

# MANAGING TALENT IN A FAMILY BUSINESS

By Vikram Bhalla and Jennifer Bratton

**W**HY DO SOME FAMILY businesses succeed in attracting and retaining the best talent, while others struggle to do so? What really makes their performance in talent management so different? In our experience, what often distinguishes talent magnets from talent laggards is how well the family business leader appreciates the difference between people management and talent management. Many family-business leaders are very good at managing people and take great pride in it, but that is not the same as being good at managing talent.

Family business leaders usually excel at building personal relationships with a core group of employees, often on the basis of the employees' loyalty as much as their capabilities. Leaders typically have had a hand in hiring these employees, know them and their families personally, understand their priorities, and help them develop professionally. However, most leaders don't place the same personal emphasis on creating and institutionalizing systems and processes to develop talent in the broader organization, including among family members. Some

family businesses may have talent management systems, but quite often they are not applied rigorously and consistently.

The prize for getting this right is significant. Our research has found that companies with the strongest leadership and talent-management capabilities increase their revenues 2.2 times faster and their profits 1.5 times faster than talent laggards. (See *The Global Leadership and Talent Index: The Smart Way to Improve Capabilities—and Create Value*, BCG Focus, March 2015.)

So how can family business leaders, most of whom truly care about their employees, capitalize on their advantages and address their unique talent-management challenges? They first need to understand the full range of challenges they face. Then they can overcome them by applying talent management principles tailored to family businesses.

## A Set of Unique Challenges

Managing talent in a family business entails a wide range of challenges.

**The Glass Ceiling on Nonfamily Professionals.** Some family businesses reserve the top jobs for family members. Nonfamily professionals may perceive this as imposing a glass ceiling on their career advancement. In some cases, this practice creates an obstacle to hiring and retaining the best talent.

**Dealing with the Old Guard.** Many family businesses have a group of extremely loyal employees who have been on the leader's core team ever since he or she took the helm. However, members of this old guard may not have developed their skills to keep pace with the business's increasing size and complexity. Although the leader may continue to promote them as a reward for their trust and loyalty, they may not be the ideal people for some of the senior roles they eventually occupy. As a result, performance and motivation can suffer throughout the organization.

**Integrating New Hires and Long-Serving Employees.** Family businesses have employees with many years of service and also hire new employees as they grow. Integrating new hires and long-serving employees into a single, cohesive company culture can be difficult. If the integration is not managed properly, the new hires may feel unsupported as they seek to gain a foothold in the company, while long-serving employees may feel passed over for high-profile new assignments or roles. The result can be clashes and tensions at all levels.

**Respecting Processes Versus Intervening at Will.** Family business leaders often face a tension between respecting talent management processes and their desire to intervene at will on certain issues, such as performance ratings and compensation of key people. Although family businesses establish processes for talent management, it's common for leaders to bypass them. For example, one company's president would sometimes override his leadership team's decisions about bonuses on the basis of his personal opinion. Such interventions not only undermine the processes' intent but also signal to others that it's acceptable to sidestep the processes.

**Managing Family Talent.** Some family businesses don't stringently apply their talent-management processes to family members. Family members may ask for and receive important roles, even if they lack the required capabilities. To be sure, candid conversations about capabilities are difficult in a family context, but these conversations are worth the effort. Placing a poorly suited family member in a critical role undermines talent management processes and diminishes the importance of merit in the organization.

**Managing Talent During Transitions.** Managing talent becomes even more complex during successions and transitions of family business leadership. Employees who have been loyal to the departing leader may feel passed over in the succession process or may have limited faith in the successor's capabilities. These attitudes can lead to disengagement and attrition among employees who are not family members.

**Finding Talent in Order to Pursue Growth Ambitions.** Many family businesses seek to grow very aggressively. However, they often struggle to find the talent they need, which creates a major bottleneck to pursuing their growth ambitions. This challenge is especially common in family businesses in emerging markets.

## Succeeding with Talent Management

From our experience advising family businesses on talent management, we have identified eight principles that family business leaders can apply—beyond generally applicable best practices in talent management—to overcome their unique challenges.

**Agree on a philosophy.** The family business leader, family members, and nonfamily executives must agree on a talent management philosophy for the organization. The philosophy should address issues such as how family members will be treated, whether separate standards will be applied to evaluate their performance, the nature of the leadership model, and the balance between respecting processes

and exercising personal judgment. The business's various processes and practices will reflect the higher-level beliefs set out in the philosophy.

**Establish processes for family members.**

Family businesses need to clearly define talent management processes for family members. Most family businesses don't apply the same set of processes to family members and other employees, because leaders regard managing their relatives' careers as a private family matter. These businesses need to ensure that their separate talent-management processes for family members are robust.

The best-performing family businesses have talent management processes for family members that are equal to those applied generally by leading global companies. They establish committees to manage family talent, assign mentors to family members, set clear criteria for assessment and advancement, and define a rigorous professional development strategy for each family member. They also maintain the discipline to follow these processes without exception.

**Establish processes for nonfamily employees.**

Family businesses must also establish talent management processes for nonfamily employees and be willing to devote resources to support these efforts. The processes should set out how the organization will discover, recruit, develop, and retain talent with the highest potential. These processes should reflect the philosophy agreed upon by the family and the leadership team, and should be consistent with the leader's style and preferences. Processes that conflict with the leader's style are likely to be circumvented and are therefore pointless to establish.

**Respect the processes.** After developing processes that are consistent with the agreed-upon philosophy, family business leaders need to demonstrate their importance by adhering to them and insisting that others follow suit. If the processes don't yield the intended results, leaders should seek to refine rather than circumvent them.

Respecting talent management processes has proved to be difficult for some family-business leaders who are accustomed to doing things their own way. But they must overcome any natural reluctance to follow processes. Several family-business leaders have adjusted their approaches to incorporate process adherence into their way of working. In some cases, a strong support team has helped leaders perform their roles in these processes. For example, the leader of a large family-owned conglomerate has established an annual process for setting new goals for his leadership team. With support from HR, he reviews the leadership team's progress toward achieving these goals every six months.

**Create special roles for the old guard.**

At most companies, members of the old guard continue to be valuable employees, even if some may not be well suited to certain senior roles. They embody the organization's history and values, and possess institutional knowledge acquired over decades.

Rather than placing the old guard's members into roles for which they lack the required capabilities, the company can take advantage of their unique assets by creating special roles for them. These roles could include taking on special projects, maintaining relationships with critical internal or external stakeholders, systematically sharing institutional knowledge, and mentoring younger leaders. For example, a family business established a strategy development role specifically for a member of the old guard whose expertise was needed but who lacked the desire to manage a team.

**Stay current with employees' needs and expectations.**

It's important for family business leaders to keep up with their employees' needs and expectations. Leaders often want their employees to work as hard as they did early in their careers. But employees' expectations are evolving. Many seek a better work-life balance, have more ambitious expectations for career development, and want different forms of rewards and recognition, such as more time off, international postings, or stock options. Employees might also have development goals

requiring special training that the leaders never needed. Leaders must appreciate these changing expectations and ensure that talent management approaches address them.

**Exploit the positive aspects of the family business.** Family businesses can exploit their unique advantages in an effort to become talent magnets. They often have strong values and a strong culture, as well as charismatic leaders, which many prospective employees will be attracted to. They can also take a longer-term perspective on employees' performance, just as they do with their overall business performance. This perspective can offer employees the freedom to be more entrepreneurial and take greater ownership of the area of the company's performance for which they're responsible. All these attributes are important for attracting and retaining top talent.

**Hire a world-class HR team.** Family businesses should hire the best leader and employees available for their HR function. Although this is true for all companies, hav-

ing a strong HR leader is particularly important for a family business. It helps to ensure that other leaders recognize the importance of talent management processes and stay focused on talent issues. Indeed, hiring a world-class HR team is as important as bringing in the best CEO available.

**T**HREE STAKEHOLDERS PLAY critical roles in getting talent management right for family businesses: the business leader, his or her top leadership team, and the HR team. If these stakeholders don't fully support and comprehensively execute talent management processes, these businesses run the risk of having processes that yield little practical impact. The businesses will pay lip service to talent management but not achieve tangible outcomes. Putting in place the prerequisites for becoming a talent magnet will be challenging for many family businesses. Those that succeed will be rewarded with loyal and highly capable employees who are ready to help the business achieve its aspirations for growth and profitability.

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