

**COMPARATIVE STUDY OF HUMAN RESOURCE
MANAGEMENT IN FAMILY BUSINESS V/S NORMAL
BUSINESS**

Anurag Lohia*

ABSTRACT: The primary purpose of this study is to examine and explain differences in the professional HRM practices between family and non-family owned and managed firms. A model is presented concerning direct and indirect effects of family firm characteristics on the use of professional HRM practices. This article investigates whether Human Resource Management is maintaining its national character or whether it is converging towards a model that potentially clashes with the country's traditional societal values. This issue fits in the wider convergence-divergence debate that has been the concern of many cross cultural researchers. The aim is to show how HRM practices of family business firms differ from those of HRM practices of normal business. The results indicate that HR practices in firms reflect national culture to a great extent. Moreover, they imply that in some areas MNC subsidiaries have realized a considerable degree of adaptation, embracing practices that are in line with organization's cultural environment.

KEYWORDS: Human Resource Management, Multinational Companies, direct and indirect effects, family and non-family firms.

* Student, the Heritage School, Vasant Kunj, New Delhi, India

1 INTRODUCTION

The handling of the organizational employees was recognized as Human resource management (HRM). Pinnington (2000) defined HRM as the lay down of challenging theories in the manner as the many paths to the same destination. Fombrun (1984) introduced that HRM in terms of American academic seminal written work rather than traditional format of supervising people.

Pinnington (2000) stated that there are two school thoughts which exhaugerrated from the fragments of HRM models and they are 'hard HRM' and 'soft HRM'. The 'soft HRM' consists of employee oriented requirements and obligations where as 'hard HRM' invovles the tasks of administrating as well as scheming the workers.

Guest (1991) analyzed that there was incline in the human resource management new orthodoxy during the past 20 years. During the 1980's the "HRM" was in the attempt of invading the terms such as "personnel management" (PM) and "industrial relations" (IR) as for the work carried out in UK and it was based on the retrieval of USA research process. According to Redman and Wilkinson (2001), the practitioners of "personnel management" are HR managers, HR developers and importantly line managers unlike the personnel officers and trainers.

The diminished incline in the HRM made it inspective and comparable with the traditional UK approaches to PM. If we consider the example it includes Fowler, 1987; Guest; 1987; Miller, 1987. In the contribution of Keenoy (1990, p. 375), HRM became precursor as "a new era of humane people-orientated employment management". After that Monks (1998) derived a explanation about HRM as "blunt instrument to bully workers". The extension for the utility concept "HRM" was made attached to the traditional PM as a "re-conceptualizing and re-organizing of personnel roles" or in other words it was an approach for utilizing all the ability of HR in achieving the organizational destinations.

» **Research Background:**

There were different views from different contributors regarding the quality of HRM practices which can be retrieved as following:

- » Huselid (1995) says that HRM professions objective of “best practice,” or “high-performance” oriented HR practices will be preferred by investigators.
- » Aldrich and Langton (1997), de Kok and Uhlener (2001), Heneman and Berkley (1999) have proclaimed their prohibition for depicting that HR practices which were “formal” have huge demand.
- » Hornsby and Kuratko (1990), Goss et al (1994), Wagner (1998), Golhar and Deshpande (1997) have combined to review that “sophisticated” HR practices will be referred more and in other dimension this point could be stated that:

Atlay (1999), Gnan and Songini (2003) produced their view about the HR practices as relayed highly on “professional” ones from the HRM professions to reach the canvassers.

According to Chaganti and Malone (1991), the organizational management alignment about the heavy outcomes will be described by the idiom “high performance” and which was also approved through HRM research.

Miller (1987) conveyed a question that whether the set of policies indulged in HRM research represented a ‘universally superior approach’ for managing the individuals of organization. According to best practiced theories, the enhanced organizational concert was universally related to the HRM practices by total combination of practices or individually.

Boxall (1996), Pfeffer (1994), Lowe and Oliver (1991) provided combined prediction that the declined unit costs and inclined productivity gains were depicted in an environment of work where there was a well accomplishment along with mutuality within motivation. This scrutiny will be supported by experimental researches.

The sample of 968 by Huselid (1995) depicted that the declined employee revenue, higher production, and improved corporate financial recital will be captured by the firm that contain major essentials which can be given as following:

- * Widespread employee enrollment
- * Structured selection procedures
- * Extensive employee involvement
- * Enhanced training

* Incentives based appraisal approaches

Lawler and Jenkins (1992), Venkatraman (1989), Gomez-Meijia and Balkin (1992), Pilkington (1998), Cappelli and Crocker-Heter (1996), Meyer, Tsui and Hinings (1993) have introduced that theme on the support of pragmatic research eventuality approach is essential for higher concert. This research did not supported best performs or possibility view though it derived informatics. The extra sampling is necessary for representing the elements which must be tested for the full sort of HRM practices and that elements can be namely depicted as following:

- Size
- Sector
- Governance structures

The explanation of HRM practices as premature excluded some labels such as “best practice” and “high performance” in accordance to the boundaries of research.

The term “formal” with respect to literature has many connotations like whether a practice is written, standardized and/or defined by the employer but under the HRM practices the term “formal” will reflect aspects that are problematic. De Kok and Uhlaner, (2001) stated their prospective concert that the one or more definitions convey about HRM practices like use of psychological tests, performance pay, or referrals by employees will be treated as appropriate rather than formal. The term “sophisticated” was used by some canvassers but it exploited the clear definition without aspect of professionalism. So, it led for utilization of “professional” diffract.

Though it may undergo SMEs indicated validation or not, the HRM study is selected as it was derived from experts in the HRM pasture. Western economies in Europe, the United States, and elsewhere in such standard-setting bodies as the Society for Human Resource Management in the United States were contributed this type of practices as legal requirements. Pfeffer (1998) conformed that this term will be best suitable for presnet research scenario.

» **Aim of the study:**

The aim of this study is criticizing the surveyed issues along with capturing the vision towards HRM practices in the context of SME. Further the business oriented and non-business oriented HRM practices were highlighted in this study in a comparative approach.

2 NEW TERMS IN HRM

- Storey (2001), see Legge (1995), Bach and Sisson (2000) have stated that the commercial success that can be achieved through professional development of companies, firms and organization regardless of their size forms the enthusiastic topic in the present trends. This study included a detailed oriented and non-oriented analysis of business along with HRM through the pathway of SME sector. Dundon a al. (2001) predefined a statement that "It is evident, both by their economic centrality and by the policy maker's statements along with politician's, who argue that it is the growth and wealth of minor firms, that development in the economy is enthused" and proclaims at Department of Employment (1992) by depicting the importance of SMEs. DTI (1998) retrieved that SMEs conceived along 99% of all companies and 57% of non-government employment in UK.
- According to Bacon a al (1996) SMEs were indicated in the firm survey samples and HRM relayed smaller firms academic literature was ignored. SME sector analysis work throughout the FIRM has contributed for extra themes of assessments. In Cambridge Small Business Research Centre (1992), Blackburn (1990) and Creagh a at (2000) have conveyed their review that as the size of the organization increases its training formalities will be automatically increased.
- In accordance to Training Agency (1989), pp. 24-27, OECD (1991), pp. 153-4, there was a proof that predicted that SMEs conceived less training expenditure as it employed few people who were not more than 100 as compared with the training expenditure of large sized companies. Wood (1998), Matlay and Hyland (1997), p. 330, have introduced that SMEs depicted declined interest on training according to other firms expectations

3 HRM IN FAMILY OWNED AND MANAGED BUSINESS

According to Gunnigle (1997) the reports of Ward (1987), Leach (1990) 1994, Dunn (1995) and Reid et al (1999) had totally concentrated on the overwhelmed variation that existed between the business and non-business aspects. SMEs significant fraction was family firms at UK but Cromie et al (1995) and Dunn (1995) have declared that the oriented research UK's family business will be considered as its formative years. The research carried upon the field of family business at USA was full-fledged one. In accordance to Desman and Brush (1991), the HR development that oriented along training and education had captured 4% of the 202 citations reviewed in a study of family business literature as well as publications. Cascio (1991) had concluded that the organizational capability and human resource practices in family businesses must be well concentrated because people costs represented 55% of operating budgets across all US industries.

Gersick et al (1997) discovered that condemnation of appealing in discrimination and then fading to offer management exercise for the family members concerned that this was a sensitive filed for family businesses. The employment and promotion or end employment for close or unmitigated family limbs have created pressure on family businesses. The objective oriented dealing with family members became very complex task for a CEO who must be considered as father, mother, sister, brother, cousin, uncle or aunt for the contracts. The full fledged concentration on HRM practices for detecting the inbound faults will act as the initiating point for these family businesses.

4 ISSUES IN CURRENT HRM

Storey (1989) depicted major assumptions about the HRM models whether British or American into two fragmental aspects such as following:

- Employees are regarded as valued assets
- The emphasis lies on commitment, adaptability and consideration of employees as a source of competitive advantage

Ulrich and Lake (1990, p. 40) have introduced their retrieval that the achievement of competitive boundary from the improved organizational ability of people was a difficult

undertaking where, "organizational capability" reflects the business's capacity of launching internal formations and procedures. He further claimed that these formations have influenced for developing the organizational-specific competencies among its members as they also contributed for adaption of alters in customer and strategic needs of business.

The theory that can be precisely speculated was "resourceful humans". Edwards (1987) and Storey (1989) have invented that within the HRM operational system, there must strive an identity of the line manager role. Personnel/HR managers will not involve in matters of strategic importance and they do not always involve in implementation according to the survey evidence depicted by authors so it drives complexity for HR managers in managing of HR. Due to the nature of family businesses the participation of line managers in HRM policy was less throughout the family business setting where many companies were conquered by CEO.

Atkinson and Meager (1991) have stated that the distinct managerial position "owner-proprietor" was reduced with respect to the firm size. The slot regarding specialist managers like personnel managers was present only within 12% of the largest firms. The training and personnel practices regarding the most of the companies were undertaken by its own "in-house".

The depicted retrieval of Huselid (1995) invented that the superior echelons of turnover were associated with the following elements:

- » Extensive recruitment
- » Training procedures
- » Incentive compensation
- » Increased employee

5 METHODOLOGY

Survey of International Strategic HRM revision derived the large-scale postal survey verdicts. In Northern Ireland a sample representing every firm employing between 20 and 100 employees was utilized by the survey. The former Fair Employment Commission (FEC) had extracted the survey identifying database.

The supervising task about employment practices of all companies which employs over 10 individuals in Northern Ireland was carried out by FEC and FEC has now changed to Equality Commission. According to Northern Ireland's Fair employment legislation a monitoring form must be fulfilled by every company that has employed over 10 people. Collated information was obtainable as public testimony and FEC had published that information.

Gunnigle (1997) had reviewed that HRM literature brought an awareness regarding the companies employing within 20 employees will not contain HRM related policies. The orientation of both complete data set (10-100 employees) and Gunnigle's analysis have been exploited by pilot study which was confirmed to be accurate. The analysis of HRM policy along with practices would be possible by an instrument that suits the firms employing within or less than 20 people. Under the ten employees source DTI (1998), European Commission had defined analysis of issues related to HRM policies along with practices within the 10-20 employee categories of the small and micro business groupings as it also explained the future investigate agendas sections.

In Northern Ireland, when opinion polls were mailed to 1,360 SMEs there received about 230 responses among which, 16% that means 219 were found to be usable. Five respondents employed between 15-18 employees but this was a smaller amount than the required number of 20 employees so they were indulged in the study in order to explain HRM oriented policies and practices.

Among the returns family firms have accomplished 61% that indicates $n=133$ and the accountancy of non-family firms was found to be 39% which implies $n=86$. Depending upon the SME population in Northern Ireland, the rate was well thought-out reasonable so there was no follow-up made for increasing the arrivals.

According to Cromie et al (1995) there were no efforts confined for ensuring "family firm" representation because the previous reviews already indicated that the almost all ventures were family-owned/managed. Arrivals of this investigation had established these outlines. Thus, the opinion polls were automatically scanned by the use of data capturing software and the responses were imprisoned with the utility of SPSS for Windows (Ver.9).

Brewster (2000) had depicted this view regarding the study by two important points which can be namely given as below:

- » Identifying the HRM practices within SME (20-100 employees) population in Northern Ireland.
- » Comparing the practices between "family" and "non-family" enterprises in Northern Ireland.

A wide-ranging inspection about HRM practices within the SME sector in Northern Ireland was conveyed clearly by this analysis of study. Family business was explained as a business in which family seized more than 50% of the shareholding in accordance to the review.

6 ANALYSIS

The existing differences between family and non-family endeavors were represented with the help of descriptive statistics and independent Chi-square tests. The outcomes were symbolized as below.

Analysis 6.1 – From CEO/director characteristics

HRM oriented conscientiousness within the owner or director was presented in the Table I. Approximately 16% of samples consisted of owners regarding non-family businesses and 48% of it was contributed by owners of family business. The male owners were 81% from family businesses and 71% of them were from non-family businesses. According to Dunn (1995) the management period of owners in the family business was about average tenure 24 years and was considered to be very period of time when compared with non-family business.

Family businesses group dominated the age range of 51 to 71+ and non-family owner/directors dominated it from age range of 26 to 50 years. The university degree possessed owners percentage in family group was 33% and that of the non-family group was 63%. Professionally qualified owner/director individuals percentage in family groups 32% and that of the non-family owner/directors group was 44% according to the study.

Table 1: Characteristics of Owner/ Director with HRM Responsibility

	Family Business (%)	Non – Family Business (%)
Are you the Founder		
Yes	48	16
No	52	83
Gender of Owner/Director with HRM Responsibility		
Male	81	71
Female	15	28
Base	N=133	N=86
Do you have the university Degree		
Yes	33	63
No	67	37
Do you have the Professional Qualification		
Yes	32	44
No	68	56

Analysis 6.2 – From HR policy:

The various companies HR policies were analyzed in the below table 2 in which Chi-square results have been tailed. Higher numbers like $\chi^2 = 5.19$, $1df$, $p < 0.05$ of non-family businesses groups have a personnel or HRM department/manager in this report.

Head of HRM do not possess a position on the plank according to the report depicted by 50% of both family and non-family businesses. These pronouncements prop up the views of both Edwards (1987) and Storey (1989), who have concluded that strategically important matters will not engage the HRM/personnel managers.

Ward (1987) had made a research verdict on family firms that many CEOs will tend the clashing adjacent to surrender controlling and this proclamation was well supported by this

research which also presented dissimilar lack of severance between "ownership" and "management".

The non-family businesses negotiation along trade unions on reimburse and conditions was a greater number like $X^2 = 9.73, 1 c$ if and $p < 0.01$ which will show the sectoral breakdown. Also this will convey the aspects such as "introversion" and "family centric" as the natural essentials of family firms.

This review also reflects the proposal of Pfeffer (1998) which contain two main ethics such as:

- Firms have to be more open with their information.
- Negotiations with unions must be one of the recommended steps.

According to Creagh (2000) the numbers of non-family businesses was $x^2 = 18.80, 1df, p < 0.01$ which was extensively higher as it contained mission statement. The investigation of Ward (1987) declared that family firms must adopt for indicating more tactical loom to their business as one of the public "signs".

The privileged numbers of non-family businesses kept records on disability like $x^2 = 10.16, 1df, p < .01$ with its ethnic origin as $x^2 = 4.22, 1 df, p < 0.05$ along the gender with $x^2 = 9.13, 1df, p < 0.01$ and religion to be $x^2 = 7.35, 1df, p < 0.01$.

Table 2: Personal / Human Resource Policy

	Family business		Non-family business	
	Yes (%)	No (%)	Yes (%) (%)	No
Does your organization 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 and conditions?	10	88	28
			72
Does your organization have:			
A mission statement?	45		77
A business plan?	47		20
A personnel/HRM management plan?	65		77
	29		17
	26		34
	63		52

Reid et al (1999) had introduced his view that that many family compacts undergo the "family first" as opposed to a "business first" philosophy.

The personnel/HRM management sketch of the companies with a business plan was recognized among family and non-family businesses with 26% and 34% respectively. HRM responsive person will take part in development process among 47% of family businesses and 52% of non-family businesses.

The challenging aspect about HRM regarding businesses for next five years must be "training and development" was the consideration assumed among 34% of family and 40% of non-family businesses.

Analysis: 6.3 - employee development

Desman (1991) regarded that family businesses had spent most of its annual salary and wages on the non-family counterparts when compared with the spending on training as shown in Figure 1.

There was no sot of investment upon training by family businesses or non-family businesses though "training and development" was the major FIRM challenge of the next five years. This outcomes depicted in 1987 stated that UK was insulated in terms of training compensation. Family firms had protracted that some employees initiated to participate in the training operations since last year and it can be represented clearly in the Figure 2. The training

requirements were well recognized by elevated numbers of non-family businesses with $\chi^2 = 6.10$, 1df, $p < 0.05$ and which was comparatively more than the family business. This reflects that many policies as well as practices regarding FIRM were executed by huge number of non-family enterprises and were literally correct.

Analysis 6.4: Family Employee practices:

The family business oriented properties as well as practices with respect to family employees were depicted in table 3. The founders did not surrender their total shareholdings at the time when they had capitulated management to next generation. There was a proof that 62% of the first generation had majority of shareholdings which retrieved that founders in many enterprises were converted to next generation.

The retaining of present level of functioning family members was anticipated through the report projected by 89% of family businesses. The statement that “management training was received by family members involved in management function” was reported by 65% of family companies. Instead of availing outside experience, the job-specific training within family business was provided to the siblings in many family businesses according to this review.

Ulrich (1990) said that by utilizing formal performance system of assessing family members only 27% of family businesses reported this retrieval and also the compensation of the family member was appraisal dependent aspect according to 38% of family businesses within this 27%.

Astrachan and Kolenko (1994) have exhibited the concept that reflects the following facts:

- * Family firms offer training.
- * Utilizing the appraisal systems for employees rather than that for family members working in business.

Ward (1987) offered an analysis in which the fragmentation must be carried out between possession and management roles for making family firm “professional” in every aspect. Non-family members in the business will undergo obscurity because of the term that remuneration packages were independent from performance. Ward also concluded that based on market value the suitable remuneration must be provided to family members within the ownership attribute. Some companies may face several complexities in launching integrated management practices

that are needed for achieving sound organizational capabilities as they were in transition period which had a deficiency of both control issues such as leadership and ownership.

The Northern Ireland survey findings had depicted two specifics that can be represented as following:

- It supported the discoveries from USA.
- Reinforces the author's view that family businesses must be considered as "special case".

Table 3 : Family business characteristics

	1st	2nd	3rd	4t	>
Which generation currently has majority shareholding? (%)	62	20	13	2	0
Which generation currently manages the company? (To)	52	27	12	4	1
	1	2	3	4	>4
How many family members work directly in the business? (%)	13	32	20	12	11
Is it your intention to retain the current level of family members working in the business? (%)	Yes			N	
Does the company ensure that family members in management roles receive management training? (%)	89			9	
Is a formal performance system used to assess family members? (%)	65			28	
If yes, is the remuneration package they receive based on this appraisal? (%)	27			65	
	38			62	

Note: n = 133

7 CONCLUSION

The review supported Astrachan and Kolenko (1994) in deriving the concept that the family businesses have lagged behind their non-family counterparts in HRM policies and practices implementations because of their limited organizational means which aroused from its "introverted" nature. The new generation ought the available research of family business practices supporting programmers with organizational structure related issues and HRM in

differentiating manner. According to Cascio (1991) the non-family opposition oriented development of HRM practices within family firms as well as organizational capacity was observed when 55% of operating budgets symbolized the "people costs". Astrachan and Kolenko (1994) have retrieved that family firms faced difficulties in executing defensible employee selection and rewards because of instability produced by the overlap of family, business and ownership.

HRM related Procedures that were related to new family member's prologue in to the business must be professionalized according to this investigation of study. Lansberg (1983) and Ward (1987) have stated that the process of family extracting wealth from the business was well furnished by diffracting concept of reward given to both ownership and management.

Establishment of sound configurations which alleviate interfamily tensions was originated from the concept that exhibited the following features:

- ✓ Working family members have market-based incomes that impended from the management "pot".
- ✓ Compensation for non-working family members which may take the form of perks had been gained from the ownership "pot".

Compensation should be realistically managed though the family owners' mission was clearly a "family first" one. According to Mintzberg and Waters (1990), the size of companies was directly proportional to its professionalism and the operations regarding HR practices were well structured in family firms when compared with the non-family counterparts. Even though the drive for formalization emblematic of bigger dimensioned firms in enhanced efficiency was there, the modus operandi of the family business was portrayed by informality.

The survey had sustained many family businesses that were "introverted". Pfeffer's (1998) depicted aspects like keeping of records that found prop up for non-family group by providing importance for opened and freedom of information. Few vigilance should be implemented in the presented findings construes with scrotal breakdown of the companies that have high numbers of family firms as mechanized will offer some variations.

Differences that are spectrally based but not ownership oriented was identified by the privileged revenue and small sized company in terms of employee numbers within family firm

Group. The determination of fact that practices could or couldn't be solely enlightened by sectored influences was elevated by including in-depth interviews within family businesses sample.

Northern Ireland SME sector oriented the family firms group in particular along with HRM policies and practices were clearly visualized in this study. The profound able operating budgets were spent on people by the family businesses and non-family businesses according to the findings. Also the retrieval attributes of providing development within people was not included in these structures of businesses. HRM managers were excluded from the organizational strategic stages of scheduling and accomplishment.

The deficiency of HRM practices in both family and non-family firms was derived in this study though it well furnished the concept of the HRM practices within family businesses.

ACKNOWLEDGMENT

This unnumbered section is used to identify people who have aided the authors in accomplishing the work presented and to acknowledge sources of funding.

REFERENCES

- [1] Brewster, C. M. : *New Challenges for European Human Resource Management* Macmillan, London, 2000.
- [2] Creagh, M. B. : "*Building business: management training for small firms*" in *Making Managers More Entrepreneurial*, Department for Education and Employment (DfEE), London, 2000.
- [3] Desman, R. a., "*Family business: state of the notion*", paper presented at the annual meeting of the *Family Firm Institute*, Beaver Creek, CO, 1991.
- [4] Fombrun, C. T : *Strategic Human Resource Management*, John Wiley & Sons, New York, NY, 1984.
- [5] Guest, D, "*Personnel management the end of orthodoxy?*". *British Journal of Industrial Relations*, Vol. 29 No. 2, 1991.
- [6] Gunnigle, P. M, *Human Resource Management in Irish Organisations: Practice in Perspective*, Oak Tree Press, Dublin, 1997.

- [7] Huselid, M., 'The impact of human resource management practices on turnover, productivity and corporate financial performance', *Academy of Management Journal*, Vol. 38 No. 3, pp. 400-22, 1995
- [8] Miller, P., 'Strategic industrial relations and human resource management - distinction, definition and recognition'. *Journal of Management Studies*, Vol. 24 No. 4, July, pp. 347-61, 1987.
- [9] Pfeffer, J., *The Human Equation: Building Profits by Putting People First*, Harvard Business School Press, Boston, 1998.
- [10] Pinnington, A. a., . *Introduction to Human Resource Management* Oxford University Press, Oxford, 2000.
- [11] Redman, T. a., "Contemporary Human Resource Management Pearson Education", Harlow, 2001.
- [12] Storey, J., *Human Resource Management A Critical Text*, 2nd ed., Thompson Learning, London, 2001.
- [13] Storey, J., *New Perspectives on Human Resource*, 1989.
- [14] Ulrich, D. a., *Organizational Capability: Competing from the Inside out* Wiley, 1990.
- [15] Wood, S. a., "High commitment management in the UK; evidence from the workplace industrial relations survey and employers' manpower and skills survey". *Human Relations*, Vol. 51 No. 4, pp. 485-515, 1998.