

# Chapter 5

## Managing Human Resources in Family Businesses: A Review on the Current State of Research and New Proposals for the Future

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### ABSTRACT

*Although a lot of research has been carried out in the field of family businesses in recent years, not much of it has focused on human resource management. After compiling the major studies, both negative aspects (e.g. nepotism) and positive ones (e.g. employee commitment) have been identified. Therefore, the authors propose high-performance human resources practices to reduce the negative impact of family in business and boost the positive effects, increase their human capital, and achieve a competitive advantage in this field. Finally, the authors provide key insights for practitioners, family business owners, and managers, and they propose future research directions.*

### INTRODUCTION

Family businesses play a significant role in global economy, employment creation, technological innovation and economic progress (Dawson, 2012; Zahra, 2005; Zahra, Hayton, Neubaum, Dibrell and Craig, 2004). It is estimated that family businesses are responsible for 70% to 90% of global GDP annually (Family Firm Institute, 2012). This has

encouraged the increase in research in this topic and family business research is growing more and more, becoming the only area of research that has experienced exponential growth in the last years (Zellweger, Eddleston and Kellermanns, 2010).

This positive development is mirrored by the three annual conferences exclusively oriented to family business research: Family Enterprise Research Conference (FERC), International Family

DOI: 10.4018/978-1-4666-4731-2.ch005

Enterprise Research Academy (IFERA) and EIAS Workshop on Family Firm Management Research. Furthermore, two specific international journals rank very near the top - Family Business Review and Journal of Family Business Strategy.

Traditionally, research has focused on two distinct aspects: differences between family and non-family business, and variations in behaviour among family firms. But nowadays, we find studies that have examined the link between family business resources/capabilities and its competitive advantage (e.g. Zellweger et al., 2010). Recently, Danes, Stafford, Haynes and Amarapurkar, (2009) have explored how human capital, social capital, financial capital and management structure contribute to family business performance.

Despite all this, family business literature has not devoted special attention to human capital (Dawson, 2012) and it suggests that family businesses have difficulties managing their human resources, especially when it concerns family members or the transition from the founder to the successor (King, Solomon and Fernald, 2001). In a review of family business literature, Desman and Brush (1991) reported that only 4% of 202 citations reviewed, dealt with human resource management.

In this situation, family businesses need to develop new human capital that can take them beyond established routines and embedded relationships (Wright and Kellermanns, 2011). Human capital, according to the resource-based view (RBV) is the most valuable and difficult type of resource to imitate because it is to a large degree, the product of complex social structures that have been built over time (Barney, 1991). While tangible assets are typically imitated and thus unlikely to be a source of sustainable competitive advantage (Barney, 1991), human assets are often hard to imitate (Gottschalg and Zollo, 2007). Recent research has empirically shown the positive relationship between human resource management practices and important organizational outcomes such as productivity, turnover, and firm performance

(Delaney and Huselid 1996; Huselid 1995; Arthur 1994), but this relationship has been analysed less often in the family business context.

In this chapter, we start with a review of the main characteristics of family businesses, we analyse the effects of family businesses on aspects of human resource management and we review the main studies on human resource practices in family businesses. Then, we focus on high performance work practices (HPWP) as the best way to manage human resources in family business and to reach a higher commitment from both family and non-family members in this type of companies. Finally, we provide some practical suggestions and examples for research opportunities and research questions based on this chapter.

## **THE IMPORTANCE OF HUMAN CAPITAL IN FAMILY BUSINESS**

The theoretical definition of the term “family business” is still open to debate (Chrisman et al, 2005). Traditionally, scholars have understood the family business is a mix of two systems: family and business. The definition has focused on a combination of the four components involved in the family’s involvement in the business, namely ownership, governance, management and trans-generational succession (Chua, et al, 1999). If we are looking for a theoretical definition, we can understand the family business as the family’s influence over the strategic direction of a firm (Davis and Tagiuri, 1989), or as the intention of the family to keep control (Liz, 1995), or maybe as one with the unique, inseparable, synergetic resources and capabilities arising from family involvement and interactions (Habberson, Williams and MacMillan, 2003). In a recent study, Klein et al. (2005) developed and validated a scale to measure how the family’s involvement is used to influence the business. In this way, this involvement is showed as a continuous variable rather than as a dichotomous one.

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