

Advances in Strategic Human Resource Management
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HRM in Start Ups and Family Owned Firms
Lecture - 07 B
Features of Human Resource Management (HRM) in Family Owned Businesses

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Why Small Firms Need to take HRM Seriously

Inadequate human resource practices may put small business owners

- At legal risk.
- Not having a dedicated HR person can slow company decisions and overwhelm its managers.
- Without human resource information systems, paperwork is time consuming, and duplication may create data entry errors.
- Inefficient hiring, training, appraisal, and compensation

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Nevertheless, HRM has to be taken seriously. The HR processing system has to be taken up seriously by small firms as well for many reasons. First is, that there is a legal risk; if they do not take the HRM practices seriously. They may miss out something on the recruitment, compensation, working condition, working hours which are statutorily identified. If that happens, firm will be in problem, they may face the complaints and they have to face the labor code or even other codes, civil codes etcetera.

So, if they do not take into account the HRM practices, they may miss out on some legal requirements. We will discuss what some of the distinguishing feature of the new code of labor in the later part of this session. Secondly, not having a dedicated HR person can slow the company decisions and can overwhelm its managers. We know that managers are mostly involved and suddenly in the small firms, they are involved in operations, sales operations or production operations, services operations etcetera.

They may find it difficult to take time out to carry out the HR processes systematically and efficiently. That can overwhelm them and since they are busy in their own work, that can delay the HR process; like recruitment. Recruitment requires generating the good pool of the candidates, searching their resume, short listing the most appropriate resume for the post, then conducting several tests based on the test.

We can short list the candidates again, then they those short-listed candidates are called for the interviews. All this this is the part of any recruitment process. Even if you are recruiting two people, one person in your team, one has to do all these activities. And practicing managers may not have time to do all these; in the small firm. So, that is why it is useful to dedicate to have the dedicated HR professional or someone amongst the manager who is given clearly a responsibility of managing HR function.

So, not having HR person can certainly slow down the company decision making. Without human resource information system, paperwork can become very time consuming. There has to be someone who can look at, who can have the overview of the different organizational activities, particularly related to HRM and can identify the appropriate format, can do the data entry, can look at the trained, can maintain the files, maintain the data.

So, all these are important activities. All these are inevitable activities in any firm. Without HR person or dedicated HR person, this may be difficult to be done by the practicing manager. Efficient hiring, efficient training, appraisal, compensation, all these activities require sufficient knowledge, sufficient knowledge about the available option, sufficient knowledge about the legal requirements, sufficient overview of the market conditions.

They have to balance out, there has to be a need for balancing the expenses on all these activities and on the core compensation. So, there are lot of things, lot of factors related to HRM which have to be managed, which have to be considered before any one particular activity is finalized.

And for that, we need a specialist who has understanding, theoretical and practical understanding of most of these activities. That is why also a dedicated HR person is needed even in the small firm.

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Leveraging Small Size with Familiarity, Flexibility, Fairness, and Informality

- Simple Informal Employee Selection Procedures : Reference and Work sample
- Improving Performance: *HR Tools for Line Managers and Small Businesses*
- Flexibility in Training: Open Programs, Online programs, Strategically relevant programs
- Flexibility in Benefits and Rewards : More flexible and customized benefits
- Simple Retirement Benefits: The SIMPLE (savings incentive match plan for employees) , National Pension Scheme (NPS) plan is inexpensive and simple.
- Fairness and the Family Business: Avoid partiality include setting ground rules, treating people fairly, confronting family issues, and erasing privilege.

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There are certain ways where small firms can leverage their small size. Small firms by nature have certain characteristic like familiarity, flexibility, fairness, informality and these things have to be used, have to be used as positive assets for the small firms.

Like simple informal selection procedure that can be adopted by small firms and this selection procedure can be primarily done based on the references and quick work sample test. Improving performance, HR tools for line managers are abundant in number. We will look at those, we will look at some of those tools. Those tools require little bit of customization, but many of them are very efficient. So, they can be quickly implemented, they can be quickly installed in the small firms.

Flexibility in training. There are lots of open programs being offered by many training houses, many educational institutions. So, organization, small organization, need not to have separate training department. But if there is someone who is nudging employees, who is someone keeping the track on the performance appraisal data.

They can mutually discuss about the available training programs across the world. If we are talking about the online program and they can look at the many training programs in person offered in many IIMs and many other IITs or many other institutions.

So, these programs can be, can replace the in house training activities for the small firms. But important thing is that there has to be someone, maybe the supervisor himself owner himself or herself or and the employee, they together have to finalize what is the most appropriate training program for them.

Small firms also have the benefits of flexibility in giving financial and non-financial rewards. Those flexibilities must be judiciously used by HR professionals to attract the talent. There are some simple retirement plans available. For example, the acronym simple, stands for saving incentive match plan for employees. They are being offered by many insurance companies, those can be taken up.

In India, there is a very widely applied national pension scheme is available. There employer and employee both can contribute all these are long term investment. The national pension fund is used by the experts and some amount of money is invested in the market; returns are

expected on those. So, NPS is also something which is readily available to which any employer and employee can link it their simple retirement benefits.

Fairness and family business issues, those also are important activities. Many, many MSMEs are family owned. So, they need to take care of the fairness. So, they need to avoid the partiality including setting ground rules, treating people fairly, confronting family issues, erasing privileges for the family members, all those things have to be taken care of, have to be done in the small firms, then owned by family, by a family.

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Family Owned Businesses of Small Size

- First, what are the family-based antecedents of HRM in family firms?
- Second, how do family members interact with non-family employees in the family business?
- And third, how do families manage HRM practices that are unique to family firms, and toward what organizational consequences?

Combs, J. G., Jaskiewicz, P., Shanine, K. K., & Balkin, D. B. (2018). Making sense of HR in family firms: Antecedents, moderators, and outcomes. SIMSOM

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When we talk about family owned MSMEs and large number of MSMEs are family owned, we need to dwell with few questions like what are the family based antecedents of HRM? How do family members interact with non-family member employees? How do families

manage HRM practices that are unique to family firms and towards what are the consequences of those HRM practices for the firm?

These questions are in depth analyzed in this special issue of human resource management. Those who are more interested to know and to have more in depth study about the HRM issues in the family owned firm can refer this article and go to that special issue of human resource management journal.

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Few Special Features of Family Owned Business from HRM

- **Positive Halo effect:** Founders imprint processes and behavioral norms on firms which can be useful and harmful both. Each generation might “re-imprint” the family firm with new habits and cultural values that break the cycle.
- **Bifurcation bias:** This is the situation when family-member employees are treated differently from non-family employees.
- **Socioemotional wealth (SEW):** The bonding and attachment of different family-firm founders. This shapes the business objectives and culture both.

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There are some special features of family owned businesses in terms of HRM. So, first is the positive halo effect; that means, all founders have imprint processes based on their behaviors and the norms they follow on their on the HR practices of the firm. Those imprints can be useful as well as harmful.

Families need to recognize, that once certain thing comes as the imprint of the follower; it need not be always there. Different generations can re-imprint based on their norms and their processes and that can keep the HR function of the new habits can be developed, new cultural values can be instilled and of course, new HRM practices can be implemented. So, re-imprint is possible, but we need to recognize that imprint is a inevitable feature of the family owned business in terms of and the impact of the founder on the HR systems and processes.

Another thing is called bifurcation effect. This is a situation when family member employees are treated differently from non-family member employee. There has to be conscious effort to remain fair in the treatment of the family member employees and non-family member employees. If the family member employees are given extraordinary privileges, unfair looking privileges that can demotivate the non-family member employees.

So, that has to be taken care of. You must have heard some examples about some of the business leaders whose sons or daughters joined business and they have to go through the same rigor as management trainee or shopfloor workers, as any other employee had to go through. These are great exemplars.

These examples suggest, that they these business leaders want to reduce the bifurcation bias to the extent possible. Socio economic wealth is again a very important feature of a family owned businesses. That is reflection of the bonding an attachment of different family firms founder.

This wealth shapes the business objectives and culture both. Socio emotional wealth arises out of the bonding of the family members that can act as a glue, that can act as excellent positive medium to resolve conflict, that also result into formation of positive identity for the business.

So, whenever we are talking about family business, we need not to look at only the financial turnover. We also need to take care of the socio emotional wealth of the firms as well.

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Few Special Features

- **Special Triad in Family Business:** social exchange in the triad of key family leaders that includes the non-family CEO, the older generation family owner, and the next generation family owner. When triad members are balanced in terms of strength and dependence, they expect non-family CEOs to feel attached and less likely to leave.
- **Nepotism:** Families focused on maintaining “influence and control” and those seeking “renewal of family bonds” will engage in more nepotism than those seeking “family identification” as the central SEW outcome.
- **Mentor-Protégé Combinations:** When both are family members the prosocial mentoring will generate greater normative commitment among protégés. Switch the protégé to a non-family member, however, prosocial mentoring continues but the purpose is to foster affective commitment.

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There is something called a special triad in the family business. This triad is the reflection of a social exchange between family leader, non-family CEO and old generation family owner.

Interaction between these three, interaction among these three decides that tenure of CEOs in the firm. If this interaction is pleasant, if this interaction is functional, productive, CEOs tend to stay with the family-owned firm. But if this interaction of the three parties is not pleasant, it is not legal or if it is not productive, CEOs look out for opportunity, other options and then they move on and CEO turnover increases.

So, special triad must be carefully understood and managed in the family business. HR can play a significant very important role in ensuring that interaction in social exchange within

this special triad remain productive and remain pleasant. Nepotism is also a natural feature and can be detrimental in the family business.

Families which are focused, which are primarily concerned for having their influence and control on the business, they play the nepotism more often and that nepotism generally has negative impact of HRM as well as the productivity of the firm. Those firms, those family-owned firms where family is focused on the positive identity of the family, there you will see much less of nepotism.

Mentor protege combination; that also happens to take interesting twist in family firm based on who is mentor and who is protege. If a family members are the mentor as well as protege, then mentoring generates greater normative commitment amongst the protege; which is about following the values and standing for those values with which organization is known for.

But when the protege is external person or so called professional and mentor is a family man, then the pro-social mentoring continues, but the purpose, but that result into affective commitment amongst the protege. So, they feel more emotionally connected, more emotionally invested in the firm. So, this mentor protege relationship is interesting in the family firm. So, it has to be consciously developed.

If we look at all the six features of family firm positive, halo effect, bifurcation effect, socio emotional wealth, special triad and family business, nepotism, mentor protege combination, all these six features can be significantly affected by the HR professional or HR manager or HR executive of the firm.

HR executive can play very positive role in managing all these features. They can help business leaders to reduce the positive halo effect or analyze or reflect on the positive halo effect. They can make the family conscious of bifurcation bias and in this way, they can nudge the family, not to practice the bifurcation bias. They can make also the founders family aware of the socio economic wealth and they can help in building those health.

On this special triad, HR can play a significant role in being a mediator and ensuring the positive nature of interaction between the old generation family owner, new generation family members and non-family CEO. They can make them aware about the nepotism and help the family owners for decreasing the nepotism and its negative effect. They can also influence a mentor protege combination.

So, we can see that HR can play a very significant role in managing the overall culture and climate of a family-owned business.

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Using Professional Employer Organizations

The vendors range from payroll companies to those that handle all of an employer's human resource management requirements. PEOs basically are your "HR office," but your employees still work for you.

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Small firms can use many professional employer organizations. Those organizations which specialize on a specific HR activities like PF management, performance management system,

recruitment, training and development, many HR functions can be outsourced by the small firms to the professional employer organizations.