

HUMAN RESOURCE MANAGEMENT PRACTICES IN SME'S: A COMPARATIVE ANALYSIS OF FAMILY AND NON-FAMILY BUSINESSES

*Renee Reid, Trevor Morrow, Bridgita Kelly, John Adams
and Pat McCartan*

Introduction:

It has become widely acknowledged during the last decade or so that large mainstream companies in the UK have adopted a new agenda for managing people. However, relatively little is known about the impact of this new agenda on small businesses. Moreover, the role of Human Resource Management (HRM) and ongoing professional development in companies of all sizes, and its potential to contribute to commercial success, is a hotly debated subject. Yet the grounds of the debate are relatively confined, since research into HRM has generally been preoccupied with large organisations - and has thus tended to bypass the Small & Medium Enterprise (SME) sector; comparative analyses of family and non-family businesses have been even harder to come by.

Small firms have certainly been neglected in the academic literature relating to HRM (Bacon *et al*, 1996), for although SMEs may be included in HRM survey samples, they are rarely analysed specifically or separately. A number of themes emerge from even the most cursory assessment of HRM in the SME sector. For example, it is generally accepted that the larger the company, the more likely it is to provide training to its staff (Cambridge Small Business Research Centre, 1992; Blackburn, 1990; Creagh, Barrow and Morrow, 2000). In 1994-5 only 36% of SMEs (defined as in this case as establishments with fewer than 25 employees) provided any training for their employees, compared with the 78% of medium and large firms that did so (DfEE 1996). There is also evidence that SMEs employing less than 100 peo-

ple spend significantly less on training than larger firms (Training Agency 1989: 24-27; OECD, 1991: 153-154). On the one hand SMEs declare an enthusiasm for training, yet are less likely than other firms actually to engage in it (Matlay and Hyland 1997:330).

The Importance of Small Firms

In the Northern Ireland economy small firms are a major source of employment and output. Firms with 50 employees or fewer account for about 56% of total employment in the private sector, a considerably higher proportion than in the UK overall, where the figure is 48%. Small manufacturing firms in Northern Ireland represent almost 90% of all manufacturing units, and account for just under one-third of all manufacturing employment. Compared to the position in the early 1970s, when small firms provided only 10% of manufacturing employment, there has clearly been a massive increase in their contribution. (Strategy 2010 DED: 112). The importance of small firms to the manufacturing sector in Northern Ireland can also be gauged from the proportion of manufacturing output (Gross Value Added) from firms with under 50 employees. Figure 1 indicates that such units generate over 28% of output. The comparable figure for the UK, as a whole is 25%. The greater degree of large scale manufacturing units in other areas of the UK is also evident from Table 1.

TABLE 1. GROSS VALUE ADDED IN MANUFACTURING: BY EMPLOYEE SIZE (1999)

Country	1-19	20-49	50-99	100-199	200-499	500-999	1000+
UK	14.2	10.9	10.8	13.5	20.3	14.0	16.3
England	14.9	11.3	11.2	13.7	20.1	13.0	16.0
Wales	9.4	8.1	8.8	12.9	26.1	15.2	19.7
Scotland	10.9	9.4	9.3	12.0	18.2	22.9	17.2
N Ireland	6.4	11.8	9.9	13.5	20.8	13.1	14.5

This paper examines the findings a large-scale postal survey based on an adaptation, described as the Small Business Survey (NISBS), of the Cranfield Network (CRANET) Survey of International Strategic HRM. The NISBS utilised a sample of 1,369 organisations, representing every company employing between ten and one hundred people in Northern Ireland. We will present here what have been identified as the key issues emerging from the 219 responses received, and pro-

vide a comparison of practice in the family and non-family divisions of the SME sector.

Managing People in SMEs

Training in Small Enterprises

A training landscape that was dominated by large national players and by a corporatist approach until the late 1980s was redesigned under the Conservative government explicitly to try to abolish corporatism and get closer to meeting SME training needs. We believe that this attempt failed. Crouch et al (1999:132) summed up the Conservative government's approach as follows:

Rapid and frequent policy change has itself been a policy, consistent with the emerging British model of placing maximum emphasis on short-term appraisal of an institution's performance. With this has come a concomitant downgrading of the role of experience and of stable institutions that were likely to be seen as sources of rigidity and resistance to rapid change.

Most government backed training schemes were, until recently, focussed on helping the unemployed rather than those already in work. And employers were of course criticised for using the training schemes as a source of cheap labour rather than to implement a genuine commitment to training new staff for their companies: "The legacy of Youth Training (YT) has for many had the combined effect of undermining the image of 'training' for young people and of 'schemes' for employers." (Vickerstaff, 1998: 218).

The Conservative government provided substantial help for business start-ups in the 1980s through the Enterprise Investment Scheme and the Graduate Enterprise Programme (see Brown 1995). The lack of clarity in the government's small business policy was criticised by Storey (1994).

Separating SME provision from unemployment training has slowly begun, in the form of 'Modern Apprenticeships' which are perceived to be of higher quality than other training routes and will lead to recognised qualifications.

In the literature on training it is common to distinguish between firm-specific and general training. It is presumed that firm-specific

training increases the productivity of employees within the organisation, but has no value outside the organisation. The provision of firm-specific training is useful to the organisation, but less useful to the worker who may not use her/his additional training when leaving the organisation. In contrast, the provision of general training provides the worker with knowledge and skills applicable outside the current organisation and thus provides an incentive to employees to leave the organisation when the rewards offered outside the organisation is higher. In other words, the benefits of general training are potentially external to the organisation. Hence, it would seem, organisations tend to provide less general training than would be beneficial to society at large. Consequently, it is argued, governments should stimulate the provision of general training, which will be beneficial to society. This argument is even more powerful for small organisations; since their employees are more likely to leave, this makes the provision of general training even less inviting for those employing small numbers of people.

Ulrich and Lake, (1990: 40), state that the most enduring and the most difficult thing to achieve is "gaining competitive edge from the improved organisational capability of people", 'organisational capability' being "a business's ability to establish internal structures and processes that influence its members to create organisational-specific competencies and thus enable the business to adapt to changing customer and strategic needs".

Human Resource Management in Family Owned & Controlled Firms

As we have noted, HRM has, until recently, been seen as inappropriate – perhaps even irrelevant - for the smaller firm; consequently, little research on practices within the small firm sector has been documented. David Storey (1994) highlights The Bolton Report (1971) as the first major survey revealing that small firms required different and specific attention in the areas of employment, trade and industrial policy. According to Hughes (1989), small firms are more likely than large ones to take on young people and people without qualifications. This factor is becoming more relevant today and therefore makes the study of small firm employment features and HRM practices a necessity if small to medium enterprises (SMEs) are to maximise their 'competitive edge' and be brought into the mainstream of HRM practice.

Attention has been drawn by several reports (Ward 1987; Leach 1990 & 1994; Dunn 1995; Reid et al, 1999) to the important differences that often exist between family businesses and non-family businesses. A significant proportion of SMEs in the UK are family firms, yet Cromie et al (1995) and Dunn (1995) argue that research into the UK's family business is in its infancy. Elsewhere, such as in the USA, however, the field of family business research is maturing. In a comprehensive review of family business literature and publications Desman & Brush (1991) reported that only 4% of the 202 citations reviewed dealt with the development of human resources through education and training.

This is an especially sensitive area for family businesses, they having been frequently criticised for engaging in nepotism and then failing to provide management training for the family members concerned. Family businesses may be pressured at times to employ, promote or end employment for close or extended family members. It is also extremely difficult for a CEO who is a father, mother, sister, brother, cousin uncle or aunt to deal objectively with family members. The necessary starting point for these family businesses, therefore, is to focus of their current HRM practices so as to identify any weaknesses that may exist.

This, therefore, underlines the purposes of this survey – which are twofold: firstly to identify HRM practices within the SME (10-100 employees) population in Northern Ireland; and secondly to compare practices between 'family' and 'non-family' enterprises within the Northern Ireland SME sector. The survey provides the first truly comprehensive examination of HRM practices within SMEs in Northern Ireland. Additionally, it will set these findings in the context of the HRM practices identified by both HRM researchers in family and non-family enterprises.

Current Human Resource Management Issues

Storey (1989) identified that HRM models, whether British or American, commonly assert that employees should be regarded as valued assets and that there should be an emphasis on commitment, adaptability and consideration of employees as a source of competitive advantage. Thus, the theory of 'resourceful humans' may more accurately be posited. Edwards (1987) and Storey (1989) suggest there is a need to further understand the role of line managers in operationalising HRM. These authors highlight survey evidence suggesting that personnel/HR managers are not generally involved in matters of strategic importance, and additionally, it seems they are also not al-

ways involved in implementation. This lack of involvement at key stages makes it extremely difficult for them to manage the human resource effectively. In the family business setting, where many companies are dominated by the CEO, the involvement of line managers in HRM strategy is perhaps even less likely.

A study by Atkinson & Meager (1991) found, perhaps not surprisingly, that the 'owner-proprietor' as a distinct managerial position diminished slowly with firm size. Following this, the appointment of specialist managers, (in particular personnel managers) was found amongst only 12% of the largest firms. These studies suggest that many of these companies prefer to undertake their own 'in-house' training and personnel practices. Huselid (1995) found that extensive recruitment and training procedures, incentive compensation and increased employee involvement were associated with higher levels of turnover, higher productivity and better financial performance.

Current Trends

Minehan (1996) sees a new role for the HRM function, in that eligibility for government assistance will be further tied to employment and job creation. In the Northern Ireland context the number of low-skilled workers in the labour market will focus attention on improving the quality of the workforce, thus necessitating more emphasis on in-house training and development programmes, with more interest in school-to-work programmes and other business-education partnerships. Keep (1987) uses statistical evidence to reinforce this argument, suggesting that Britain is lagging behind in training provision even at the macro level. He points out that "while leading employers in West Germany, Japan, and the USA spend up to 3% of turnover per annum on training, on average employers in Britain spend only 0.15%". This statistic implies a tough cycle: SMEs have to generate jobs to get support; to generate jobs requires a competitive edge.

Pfeffer (1998) suggests that the impact on performance is more pronounced when complementary groups (or 'bundles') of HR practices are used together, and that this conclusion holds good for all organisations and industries, irrespective of their context. This may be appealing to the 'in-house' SME types; however, Guest (1992) remarks that these ideas might be "right enough to be dangerously wrong". As shown in Table 2, Pfeffer does identify seven practices of successful organisations (a reduction from sixteen in his [1994] list).

TABLE 2. HRM PRACTICES OF SUCCESSFUL FIRMS (AFTER PFEFFER 1994).

Employment security	Selective Hiring (Recruitment)
Self-Managed Team/s	Sharing of Information
Extensive Training	Reduction of Status Differences
High Compensation Contingent on Organisational Performance	

A significant problem with the various lists of 'best practice' HRM is that there are inconsistencies between studies, with some ignoring one factor but including another. For example, despite the importance attached to employment security by Pfeffer, this is not included in quite a number of the other lists (e.g. Delaney & Huselid, 1996; Wood & de Menezes, 1998). Also, 'best practice' is largely a wish-list of descriptors and may seem unreal or unattainable in some SMEs. Although Pfeffer encourages working with unions, he does not suggest the form that this working relationship should take. However he argues that, because of improved and open communication, co-operation with employee representatives can only have positive outcomes.

Do Family Businesses operate the same HRM policies as their non-family counterparts?

Family business should be regarded as a special case, regardless of size, as the long-term commitment of the CEO and family members involved in management requires a balance to be struck between management and ownership aspects. Family businesses employing family members need to address both these aspects. Indeed, due to the unique organisational structure of the family business, HRM policies may require greater clarity in the areas separating ownership and management. Astrachan & Kolenko (1994) suggest that limited organisational capability may be one key factor contributing to the short life span of family firms in an increasingly competitive global market. Cascio (1991) reports that since 2people costs represent approximately 55% of operating budgets across all US industries, it is important that there be more research focus on organisational capability and human resource practices in family businesses". It should also be remembered that family firms are the pre-eminent form of business in the UK as well as the US.

Taguiri and Davis, (1992); Holland and Boulton, (1984); Beckhard and Dyer, (1983) identify another special characteristic of family businesses. They suggest that relationships between the management of the firm and the family increase the complexity of organisational and management problems. In particular, Astrachan and Kolenko, (1994) suggest that this special relationship between family and firm creates a volatile situation as regards such tasks such as employee selection, compensation, appraisal and personal development. They also propose that family businesses (in the US) are more frequent users of employee reviews, compensation plans, written employee policies, and written job descriptions than written succession plans or formal entry requirements for family members. Yet the latter are the very means by which family recruitment, selection and promotion and exclusion are determined!

Lansberg (1983), again in a US context, emphasises strongly (as does Ward 1987) that effective management in family businesses requires the establishment of structures and processes which separate management and ownership. These reduce conflict and can be especially helpful in the area of HRM - in improving the practices of selection, compensation and equity, appraisal, training and development, and promotion. They also establish a firm basis for decision making, and one that can be understood and adhered to by all employed family members. Leon-Guerrero et al (1998) insist that researchers have not offered enough evidence linking specific practices with the development of the family and the business; but the over-arching influence of family culture on the organisational culture must be stressed. The stage of evolution of the family business is thought to be of significant influence. A family business at a relatively mature development point would have greater turnover, more employees, and perhaps three or more participating family generations, implying 'family' could be expected to considerably influence operations. Mintzberg & Waters (1990) suggest that the formalization of the family business is an inevitable result of growth. Company growth spurs change in management practices, transforming the "small, personalized, flexible, knowledge-based firm into a larger, more formal, economically powerful corporation". In later stages of firm development, business-focused practices are increasingly used and are more dependent on business growth. Leon-Guerrero et al (1998) further hypothesised that practices, such as formal employee reviews, incentive compensation plans, written job descriptions, training and career development plans are utilised more extensively as family businesses grow and develop.

Many approaches to strategy begin with defining the mission of the firm and the development of a mission statement (Harris, Martinez & Ward 1994). They go on to suggest that the presence of a family mission statement is the fundamental starting point for strategy formulation, because it sets out the expectations of the owners (who are related to each other) in terms of their expected return on investment. It also represents the most visible and public part of a strategic plan, specifying the foundation for priorities, resource utilisation, and organisational structure. Leon-Guerrero et al (1998) reported results which suggest that "in higher revenue businesses, family-focused practices diminished, whereas utilization of business-focused practices increased". Also, the utilisation of formal business practices, such as appraisal reviews and payment plans, was significantly different between turnover categories, although that practice was not related to the number of family generations. It is therefore again more meaningful to explore the stage of family ownership and to expect more formality as ownership becomes more complex, as in the case of sibling partnerships and cousin consortiums (Gersick et al 1997). Astrachan & Kolenko's (1994) study of over 600 family firms found that employee reviews, compensation plans, etc., were used significantly more frequently in family firms for non-family employees than for family members. They found positive correlation between HRM practices and gross firm revenues; and their results also support prior arguments for competitive advantage gained through effective use of HRM practices. These findings lend weight to the argument that as companies grow the structures required to support them become more formalised and complex.

Cascio (1995) suggests that larger non-family firms are now approaching succession planning by defining more generic competencies rather than specific knowledge and skills. He also states that career development is being left to individual responsibility with no promises regarding future opportunities in the firm. The family firm, he asserts, is employing a range of strategies to deal with succession - from individual grooming at a young age, to letting siblings choose their own leader or leaders. This may signify much more flexible approaches to HR matters than earlier ideas about nepotism in family firms have suggested. In the light of the perceived importance of HRM practices and 'competitive edge', and the appearance that family ownership and size of firm may be factors affecting organisational outcomes, we will now explore the HRM practices of SME family firms in Northern Ireland, comparing them to the practices reported in their non-family counterparts.

Data Collection

Questionnaires were mailed to 1360 SME businesses in Northern Ireland. Two hundred and thirty responses were received of which 219 were usable (16%). Five respondents employed between 15 and 18 employees, and although this was less than the intended 20 employees necessary for inclusion, it seemed sensible to take them into account in the analysis. Family firms accounted for 61% (n = 133) and Non-Family firms 39% (n = 86) of the returns. No follow up was carried out to increase returns as the rate was considered reasonable - being based on the total population of SMEs in Northern Ireland. No special effort was made to ensure 'family firm' representation, as previous studies (e.g. Cromie et al, 1995) suggested that the majority of SME enterprises are family owned/managed; the returns for this survey confirmed these figures. The questionnaires were electronically scanned using Formig and the responses analysed using SPSS for Windows (Version 9).

Results and Analysis

Basic descriptive statistics and chi-square tests of independence were utilised to examine differences (if any) between family and non-family enterprises. The results on a per section basis are presented below.

Results Section 1 - CEO/Director Characteristics

Table 3 summarises the characteristics of the owner or director who has responsibility for HRM. In family businesses, 48% of the sample were owners and in non-family businesses only 16% were owners. Additionally, a higher percentage (81%) of family businesses had male owner/directors than non-family businesses (71%).

The age structure of the owner/director in family businesses highlights the fact that owners of family businesses tend to remain in control for much longer (average tenure 24 years, according to Dunn, 1995) than their non-family counterparts. The non-family owner/directors dominated the age range 26-50 years whilst the family group dominated the 51-71+ range. A substantially higher percentage of the non-family business owner/directors (63%) had a university degree compared to the family group (33%). The difference was not as marked when examining those who held a professional qualification - 32% of family, compared to 44% of non-family owner/directors.

TABLE 3: CHARACTERISTICS OF OWNER/DIRECTOR WITH HRM RESPONSIBILITY

	Family Business %		Non-Family Business %				
	Yes	No	Yes	No	Yes	No	
Are you the founder?	48%	52%	16%	83%			
	Male	Female	Male	Female			
<i>Gender of owner/director with HRM Responsibility</i>	81%	15%	71%	28%			
Base	<i>n = 133</i>		<i>n = 86</i>				
	<i>Age (years)</i>						
	<25	26-30	31-40	41-50	51-60	61-70	71+
Age of owner (Family Business)	2%	4%	21%	34%	30%	8%	1%
Age of owner/director with HRM responsibility (Non-Family Business)	0	7%	30%	37%	21%	5%	0
	Family Business %			Non-Family Business %			
	Yes	No	Yes	No			
Do you have a university Degree?	33%	67%	63%	37%			
Have you a professional qualification?	32%	68%	44%	56%			

Results Section 2 - Company Characteristics.

Table 4 details company characteristics; both family and non-family businesses, as expected, were most strongly represented in the service sector. However, a higher percentage of family businesses (32%) to non-family businesses (14%) were represented in 'other manufacturing'.

TABLE 4: COMPANY CHARACTERISTICS BY INDUSTRIAL SECTOR

Main Sector of Industry or Services in which Company Operates	Family Business	Non-Family Business
Agriculture, hunting, forestry, fishing	4%	5%
Energy and water	0	0
Chemical products; extraction and processing of non-energy materials	3%	1%
Metal manufacturing; mechanical, electrical & instrument engineering	9%	9%
Other manufacturing (food, drink, tobacco; textiles, paper, etc)	32%	14%
Services	47%	51%
Public Sector	4%	19%

The breakdown of businesses by employee size and turnover is given in Table 5. Family businesses were more highly represented in the 26-50 employee group (74%), whereas non-family businesses were larger - 24% of non-family businesses employed 51-75 employees, in comparison with 14% of their family counterparts. In terms of turnover, however, family companies were larger: 84% of the sample had a turnover in excess of £1 million per annum, as against the 74% of non-family companies in the same category. These figures could reflect the higher percentage of family companies in the 'other manufacturing' sector.

TABLE 5: COMPANY CHARACTERISTICS – EMPLOYEES AND TURNOVER

Total Number of Employees			Company Turnover		
	<i>Family Business</i>	<i>Non-Family Business</i>		<i>Family Business</i>	<i>Non-Family Business</i>
15-25	10%	12%	Under £100,000	0	1%
26-50	74%	62%	£100,000 - £999,999	16%	23%
51-75	14%	24%	£1 - £5 Million	65%	57%
76+	2%	2%	£5 Million plus	19%	17%

Labour costs for non-family businesses were much higher than for family businesses - see Table 6. Seventy two per cent of non-family businesses reported that more than 20% of last year's turnover or revenue budget was attributable to labour costs, whereas for family businesses the percentage was as much as 43%. This too could be no more than a reflection of the respective sectoral breakdown between family and non-family firms.

TABLE 6: COMPANY CHARACTERISTICS – LABOUR COSTS

<i>Percentage of last financial year's turnover or revenue budget accounted for by labour costs</i>	<i>Family Business</i>	<i>Non-Family Business</i>
1-10%	19%	12%
11-20%	36%	14%
More than 20%	43%	72%

Results Section 3 – Human Resource Policy

Table 7 reports the results on the companies' human resource policies. Where appropriate significant chi-square results are reported. Significantly higher numbers ($\chi^2 = 5.19$; 1df; $p < .05$) of non-family

businesses reported having a personnel or HRM department/manager. Less than 50% of both family and non-family businesses reported that the Head of HRM did not have a place on the board. These findings support those of Edwards (1987) and Storey (1989), who pointed out that HRM/Personnel managers are generally not involved in matters of strategic importance. It also supports a research finding on family firms from Ward (1987), that many CEOs tend to fight against relinquishing control; it also highlights the distinct lack of separation between 'ownership' and 'management'.

A significantly greater number ($\chi^2 = 9.73$; 1df; $p < .01$) of non-family businesses negotiated with trade unions on pay and conditions. This again may reflect the sectoral breakdown; additionally, it may support the view that family firms tend to be 'introverted' and 'family centred'. It also points up an issue identified by Pfeffer (1998) when he proposes that firms should become more open with their information, negotiations with unions being one of the steps that he recommended.

The numbers ($\chi^2 = 18.80$; 1df; $p < .01$) of non-family businesses that had a mission statement was also significantly higher. Ward (1987) noted this as one of the first public 'signs' that family firms should adopt so as to indicate a more strategic approach to their business. Once again, significantly higher numbers of non-family businesses kept records on Disability ($\chi^2 = 10.16$; 1df; $p < .01$), Ethnic Origin ($\chi^2 = 4.22$; 1df; $p < 0.05$), Gender ($\chi^2 = 9.13$; 1df; $p < .01$) and Religion ($\chi^2 = 7.35$; 1df; $p < 0.01$); this may be but a further indication that many family firms suffer from a 'family first' as opposed to a 'business first' ethos (Reid et al, 1999).

Only 26% of family and 34% of non-family businesses reported having a Personnel/HRM Management Plan. Of those companies which had a business plan, only 47% of family and 52% of non-family businesses reported that the person responsible for HRM was involved in its development.

TABLE 7: PERSONNEL/HUMAN RESOURCE POLICY

	<i>Family Business</i>		<i>Non-Family Business</i>	
	Yes	No	Yes	No
Does your organisation have a Personnel or HRM Department?	40%	60%	55%	45%
Does the Head of the HRM department have a place on the Board?	41%	46%	36%	55%
Do you negotiate with Trade Unions on pay & conditions?	10%	88%	28%	72%
Does your organisation have:				
A Mission Statement?	45%	47%	77%	20%
A Business Plan?	65%	29%	77%	17%
A Personnel/HRM Management Plan?	26%	63%	34%	52%
If you have a business plan, at what stage is the person responsible for HRM involved in its development:				
	Yes		No	
From the Outset?	47%		52%	
On Implementation?	7%		14%	
Not Consulted?	15%		12%	

Interestingly, both family (34%) and non-family (40%) businesses considered the major challenge for HRM in their businesses over the next 5 years to be 'Training and Development'.

Results Section 4 – Staffing Practices

Managerial vacancies in both family (65%) and non-family (72%) businesses were generally filled by "advertising in newspapers nationally". Significantly higher numbers of non-family businesses ($\chi^2 = 4.46$; 1df; $p < .05$) than family ones reported using references as a selection method. Following this fifty four per cent of family businesses

reported recruiting for managerial vacancies internally, whilst the percentage for non-family businesses was 44%.

A significantly greater numbers of non-family businesses ($\chi^2 = 5.08$; 1df; $p < .05$) had been involved in a take-over by another organisation, lending support for the findings of Dunn et al (1995) and Reid et al (1999) that families prefer to keep their businesses in family ownership. Similarly, significantly higher numbers of non-family businesses had used appraisal systems for managers ($\chi^2 = 19.33$; 1df; $p < .01$) and clerical staff ($\chi^2 = 18.93$; 1df; $p < .01$) than family businesses. This finding, together with more in-depth record keeping by non-family businesses, would once more suggest a more 'business first' ethos within the non-family group (Reid et al 1999).

The following findings continue to lend support to the more 'business first' approach of non-family businesses: firstly, significantly greater numbers of non-family businesses reported that immediate superiors ($\chi^2 = 6.44$; 1df; $p < .05$) and employees ($\chi^2 = 7.65$; 1df; $p < .01$) contributed to the appraisal process than in family businesses; secondly, significantly higher numbers of non-family businesses used appraisal systems for individual training needs ($\chi^2 = 11.75$; 1df; $p < .01$), organisational training needs ($\chi^2 = 9.96$; 1df; $p < .01$), and for organisation of work ($\chi^2 = 4.59$; 1df; $p < .05$). These figures also appear to support the view of Astrachan & Kolenko (1994) that limited organisational capability may be a feature of some family businesses.

Moving on to rewards, significantly higher numbers of family businesses used flat rate and individual bonus pay mechanisms ($\chi^2 = 3.99$; 1df; $p < .05$) for manual workers than non-family businesses. This could of course be due to the high percentage of family firms in 'other manufacturing'. On the other hand, significantly higher numbers of non-family businesses used Merit/Performance related pay ($\chi^2 = 3.92$; 1df; $p < .05$) as a pay reward mechanism for their management than their family counterparts. These findings suggest that many non-family firms have put in place HRM structures and policies, somewhat ahead of their 'family firm' counterparts.

Results Section 5 – Employee Development

Family businesses reported spending less of their annual salaries and wages bill on training than their non-family counterparts (see Fig.1). Even though both family and non-family enterprises reported that 'training and development' was their biggest HRM challenge over the next five years, investment in training does not appear to be taking place. These results support Keep's (1987) findings that the UK is lag-

ging behind when it comes to paying for training provision. Family enterprises also reported fewer employees had been on training activities within the last year (see Fig.2). Moreover, significantly higher numbers of non-family businesses ($\chi^2 = 6.10$; 1df; $p < .05$) reported systematically analysing employee training needs than family businesses. This suggests that a greater number of non-family enterprises have already implemented many of the HRM policies and practices suggested by the literature as 'appropriate'.

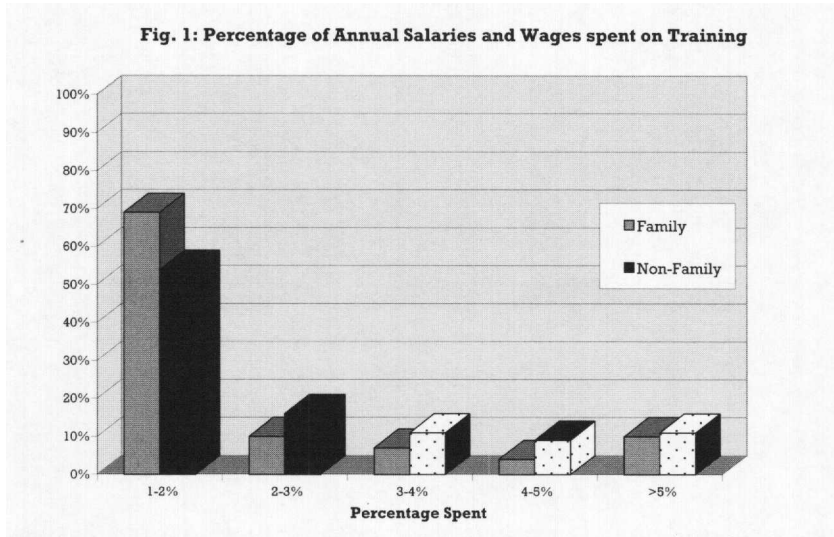
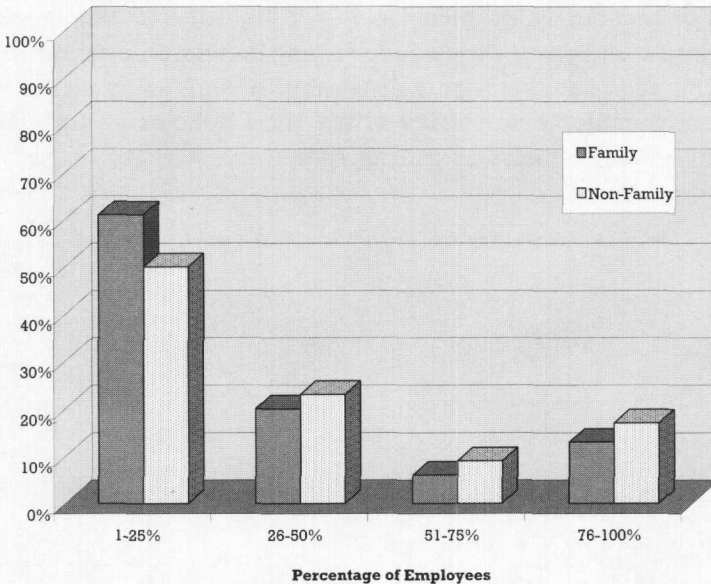


Fig. 2: Percentage of Employees on Training Activities Within Last Year



Results Section 6 - Family Employee Practices

Table 8 reports on the characteristics and practices that family businesses operate regarding family employees. It is noticeable that founders who have handed over management to the next generation have not relinquished their majority shareholding at the same time. Also, there is evidence that the majority of firms are in transition from founder to next generation (62% of the first generation having a majority shareholding). Few of these reported having completed much of the succession work required during the transition, so there is a struggle between old and new and tensions affecting management practices throughout the organisation. Furthermore, 89% of family businesses reported that they intended to retain the current (already high in many businesses) of working family members. Sixty five per cent of family companies stated that family members in management roles received management training. This may reflect the fact that siblings in many family businesses receive their training in the family business rather than availing of outside experience.

Only 27% of family businesses reported using a formal performance system to assess family members. Of that 27%, only 38% re-

ported that the remuneration of the family member is based on the appraisal. This echoes the findings of Astrachan & Kolenko (1994) that family firms tend to offer training and to utilise appraisal systems for employees more often than they do for family members working in the business. It also highlights Ward's (1987) view that for a family firm to 'professionalise', it is important to separate ownership and management roles. Indeed, the fact that remuneration packages are not based on performance will surely create difficulties within the business for other non-family management members. Ward also suggests that remuneration could be made through *ownership* for family members, and that payment for the job should be based on market value. The implications for so many of these companies who have not addressed the control issue - i.e. leadership and ownership - and who are in the transition period, is that they may experience tremendous difficulty in trying to establish unified management practices necessary to achieve sound organisational capability.

TABLE 7: FAMILY BUSINESS CHARACTERISTICS (N = 133)

	<i>1st</i>	<i>2nd</i>	<i>3rd</i>	<i>4th</i>	<i>>4th</i>
Which generation currently has majority shareholding?	62%	20%	13%	2%	0
Which generation currently manages the company?	52%	27%	12%	4%	1%
	<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>	<i>>4</i>
How many family members work directly in the business?	13%	32%	20%	12%	11%
	<i>YES</i>			<i>No</i>	
Is it your intention to retain the current level of family members working in the business?	89%			9%	
Does the company ensure that family members in management roles receive management training?	65%			28%	
Is a formal performance system used to assess family members?	27%			65%	
If yes, is the remuneration package they receive based on this appraisal?	38%			62%	

Discussion

Overall the findings reported here would generally support those of Astrachan & Kolenko that family businesses, perhaps partly due to their limited organisational capability, have lagged behind their non-family counterparts in implementing HRM policies and practices. However, many are clearly in transition, and the new generation may have plans to change things - when they get power. As Cascio (1991)

points out, if 'people costs' represent approximately 55% of operating budgets, it is important that organisational capability and HRM practices in family firms develop in line with their non-family opposites.

Astrachan & Kolenko also point out that the volatility created by the overlap of family, business and ownership makes implementing defensible employee selection and rewards more difficult in family firms. The present survey clearly demonstrates that some of the family firms need to professionalise their procedures, regarding HRM particularly and especially in relation to the introduction of new family members to the business. As Lansberg (1983) and Ward (1987) recommend, separating the 'reward' for ownership and the reward for management of the business should help clarify how the family extract wealth from the business. Ensuring that remuneration for non-working family members (this may take the form of perks) derives from the ownership 'pot' and that working family members have market based salaries coming from the management 'pot', will assist in establishing sound structures that may mitigate intra-family tensions. Even when the family owners' mission is clearly a 'family first' one, remuneration has to be managed realistically.

Although Mintzberg & Waters (1990) suggest that all companies will professionalise with increasing size, the family firms in this study plainly have tended to operate their HR practices in a distinctive fashion as compared to their non-family counterparts. The *modus operandi* is characterised by informality despite the push for formalisation typical of larger sized firms to improved efficiency.

Many of the CEO characteristics of the family firm group indicate that succession has already taken place with respect to handing over management responsibilities, i.e. *management* succession. However, the power base in many cases - i.e. shareholding - is still being held by the previous generation, i.e. the *ownership* succession is not yet complete). The majority of these companies will be undergoing 'total' succession within the next ten years, and the implementation of sound governance and organisational structures and processes will be necessary to aid the transitional process. Lack of management training provision for family members in these companies (only 65% receiving such training) may also adversely effect the successful transition of each generation; the 'successors' should be fully prepared for the giving and receiving of power. HRM practices appear to be one area where family businesses have adopted significantly different practices from their non-family counterparts. Whether their practices are more or less successful requires further enquiry. However, many siblings entering the family business within the next ten years will have

the benefit of tertiary education (many may indeed be MBA graduates), and this may offset the lack of formal management training. Through their education and exposure to peer group practices these siblings may perhaps be aware of the need to professionalise management in their businesses.

One further point: that many family businesses are 'introverted' would appear to be find some support in our survey. Pfeffer's argument for openness and freedom of information in, for example, negotiating with trade unions and the keeping of records, has found more support within the non-family group.

It is important, finally, to note that some caution should be exercised in the interpretation of some of the findings presented here, particularly because the sectoral breakdown of the companies - especially the high numbers of family firms in manufacturing - may explain some of the differences. Furthermore, the higher turnover and the smaller company size (in terms of employee numbers) of the family firm group may indicate differences that are sectorally based rather than simply due to ownership.

These findings are but the starting point for a definitive study of HRM Policies and Practices in the Northern Ireland SME sector (the family firms group in particular). Planned longitudinal research to examine differences in HRM practice between the generations in family firms may highlight interesting areas for further study. It remains the case, however, that businesses entering the global market must be able to take advantage of whatever competitive edge is available. By implementing the separation of ownership and management roles, responsibilities and functions (the people are often the same), family firms may be able more successfully to integrate HRM practices which affect not only employees but also family members hoping to enter the business.

References:

- Astrachan, J.H., & Kolenko, T.A.(1994). 'A neglected factor explaining family business success: human resource practices'. *Family Business Review*, 7(3), 251-262.
- Atkinson, J. & Meager, N. (1991) *Putting the Training in Enterprise: The TECs and Small Business Training Activities*, Brighton: Institute of Manpower Studies.
- Bacon, N., Ackers, P., Storey, J., Coates, D., (1996) 'It's a Small World: Managing Human Resources in Small Businesses', *International Journal of Human Resource Management*, 7, (1): 82-100
- Beckhard, R. & Dyer, W. G. (1983). 'Managing Continuity in the Family-Owned Business', *Organizational Dynamics*, 12, 5-12.
- Birch, D.L. (1979) 'The Job Generation Processes', MIT Project on Neighbourhood and Regional Change, Cambridge, Mass.
- Blackburn, R. (1990) 'Job Quality in Small Businesses: Electrical and Engineering Firms in Dorset', *Environment and Planning*, 22, 875-892
- Bolton, J. E. (1971) *Report of the Committee of Inquiry on Small Firms*, CMND, 4811, HMSO, London in: Storey, D. J. (1994) op cit.
- Cambridge Small Business Research Centre (1992) *The State of British Enterprise: Growth, Innovation and Competitive Change in Small and Medium Sized Firms*, Cambridge: University of Cambridge.
- Cascio, W. F. (1991). *Costing Human Resources: The Financial impact of Behavior in Organizations* (3rd Ed.) PWS-Kent: Boston.
- Cascio, W. F. (1995). *Managing Human Resources: Productivity, Quality of Work Life, Profits* (4th Ed.). McGraw-Hill: London.
- Creagh, M., Barrow, C; and Morrow, T; (2000) 'Building Business: Management Training for Small Firms' in *Making Managers More Entrepreneurial*, London: Department for Education and Employment (DfEE)
- Cromie, S., Stephenson, B. and Monteith, D. (1995) 'The Management of Family Firms: An Empirical Investigation', *International Small Business Journal*, 13, 11-34.
- Delaney, J., and Huselid M (1996) 'The Impact of Human Resource Management Practices on Perceptions of Organisational Performance', *Academy of Management Journal*, 39(4), pp 949-69.
- Department for Education and Employment (DfEE) (1996) *Training Statistics 1996*, London: The Stationery Office
- Desman, R., & Brush, T. (1991). 'Family Business: State of the Notion'. Paper presented at the annual meeting of the Family Firm Institute, Beaver Creek, CO.

- Dunn, B. (1995) 'Success Themes in Scottish Family Enterprises: Philosophies and Practices through Generations', *Family Business Review*, 8, 17-28.
- Edwards, P. K. (1987) *Managing the Factory: a Survey of General Managers*. Oxford: Blackwell.
- Gersick, K.E., Davis, J.A., Hampton, M.M., Lansberg, I. 1997. *Generation to Generation*. Boston, Mass: Harvard Business School Press.
- Guest, D (1992), 'Right Enough to be Dangerously Wrong' in G.Salaman et al. (eds.) *Human Resource Strategies*. London and Milton Keynes: Sage/Open University Press.
- Harris, D., Martinez, J.I., & Ward, J. L.(1994). 'Is Strategy Different for the Family-Owned Business?' *Family Business Review* 7(2), 159-174.
- Holland, P. G., & Boulton, W.R. (1984). 'Balancing the "Family" and the "Business" in Family Business', *Business Horizons*, 27, 16-21.
- Huselid, M. A. (1995). 'The Impact of Human Resource Management Practices on Turnover, Productivity and Corporate Financial Performance', *Academy of Management Journal* 38(3), 400-422.
- Keep, E. (1987) 'Corporate Training Strategies: the Vital Component?' in: Storey, J. (1989) *op cit*.
- Lansberg, I. S. (1983) 'Managing Human Resources in Family Firms: The Problem of Institutional Overlap'. *Organizational Dynamics* 12(1), 39-46.
- Leach, P. (1990) *Managing the Family Business in the UK*, Stoy Hayward, London.
- Leach, P. (1994) *The Stoy Hayward Guide to Family Business*, Kogan Page: London.
- Leon-Guerrero, A.Y., McCann III, J.E., and Haley Jr. J.D. (1998) 'The Study of Practice Utilization in Family Businesses'. *Family Business Review* 11(2) 107-120.
- Matlay, H., and Hyland, T., (1997) 'NVQs in the Small Business Sector: a critical overview', *Education and Training*, 39 (9)325-332
- Minehan, M. (1996) 'Challenges await HR in the New Year'. *HR Magazine* 41(12) 160.
- Mintzberg & Waters (1990) *Employment Outlook*, Paris: Organisation for Economic Cooperation and Development [OECD]
- Pfeffer, J (1998) *The Human Equation: Building Profits by Putting People First*. Boston: Harvard Business School Press.
- Pfeffer, J. (1994) *Competitive Advantage Through People*. Boston, Mass: Harvard Business School Press.
- Reid, R., Dunn, B., Cromie, S. & Adams, J. (1999) 'Family Orientation in Family Firms: A Model and Some Empirical Evidence'. *Journal of Small Business & Enterprise Development*. Spring 1999: 6(1) 55-65.

Storey, D. J. (1994) *Understanding the Small Business Sector*. Routledge: London and New York.

Storey, J. (1989) *New Perspectives on Human Resource Management*. Routledge: London and New York.

Tagirui, R., & Davis, J. A. (1992). 'On the Goals of Successful Family Companies'. *Family Business Review*, 5, 43-62.

Training Agency (1989), *Training in Britain: Employers' Activities*, London: HMSO

Ulrich, D., & Lake, D. (1990). *Organizational Capability: Competing from the inside out*. Wiley: New York.

Ward, J., (1987) *Keeping the Family Business Healthy*. Jossey-Bass: San Francisco.

Wood, S. & de Menezes, L. (1998) 'High Commitment Management in the UK; Evidence from the Workplace Industrial Relations Survey and Employers' Manpower and Skills Survey', *Human Relations*, 51(4), 485-515.