

# Formalized Human Resources Management

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## Formalizing Management

- Planning
- Human Resources**
- Written Policies
- Outside Expertise

Managing the human resources of a farm business is as important as managing production, marketing or any other aspect of the business. Knowing who reports to whom, what each person's job entails, what qualifications or training is required, why people are compensated the way they are, and how performance reviews will be done gives everyone in the business an understanding of why things are done the way they are. The following components of human resource management are discussed in the following pages:

- organizational structure
- job descriptions
- performance review
- compensation
- training
- qualifications for entry
- dealing with family and non-family employees

## Organizational Structure

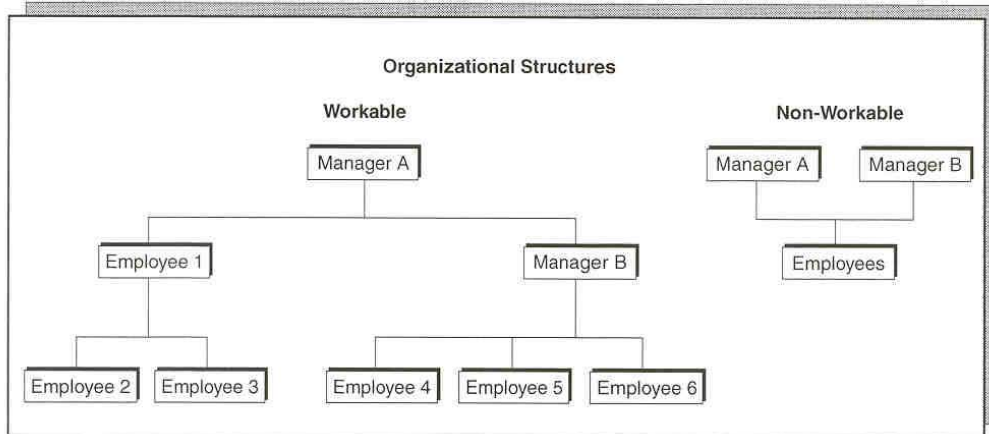
- Human Resources
- Organizational structure**
- Job descriptions
- Performance review
- Compensation
- Training
- Qualifications
- Family & non-family employees

Set your business up so it is clear who reports to whom. Such a system makes it clear to all involved what person to go to when a question or problem occurs. People working in the business should clearly understand who the boss is, to whom they report and what decisions they can make on their own. It is essential to organize your reporting structure so that each person in the system has only one boss. When an employee has two bosses, there is a risk that that person will get different orders and instructions. This reduces efficiency, creates confusion and can generate frustration and negative feelings.

*Four brothers were equal partners with their father in a dairy operation. Their operation grew to the point where they needed to hire someone. A well qualified person was selected and began work. Each partner told the employee what he should be doing. After only one week, the employee quit. He said he couldn't work for five different bosses.*

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The following graphic illustrates two organizational structures: one that works and one that doesn't.



No two farm businesses are organized identically because managers, employees, families and the work involved vary from one business to another. Keys to effective organizing include:

- proper planning of the organization
- clear relationships among the people in the organization
- delegation of authority
- clear limits to delegation
- authority accompanied with responsibility
- a structure that is neither too complex nor too simple



### What's Your Organizational Structure?

Take pencil and paper and sketch out the current reporting relationships in your business. Draw boxes for each employee and connect these boxes with lines to show to whom each one reports. Now examine the structure and ask yourself the following questions:

- Does anyone report to more than one person?
- Is it clear to everyone in the business who has responsibility for what?
- Is there more than one person giving orders for the same job?

### Job Descriptions

- Human Resources
  - Organizational structure
  - **Job descriptions**
  - Performance review
  - Compensation
  - Training
  - Qualifications
  - Family & non-family employees

A well thought-out, written job description for everyone working in a business is a very important tool for effective management. Roles for all family members, non-family employees and board members should be clearly defined. Although some people may resist job descriptions in the belief that they act as a strait jacket, job descriptions in fact provide guidelines for how and by whom work gets done, making it more comfortable for everyone working in the business. Areas of responsibility are clear. Overlap or disagreements about who is in charge are avoided.

Job descriptions define what the responsibilities of a position are, what qualifications are needed and how the position relates to others in the business. The specific form they take will reflect your particular business and its needs.

#### How to prepare a job description

If you don't have job descriptions for positions in your business, start by writing your own job description by considering the following questions:

1. What is your job title?
2. Who is your immediate supervisor?
3. How would you summarize your job in one sentence?
4. What are your principal duties?

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5. What are your minor functions?
  6. What wages and benefits do you receive?
  7. What are your work hours and vacation times?
  8. What qualifications do you have for the job? Experience? Skills? Personal qualities? Training?
  9. What supervisory responsibility do you have?

Prepare a job description for all positions in your operation. Following are some methods you could use:

- Interview the person who is currently doing the job.
- Have the person doing the job keep a record of everything he or she does on the job. This will give you a sense of what is done on a daily or weekly basis. If the job is seasonal, note that.
- Observe the person on the job to see what actual tasks he or she does.
- Make the description specific but avoid making it too restrictive.
- Keep the job description as brief as possible.

Make sure after writing the job description that there is a match between what you write and what the employee earns and actually does.

Job descriptions are not static. They need to be reviewed regularly, preferably as part of a performance review, and altered if necessary. Job descriptions can be designed with an eye to training people for specific jobs so they can move into more challenging positions or advance in the organization. This is especially important for people who will eventually be taking over the farm business.

If all members of the family and business have a clear understanding of their own and each other's roles and responsibilities, the business is likely to function more effectively and the family more harmoniously.



### Writing Job Descriptions

Using the following blank form as a guide, write a job description for each person working in your business. When you're done, share the job descriptions with the people who do the jobs. Does it match the job they are currently doing? Do the job descriptions line up with your organizational chart?

Job title: \_\_\_\_\_

Summary description: \_\_\_\_\_

Tasks and responsibilities: \_\_\_\_\_

Minor functions: \_\_\_\_\_

Supervised by: \_\_\_\_\_

Supervisory responsibilities: \_\_\_\_\_

Assist with other jobs: \_\_\_\_\_

Qualifications: \_\_\_\_\_

Skill requirements: \_\_\_\_\_

\_\_\_\_\_

Experience: \_\_\_\_\_

\_\_\_\_\_

Training: \_\_\_\_\_

\_\_\_\_\_

Personal characteristics: \_\_\_\_\_

\_\_\_\_\_

Physical requirements: \_\_\_\_\_

\_\_\_\_\_

Salary range: Minimum: \_\_\_\_\_ Maximum: \_\_\_\_\_

Work hours: \_\_\_\_\_ Average hours/week: \_\_\_\_\_

Days off /week: \_\_\_\_\_ Holidays/year \_\_\_\_\_

Overtime: Never: \_\_\_\_\_ Seldom: \_\_\_\_\_ Often: \_\_\_\_\_ Pay: \_\_\_\_\_

Other benefits: \_\_\_\_\_

Work environment: \_\_\_\_\_

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## Performance Review

- ✓ Human Resources
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*Feedback is essential for the growth and development of each family member.*

Regular feedback about an employee's performance is one of the most effective tools managers can use to increase productivity. Most large companies or organizations have employee performance evaluation built in as a on-going activity in their operations. Performance review in family businesses is no less important, but much more difficult to do.

Performance evaluation provides many advantages:

- allows employees to compare how well they're doing with how well they're expected to do
- gives clear guidelines for improvement
- gives employees an opportunity to share concerns and desires about their jobs and careers
- provides feedback to the supervisor
- determines how the employee's contribution is fitting in with the overall goals of the business
- gives an opportunity to identify training needs

Family members may not take kindly to being evaluated by each other. In some instances, family members may be shielded from honest feedback in the belief that they need to be protected and nourished. And yet, feedback is essential for the growth and development of each family member. (For additional information on giving and receiving feedback, refer to the Communications section in Book Two of this series, *Making the Family/Business Interaction Smooth*.)

In families where people are close and the relationships are complex, do evaluations in the open with all key managers participating. This process reduces competitiveness by allowing everyone to know where they stand in relation to others. It is also a method for building trust and respect among the family members.

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The following are some techniques that family members can use to evaluate each other:

- **Begin with each person doing a self-evaluation.** Prior to the formal evaluation session, participants should write down how they feel they are performing, itemizing their strengths and indicating those areas that need improvement. Any learning or training needs should be noted. At the evaluation session, each of these self-evaluations should be shared.
- **Focus on positive feedback rather than negative.** Begin the evaluation session with a discussion of what each family member values and appreciates about the others. Stroking others and giving praise act as strong motivators.
- **Ensure everyone in the group is equally involved.** Everyone offers information and everyone receives feedback.
- **Focus on behaviour, not personality.** Any difficulties should be dealt with as specific behaviours.
- **Do evaluations regularly,** once a year at the least. More often might be better.
- **End with a written plan.** The end product of evaluation should be a written plan for each person which spells out goals, learning needs and how these things will be accomplished.



### **Doing Performance Review**

Divide those working in your family business into groups of two and do the following:

1. Discuss with the other person two things (goals, tasks, etc.) that you want to accomplish in a specific period of time, e.g. six months or one year.
2. Write down how you will measure this.
3. After these two items have been discussed in your groups of two, share the information with the other members of your family business.
4. After the period of time has passed, review with the others what worked, what didn't and what you want to change. Avoid finger pointing in this exercise.

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## Compensation

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Designing a compensation plan for a family business is a challenging and critical task. Compensation is at the heart of more family-business concerns than any other topic except succession. Questions such as the following are common:

- What is fair pay among family members?
- How do I determine a fair wage for family members and non-family employees?
- How should shareholders be paid?
- How can we resolve disputes over pay?
- How should family assets be handled?

Compensation is a sensitive and complex problem. Mixed messages can easily be sent that can damage the business and the family. It is easy to confuse a paycheque with parental love and concern, or to use a paycheque as a method to achieve emotional goals. Parents may feel sorry, for example, for a child who's had some rough breaks and want to pay him or her more than the others, but doing this would invite problems.

One key issue to resolve is to determine what is fair. This is a difficult area because each of us has a different idea of what is fair. A farm operating under a **business-first** philosophy would say that fair is being paid based on the job that is to be done, at the going market rate for the job. Hiring is based on the skills, experience and initiative that an individual brings to the job. Under this philosophy, fair is based on concepts of equity.

A farm operating with a **family-first** approach would say that all members are a part of the family and therefore should be paid the same irrespective of the job they are doing. The business is here to serve the family and we will create a job for everyone. Here the criteria for fair is based on notions of equality. (The differences between family-first and business-first approaches are described in Book One, *How the Family and Business Interact*.)

The notion of fair can be interpreted in other ways. If Child B has not done as well as the others, it may seem fair to provide for him or her so he or she can enjoy the same life style as others in the family.



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Funds flow from a family business to individual family members in a variety of ways. There are dividends, wages, bonuses, merit increases, loans, gifts (housing, school, cars), training, perks (cars, vacations, trips, business/personal expenses), ownership and equity gains in land, inheritance, trusts and bequests. This can quickly become confusing and lead to miscommunication and misunderstandings. Things can become even more complicated if there are some family members outside the family business. They often see things differently from those working in the business.

Consider the following story.

*This was a special Christmas for Fred and Sarah Lambert. All four of their children were home for the holidays - the first time the whole family had been together in five years.*

*The family gathered in the livingroom to open gifts. Fred Jr. and Dick opened their gifts and each found \$500 tucked inside. Their sisters, Elizabeth and Martha, opened their gifts. They said "thank you," but an awkward silence filled the room.*

*"The money is the boys' Christmas bonus," Fred Sr. rushed to explain.*

*But it was too late. Susan slipped quietly from the room.*

*"It just isn't fair," Susan later confided to Elizabeth. "We have to go out and make it on our own. The boys just stay at home and live off Mom and Dad's business."*

*"They'll probably inherit everything," agreed Elizabeth. "Our kids won't get a fraction of what their kids will."*

Many of the problems illustrated in this unfortunate scenario can be avoided with a well designed compensation system that makes sense and is understood by all. Ideally, a compensation system accomplishes the following:

- maintains control over pay and keeps everyone happy
- keeps the business on track
- promotes individual development
- communicates a clear statement about work ethics and values

- encourages individuals to accept financial responsibility for themselves
- educates individuals about the business
- provides a clear understanding about the value of different jobs
- fosters trust
- motivates individuals to perform well
- distinguishes between compensation and gifts

The following graphic illustrates the variety of ways funds flow in a family business. The first illustration shows a method where roles are confused and misunderstanding is likely to be the result. The second illustration shows a rational system, in which a clear distinction is made in the flow of funds depending on whether family members are working in the business or not.

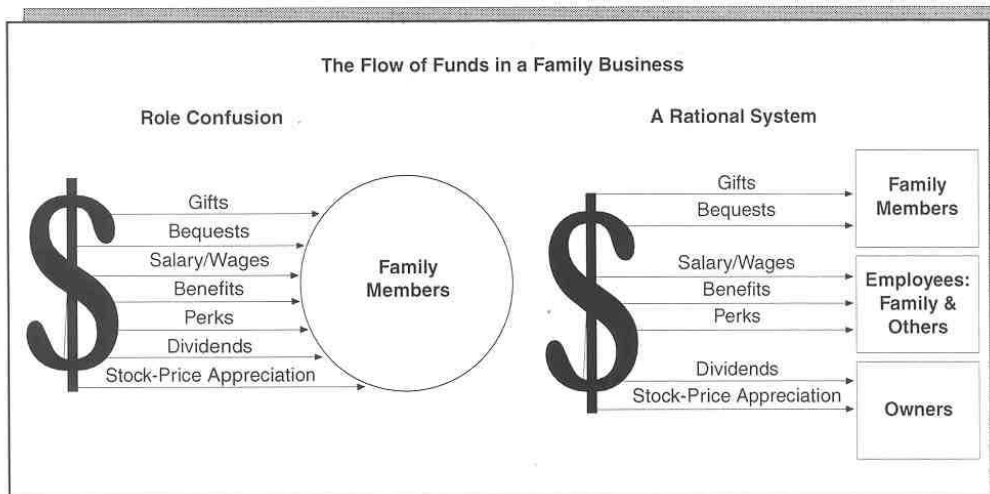


Illustration modified from *Family Business Compensation* by Craig E. Aronoff and John L. Ward.

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### ***Designing a compensation plan***

The first step in designing a compensation plan is to formulate a philosophy of compensation. This philosophy will contain the guiding principles regarding such matters as salaries, benefits and perks. The philosophy will be grounded in the culture of the family business. For every business, the compensation plan will vary. Another issue that the plan should address is whether family members will be paid according to market value or whether an equal-income for siblings approach will be adopted. As the philosophy is developed, thought needs to be given to how compensation was determined in the past and how changes to the system should be introduced.

If the decision is taken to base compensation on market value, the market value for each job in the business needs to be established. Several factors need to be considered as this valuation begins. What is the position and what responsibilities are attached to it? What is the size of this company relative to others in the industry? Does this position have supervisory responsibility and, if so, how many people are supervised? What is the value of the assets overseen? Are any budgetary decisions involved?

While a decision may be taken that the compensation system will be based on market value, individual businesses may choose to pay lower or higher than other companies. There could be sound reasons for doing either, depending on the philosophy of the business.

Other things to be considered in the compensation plan are incentives and bonuses. Some businesses choose to base incentives on personal performance while some choose overall performance of the company. Whatever system is agreed upon, it must be accompanied by criteria which will enable the business to assess performance.

Once a compensation system has been devised, information about it needs to be communicated to all affected people. Everyone needs to understand the philosophy behind the program. The plan needs to be regularly reviewed and modified, if necessary.

The following is an example of a compensation philosophy.

*Everyone in the family needs to understand the philosophy behind the compensation plan.*

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## Sample of a Philosophy of Compensation

### How We Do Things at JD's Greenhouses

#### For Owners

- after 5 years of tenure in the farm, family employees can take their share of bonuses, wage increases or stock growth as increases in partnership interest (or common stock). Family employees with less than 5 years can accumulate their bonuses and merit pay
- all owners and their spouses will meet once or twice a year. All persons attending will be reimbursed for reasonable travel expenses and paid a per diem of \$X
- all owners will receive a minimum \$X per year
- dividends will be paid

#### For Family

- tuition and student expenses will be paid
- family members will receive bequests and gifts of stock and assets
- loans for houses and vehicles will be available at attractive interest rates
- gifts will be given independent of the business

#### For Family Employees

- wages will be objectively determined
- wages will be somewhat conservative (75% of market value) given family ownership and the uncertainty of the economy
- wages will be determined based on the size of the job, responsibility, relevant training and experience, and working conditions
- wage increases and vacations will be based on years of experience, seniority and cost of living
- annual merit pay will be awarded. This will be based on jointly agreed-upon goals that will be determined at an annual performance planning meeting
- bonuses will be based on annual profits and distributed as partnership interest (common shares) or cash

**Designing a pay grid**

What do you do when one employee comes to you, the manager, and requests a pay increase because he feels that he should be being paid more than another employee? How do you assess the relative merit of each employee's input and determine what each should be paid? What do you do when one of your two offspring working in the business with you asks for an increase because he and his wife are expecting a child and they need extra income to meet their expenses?

These are difficult issues to deal with fairly. An established pay grid provides a range of remuneration for various categories of work done in your farm business. It provides a sound framework for making decisions about pay.

Pay grids typically spell out what remuneration is given at each step for a specific type of work done. Following is a sample pay grid for a nursery operation.

Job title	Step:	Hourly	Biweekly	Annual
<b>Picker</b>	Step 1	7.00	560	13,440
	Step 2	8.00	640	15,360
	Step 3	8.75	700	16,800
	Step 4	9.75	780	18,720
	Step 5	10.50	840	20,160
<b>Technician</b>	Step 1	10.00	800	19,200
	Step 2	11.00	880	21,120
	Step 3	12.25	980	23,520
	Step 4	13.00	1,040	24,960
	Step 5	13.50	1,080	25,920
<b>Supervisor</b>	Step 1	17.00	1,360	32,240
	Step 2	18.00	1,440	34,560
	Step 3	19.25	1,540	36,960
	Step 4	20.00	1,600	38,400
	Step 5	20.50	1,640	39,360

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Within each category, specific criteria should be spelled out to determine when an employee moves from one step to the next. This same criteria can be used to determine where a new employee fits in the grid. Progression to the next level can be based on seniority, agreed-upon work goals, or any other criteria that seems appropriate.

A similar grid can be established for management positions. The advantage of having a pay grid is that everyone in the business understands why they are being paid what they are being paid and why someone else with different responsibilities is being paid more or less.



### **Design a Pay Grid**

Design a pay grid for the positions in your farming operation, using the above sample as a guide. If you don't have pay grids in place now, you may have to do some research to find information on what the market rates are in your area.

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### ***Common pitfalls to avoid in a compensation system***

As you design a compensation system, keep in mind a number of common pitfalls that will lead to problems in your business. Following is a discussion of 12 common pitfalls to avoid:

- Role confusion
- Using pay to achieve tax savings
- Using pay to maintain parental control
- Using pay to ease uncomfortable emotions
- Preserving secrecy around all pay issues
- Not keeping records
- Confusing business and personal funds
- Taking relationships for granted
- Providing salary substitutes
- Not setting limits on expenses
- Paying everyone too little - or too much
- Using pay to level out ups and downs in profit

#### **Role Confusion**

One pitfall is confusing payments to family members in their roles as owners and loved ones with compensation for performing a job in the business. Examples follow:

“I own 25% of the family business. What should I be getting paid for my job as a sales manager?”

“My son is getting \$X per year. I don’t know what the market rate is but it doesn’t matter because he is part owner.”

“My daughter is getting paid more than others at her level, but she has been so helpful to us and she needs the extra cash.”

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*A systematic, merit-based approach is best when designing a compensation plan.*

### **Using Pay to Achieve Tax Savings**

Using pay to achieve tax savings is another pitfall. Examples include overpaying high school and college age children as a tax-deductible allowance - the phantom job approach. Another example is using perks to transfer money from the business to family members in a tax-advantaged manner. Farm vehicles and cars, fuel, insurance (property, vehicle), utilities, travel, cell phones are examples. This sends distorted messages that can lead to problems later. Many times it is better in the long run to pay the associated taxes and make the benefits visible.

### **Using Pay to Maintain Parental Control**

Parents may be tempted to use large paycheques to lure children into the family business and keep them there. This can draw people into the business for the wrong reasons, jeopardize the leadership in the business and hamper personal fulfilment and job satisfaction. Using artificially low salaries to impress upon the children the importance of being frugal can be equally damaging. This can result in low commitment and motivation.

### **Using Pay to Ease Uncomfortable Emotions**

Parents usually want to help their children and may feel uncomfortable when one child makes less than another. In response, a parent may give a raise or make private gifts to the underdog. Or if cousins are paid differently, the question, "Why is my kid worth less than his?" is bound to arise. Another variation on this pitfall is paying according to perceptions of the child's needs, a typical example being raising the pay when a new grandchild is born.

There is nothing wrong with expressing concern and offering support, but it should be done outside the context of the compensation system. If emotional issues get entangled with pay decisions, mistrust and distorted expectations can result. Because you will inevitably end up paying some members more than others or individual family members will appear needy from time to time, a systematic, merit-based approach is a better system to use.



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### **Preserving Secrecy Around All Pay Issues**

Popular wisdom holds that to talk about how much you are paid is indiscreet, impolite or just plain wrong. Also, many owners fear others will attack their pay. They want to avoid such questions as, "Why do we do it this way?" and "How much should I get paid as CEO?" However, discussing the compensation philosophy allows members to air concerns so that they can be discussed and resolved without creating hard feelings.

### **Not Keeping Records**

This pitfall is similar to the one above relating to secrecy. If amounts paid to people, for whatever reason, are not recorded, not only will the accounting be skewed, but questions may be asked about why one person got more than another. Being open about all matters relating to compensation is important.

### **Confusing Business and Personal Funds**

Drawing money for personal needs can be a constant drain on the business. It is far better to pay yourself a salary than to be constantly drawing on the business. This is especially true of draws made to support the retirement lifestyle of choice. Having the bank account fluctuate wildly from one week to the next can be a source of frustration and tension in the business. Income for retirement needs to be planned for well in advance and should provide a secure, independent income for the senior generation.

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### **Taking Relationships for Granted**

Discussing performance and pay with a subordinate is very difficult for many people, especially if the subordinate is a family member. As a consequence, many managers avoid it, assuming the family members will trust, respect and be satisfied with their paycheques because they are family. "We're their parents and of course they know that we are going to take good care of them. They'll trust us to be fair," is the attitude many managers take.

As a result, family employees get fewer performance reviews and less education about compensation than other employees. Taking relationships for granted can be a big mistake. Pay is even more sensitive when it involves family members and the issue can

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foster resentment and misunderstandings. How do you tell your brother, son, sister or daughter that their performance doesn't meet your expectations if you've never discussed those expectations with them? The whole issue of performance planning answers the questions: what are you getting paid for, what would a job well done look like, and how will we know if we have achieved your performance goals.

Family members who are not employed in the business often take a keen interest in the way family employees are paid - after all it's about fairness, their children's inheritance, parental love and concern. A strong communication and education effort is required to maintain family harmony and overcome this pitfall.

#### **Providing Salary Substitutes**

It's tempting to try to appease family members who are dissatisfied with their paycheques with extra titles, promotions, perks, etc. However, over the long run, this is no substitute for a sound pay policy consistently applied. In many cases, these kinds of perks will backfire, creating false expectations, poor relations with non-family employees and with family members outside the business.

#### **Not Setting Limits on Expenses**

Having no limits for expenses such as utilities, phones, cars, etc. can create problems. Having no established limits can raise questions about who gets a fair share. Limits need to be set and clear criteria need to be established to determine what are valid business expenses and what are personal expenses.

#### **Paying Everyone Too Little - Or Too Much**

Holding down pay in order to keep all wages low can demotivate individuals and erode self-esteem, loyalty and performance. It can also limit the ability of family employees to participate in ownership of the business and create situations where equity growth goes to family members who are not contributing to the business. Paying too much can have adverse consequences, as well. It can send the wrong messages about work and reward, deplete the business' equity, hamper expansion, and result in people sticking around for the wrong reasons.

*Over the long run, this is no substitute for a sound pay policy consistently applied.*

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### Using Pay to Level Out Ups and Downs in Profit

Increasing wages when earnings as an owner are down or decreasing wages or letting them slide when ownership earnings are up results in confusing messages about what people are receiving as an owner and as an employee.

In summary, a well designed compensation plan will keep everyone involved in the business working for what is best for all. Such a plan will guide all family members in making decisions about who gets paid how much and for what. A compensation plan must be applied consistently so that trust in it can build. As soon as any exceptions are allowed, the integrity of the compensation system is undermined.

### Training

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Before people can do their job well, they must know how to do it. Training fills the gap between what a person knows how to do and what he or she needs to know in order to do the job well. Training can take the form of on-the-job experience or can be gained off the farm.

Many people who work in family farm businesses have learned everything they know by working in the family business. While this training may have equipped them well for that particular business, there are advantages to off-farm training, education and work experience. The main advantages are gaining experience, establishing contacts and clarifying that working in the family business is that person's first choice.

**Off-farm experience and training:** Working elsewhere or taking formalized training teaches new skills, offers fresh ideas and different approaches, and gives the individual increased self-confidence. It's important for family members working in a family business to know that they work in the business because they have the necessary skills and abilities for the job, and not just because they are part of the family. It's also valuable experience to work for a boss who isn't Dad.

**Establish contacts:** Networking is highly valued in many professional and business circles. Knowing others who are in the same business as you is valuable to obtain information, exchange ideas, or just have someone to talk things over with. Knowing who is

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able to offer the kind of services, goods, equipment or other commodities that you want can increase the efficiency with which your business operates.

**Choosing the family business:** Many people who have worked or trained away from the family business and returned later to work in the business report that one of the greatest benefits is learning that the grass is not always greener on the other side of the fence. Family members who return to work on the farm by choice are likely to be more motivated and productive than those who feel they have had no choice.

### *Qualifications for Entry*

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What qualifies a family member to enter into the family business is an issue on which family businesses need to have agreed-on policies. Consider the following story:

*The Coburgs ran a successful Christmas tree farm. The operation had been in the family for two generations and Paul, the current owner/manager, was pleased that his eldest son, Ben, was now working in the business. Between the two of them and several, able non-family employees, they kept the operation going smoothly. It had always been a disappointment to Paul that his younger son, Rick, spent his life skiing, backpacking, and generally living a free-spirited existence with no interest in joining the family operation.*

*When, several years later, Rick married and wanted to start a family, he realized his carefree lifestyle would not support his family. He began looking at the family Christmas tree operation as an attractive business opportunity. When he approached his father with the idea of joining the business, Paul was delighted.*

*Paul knew that Ben had recently been experimenting with collecting seeds to start new trees rather than relying only on stump culture. Paul decided that propagating from seed would be a good area for Rick to take over and suggested that's where he should start.*

*Rick brought his relaxed approach to life to the farm business. He worked hours that suited him and learned about collecting seeds as he went along but saw no need to get too excited about production. He found he was happy with the change.*

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*Ben, however, was not happy about the changes that were taking place. His comfortable relationship with his father had changed, he regretted no longer being responsible for propagating from seed, he was concerned that the germination rate Rick was achieving was half of what he himself had managed in the previous year, and he was frustrated with Rick's relaxed, what-will-be-will-be attitude at business meetings. He could see all the hard work that he and his father had put in going nowhere. As his frustration level increased, so did the level of friction between not only his brother and him but between his father and him as well. What had been a well functioning business was well on the road to trouble.*

Who gets in and who doesn't is a major concern for any family business. It's not uncommon for the senior generation to desire that all their children, if possible, be involved in the business. Often one of the major reasons for operating a family business is to provide a comfortable living for the entire family. But as the above story illustrates, bringing children into the business simply because they have decided they want in can cause major problems.

Each family business must decide for itself who will be admitted to the business as a permanent employee and under what circumstances. What is essential is to have agreed-on guidelines, ideally in writing. The following questions need to be addressed:

- **Who will be hired?** Will all children be eligible? Will in-laws be eligible? What is essential is that whomever is brought into the business be brought in to do a well defined job that will contribute to the overall functioning of the business. Bringing in family members simply because they're family to do a meaningless job or a job for which they are not qualified can lead to resentment among other employees and the erosion of the family members' self-esteem.

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- **What criteria will be used to determine eligibility?** Guidelines should state the age, education and experience that family members coming into the business should have. This may mean that a son or daughter or a son- or daughter-in-law may have to work in another business for a period of time or take training specific to the job they'll be doing.
  - **How will the employee be evaluated?** One problem family members face is that they often get very little critical, honest feedback about their performance. People can't improve unless they know how well they're doing. A difficult issue for families to face is how to deal with the family member who isn't doing a good job. Having clearly defined roles and responsibilities with a performance appraisal system in place can greatly aid in handling this problem.
  - **How much will the person be paid?** Salary should be based on service to the business and be comparable to that of other employees doing similar work. Though a parent may want to give extra assistance to a child because of special needs he or she may have, this should not be done as part of a business compensation package. Rather, the parents should find a way of helping outside the context of the business.



#### **What Do You Think the Coburgs Should Have Done?**

Thinking about the questions above, discuss how the Coburgs, the family in the last story, could have better managed their situation. Is there a way that Rick could have been brought into the business without creating the negative fallout that occurred?

## *Dealing with Family and Non-family Employees*

- ✓ Human Resources
  - Organizational structure
  - Job descriptions
  - Performance review
  - Compensation
  - Training
  - Qualifications
  - Family & non-family employees

*If managers from outside the family are hired, careful consideration needs to be given to finding managers who share the beliefs and values of the business.*

Many family businesses hire help from outside the family. Non-family employees can be a valuable resource to the family business and thought needs to be given as to how family and non-family members can work comfortably and productively in the business.

It's important for a family to share with key non-family employees the culture and values of the family business. The more non-family employees, especially if they're in management positions, understand and support the goals of the business, the greater the chance of success.

Treating all employees fairly is a key requirement in any business. In a family business there may be a tendency to want to give preferential treatment to family members. There may be sound reasons for wanting to do so, but the impact such treatment may have on non-family employees should be considered.

Examples of problematic situations abound. Suppose a family business wants to find a place for a young family member and does so by displacing a long-time non-family employee. Such a move usually creates discontent and mistrust. If non-family employees receive the message that no matter how valuable their contribution is, a family member can at any time displace them, they are unlikely to offer much loyalty to their employers. Other problems can arise if family members are paid substantially more than non-family employees who do jobs of similar difficulty.

In a family business with a culture of closeness, non-family employees often feel like they are part of the family. Cultivating such an atmosphere can provide a strong motivational climate in which both family and non-family employees flourish. Many family businesses include non-family employees in some of their family events.

As a family business grows and matures, it may decide to hire managers from outside the family. In this event, careful consideration needs to be given to finding managers who share the beliefs and values of the business. For example, if a family business has always put the welfare of their employees ahead of the profit of the business, they would be well advised not to hire a manager who believes that the bottom line is more important than anything else.

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Non-family employees may feel especially vulnerable when the farm business is passed from one generation to the next. Long-time employees who were trusted and respected by the founder of the business may fear that the successor won't value them as highly. It's essential to see that employees are treated fairly for to do otherwise may drastically erode the morale of the entire business.

It's important to keep the lines of communication open with non-family employees and to understand how they feel about working in the family business. Maintaining a positive work atmosphere for both family and non-family employees is critical.



### **How are Non-family Employees Treated in Your Business?**

Ask yourself the following questions about your non-family employees. After you've assessed it from your viewpoint, ask your non-family employees to answer the same questions. Do they see the situation the same as you do?

1. Do non-family employees have the same chance for advancement as family employees?
2. Are family members treated the same as non-family employees?
3. Are the senior managers willing to hear opinions and ideas even if they disagree with them?
4. Are the opinions and viewpoints of all employees listened to and valued?
5. Are salaries and rewards for both family and non-family members reasonable compared to what is expected of them?
6. Are people promoted because of ability rather than family connections?
7. Do non-family employees feel free to disagree with family employees?
8. Does everyone in the business know how it is doing?
9. Is information in the business shared freely?