qualifications benefits the business by helping ensure that positions are filled only by individuals who are capable and qualified.

Conduct Personality Profiles

Psychologist Mihály Csikszentmihályi is well known for his groundbreaking work around the benefits of “being in the zone” at work (and elsewhere), a state he refers to as “flow.” Flow is often found at the intersection of skills, interests, values and strengths. Martin Seligman, a pioneer in positive psychology, and other researchers have found that we’re likelier to “be in the zone” and energized when using our strengths in new and innovative ways — and, in doing so, we experience higher levels of happiness. Having such energy and purpose contributes to a company’s success. For example, studies have found that purpose-oriented workers stay with organizations 20% longer, are 50% likelier to be in leadership positions and 47% likelier to promote other people's work (Hurst and Tavis 2015). These employees report having higher levels of fulfillment in their work by 64%.

Despite countless scientific studies that have highlighted the fact that we are at our best when engaging our strengths, many family business leaders spend a disproportionate amount of effort trying to fix their children’s weaknesses, often at the cost of neglecting these strengths that would help them flourish. Family businesses can benefit by helping family members and nonfamily members alike to appreciate and then maximize the extent to which those strengths are used and applied day to day. One way to help promote strength-based work is to use one or more of the well-accepted psychometric assessments (personality profiles) to help enhance one’s self-awareness and, through that, improve the likelihood of working in areas and in ways that promote flow-like states. Those children who wind up employed in a family business because they are able to regularly leverage their strengths are much likelier to be energized and to contribute to its success than those who are not.

Enact Employment Agreements and Policies

Family businesses can benefit from the thoughtful use of employment agreements and policies that spell out not only job responsibilities and compensation (see “Follow a Rational Compensation Methodology”), but also expectations. Recent studies highlight how employment agreements can serve as a tool to motivate employees (Haley et al. 2017). Those researchers found that workers whose contracts contained more general language than those with very detailed and prescriptive contracts spent more time on their tasks, generated more original ideas and were likelier to cooperate with others. More general language provides employees with an increased sense of autonomy over their work that, in turn, has been shown to boost motivation, leading to a ripple effect of other desirable outcomes including behaviors that are difficult to include in contracts, such as effort, task persistence, creativity and cooperation.

Follow a Rational Compensation Methodology

Developing a methodology to rationally compensate employees — family members or otherwise — also is critical to both fairly incenting quality work and helping ensure a sense of fairness, particularly in the minds of stakeholders who don't work in the family. While every compensation plan must be customized to fit the needs of each enterprise, good compensation plans tend to set a family employee's compensation based on the fair market value (what would the family pay a nonfamily member?) and seek to align compensation with both individual and organizational goals as well as the organization's and family's values and culture.

Provide Nonfinancial Rewards

Family businesses that celebrate accomplishments — whether of family or nonfamily members — tend to have more positive and productive workplace cultures. Studies have found that small rewards activate the pleasure pathways in our brains, which can make people more generous, friendly and happy, as well as more productive and accurate in their work. At Google, for example, employee satisfaction rose by 37% when a small rewards scheme was put in place, suggesting that financial rewards are not the only thing happy, productive employees are looking for (Bock 2015). Similarly, companies with dissatisfied employees experience costly results. Effective rewards do not have to be anything big or expensive and can even be as simple as providing free snacks, flexible working hours or dress-down days. Leaders of a family business might find it helpful to solicit feedback about the benefits that their employees would most appreciate.

Provide Performance Feedback

While thoughtfully setting compensation is important, no less important is adjusting compensation based on relevant criteria that seek to fairly evaluate an individual's job performance. Beyond guiding compensation adjustments, providing constructive feedback can be invaluable in helping employees mature and improve. It also can be used to inform and explain promotion decisions and, if appropriate, termination decisions. Finally, tracking performance evaluations over time can be particularly helpful when considering whether an individual is ready to be considered a successor (Seppala and Cameron 2015).

7 CRITICAL 'SOFT STUFF' COMPONENTS

Bringing the right people into a family business — and into the right job — is a critical component of a successful employment plan. But such a plan must improve collaboration to be successful. Too often, employees (even talented ones) are unable to collaborate, and well-intentioned individuals wind up in conflict, contributing to oft-cited failure statistics of family businesses. Moreover, beyond the mere avoidance of conflict, building a collaborative team is increasingly requisite to succeeding in an ever-more competitive world. Gardner (2017, p. 3) observes

that “Collaboration is a means towards achieving the penultimate goal of solving complex, interesting problems — and the ultimate goal of giving firms a strategic, sustainable, and profitable platform. While there are many feel-good arguments in favor of collaboration, the real justification for effective collaboration ... can be found in the bottom line. Done right, collaboration makes your firm more successful — in the war for clients and the war for talent.” There is, perhaps, no more important factor to an organization’s success than the quality of collaboration among the individuals who work there. Unfortunately, however, there are undeniable challenges in building authentic collaboration in any business. Consequently, and often despite countless time and money spent on trying to improve collaboration, few families in business together seem satisfied with their results.

In the past 15 years, the growing field of positive psychology has developed an evidence-based model for enhancing individual and organizational well-being. This research confirms that when people’s moods are brighter, they set higher goals, persist longer toward them, experience less stress, and show better team cooperation and problem solving. As a result, culture, once dismissed as soft — and, so, comparatively unimportant — is now increasingly recognized as critical to an organization’s success. Gagnon et al. (2017) observed, “Companies often tell us that, while organizational health sounds like a great idea, it doesn’t feel like a necessity to achieving their short-term goals. They also worry that it’s going to be too much work. Both reactions are misguided. Far from being a distraction, a focused health-improvement plan should actually help companies achieve their short-term goals ... It is about redefining how to connect, engage, and communicate with employees. It’s about sharing a company’s vision and mission in a way that inspires employees to act in its best interests.” In short, family businesses that thoughtfully apply such findings within their organizations are no longer focusing on what was once considered unimportant soft stuff.

The authors have found certain actions — informed by cutting-edge, research-backed science — that organizations can take that are likely to contribute to creating a healthy organization.

Foster Positive Working Relationships

Science shows us that the greatest way to influence our happiness is to invest in our relationships. Evolution has linked surviving with our ability to connect with others. We are hard-wired to connect with those around us and to understand their feelings and intentions. Because of mirror neurons in our brains, our moods are quite literally contagious. As a result, if our colleagues are in a good mood, our mood tends to improve. Similarly, a colleague’s bad mood can put us in a bad mood, too. In a survey by Virgin HealthMiles (2013), more than two-thirds of respondents reported that not only did positive workplace relationships increase their productivity, they helped mitigate stressful and difficult challenges as well. Family businesses can no longer comfortably disregard these findings on how

contagious positivity and negativity can be. There are countless strategies to promote a collegial workplace culture, including organizing shared meals, group outings and after-hours social events.

Eradicate Incivility

A corollary to fostering positive working relationships is to intentionally seek to eradicate workplace incivility. Christine Porath (2016) has researched how workplace incivility exacts many costs, including those resulting from colleagues settling scores with offenders, diminished time spent working because of stress and loss of focus, reduced interest in collaborating with colleagues, diminishing commitment to an employer and, ultimately, employee turnover. The Gallup organization has concluded that these behaviors cost U.S. companies up to \$550 billion in lost productivity every year (Sorenson and Garman 2013). By contrast, Shawn Achor (2010), a business consultant and former Harvard University professor whose work focuses on the competitive advantages of a positive attitude and work culture, has found that happy employees not distracted by incivility are more productive, generate higher sales, are more creative and take fewer sick days.

Many families have developed a code of conduct, typically a written document describing behavior expectations, for family members inside, and sometimes outside, of their business. Much has been written about this planning tool but the authors have observed that such codes seem too often ignored in practice. Two steps can increase the likelihood of keeping these codes relevant. First, keep the contents simple. For example, highlight the importance of saying please and thank you. Respect people's time. Pitch in and help others who need help. Second, hold people accountable for code violations, with graduated consequences including, ultimately, terminating someone who regularly abuses and disregards the family's code.

Mind Your Positivity Ratio

Best-selling author Daniel Pink observes that "positivity" is one of those words that make many of us roll our eyes, gather our belongings and look for the nearest exit. It has the saccharine scent of the pumped-up and dumbed-down, an empty concept pushed by emptier people. But a host of recent research testifies to its importance in many realms of life (Pink 2012). The leading researcher in this field is Barbara Fredrickson, a professor at the University of North Carolina and best-selling author who has extensively researched how positive emotions and actions helped build collaborations that were critical for our ancestors to survive in a dangerous world and are now part of our hardwiring.

Fredrickson's work highlights how people can nurture interpersonal relationships by making more positive comments than negative ones that, in turn, will help keep or put them and their organizations on a growth trajectory. While there is some ongoing debate as to whether the positivity ratio is mathematically quantifiable,

Fredrickson (2017) observes that “empirical evidence is thus growing to support the value of calculating positivity ratios . . . [and] ‘higher is better, within bounds.’” She is careful to note that “nobody in positive psychology is advocating full-time, 100% happiness. The people who do best in life don’t have zero negative emotions. In the wake of traumas and difficulties, the people who are most resilient have a complex emotional reaction in which they’re able to hold the negative and the positive side by side . . . There’s no escaping loss, grief, trauma, and insult.”

Foster Appreciative Communications

Science also is informing how people and organizations can improve the quality of their lives, their relationships and their business’s bottom line by spending more time pursuing possibilities and less time problem solving. Brain scans show that when subjects are instructed to count their blessings, there is increased activity in the part of the brain associated with happiness. One example of this work is based on a process known as appreciative inquiry. It is premised on the notion that asking questions that bring focus to the positive aspects of their work increases employee energy and engagement (Cooperrider and Whitney 2005). Some organizations have adapted these ideas in innovative ways (e.g., listing “appreciations” as a standing agenda item at the beginning of staff meetings). Other organizations invite employees to nominate colleagues for doing something for which they are grateful, such as working late to help complete a project on time. Families in business can also benefit from its use in designing constructive agendas and engaging in appreciation-based conversations. Families might benefit from establishing a formal communications policy that not only sets regularly scheduled, face-to-face meetings with rules of engagement to help ensure attention, but also incorporates the findings from appreciation inquiry. Sharing both your failures and successes will help others relate better to you and the task. It can then inspire and motivate them by letting them know that they’re not the only ones who have had to overcome struggles and challenges.

Promote Growth Opportunities

Most employees want to be offered opportunities for growth — to learn new skills and take on increased responsibilities. Family businesses can create an environment that supports such growth, including by coaching colleagues to explore their strengths, and then find ways to leverage those.

Promote Humility/Empathy

There is a growing body of research confirming that practicing humility in the workplace, such as owning up to mistakes and being transparent about one’s own limitations, being receptive to feedback, and acknowledging the strengths and contributions of other team members, is not only an effective leadership strategy that nurtures a positive workplace culture, but an effective company growth

strategy as well (Owens, Johnson, and Mitchell 2013; Dame and Gedmin 2013). Parents can help their children develop these virtues by providing opportunities to care for others and being strong moral role models and mentors. Parents must teach many of these behaviors years before their children are old enough to start working in a family business.

Deal with Conflict

It's nearly impossible to imagine two or more people working together without disagreement that, at least on some occasions, is accompanied by negative emotions. It's important for family members to educate themselves and others about why disagreement occurs and how it can be valuable to the business when it is properly managed. Much has been written about conflict management (Corvette 2006). An interesting opportunity based on the application of game theory remains to enhance conflict resolution strategies within family businesses. By providing tools for analyzing the consequences of alternative decisions, game theory can help inform the optimal decisions of the players, who may have similar, opposed or mixed interests, and the outcomes that may result from these decisions (Owen 1995).

Within family businesses, games such as the prisoner's dilemma can be used to help family members understand the benefits achievable by cooperating with each other versus the costs to be incurred by focusing on self-interest. The authors have used game theory to help family members on the verge of litigation appreciate that going down that path would result in substantial lost economic benefits and how they can learn to get along and prosper through developing a code of conduct and clarifying core operating principles and policies.

SINK OR SWIM, TOGETHER

Without rationally constructed employment plans, families in business together increase their risk of destructive conflict for a variety of reasons. For example, family members tend to resist successors whom they believe to be unqualified and overcompensated. Incumbent leaders, particularly founders, might feel that no one is demonstrably capable of succeeding them or founders might feel that a junior generation family member is qualified to take over the business simply by virtue of being from the same gene pool.

Developing an employment plan can help resolve these and related challenges by ensuring that employment-related decisions are driven by data and compelling evidence. Such decisions, in turn, are likelier to be received and understood by family members and nonfamily stakeholders as smart, principled and, most important, in the stakeholders' (and company's) best interests. For these reasons, developing a rational employment plan should be high in a family's priorities because it can help improve intrafamily relationships and organizational success and position the family for a workable succession plan. ■

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