LEADER PERCEPTIONS OF FAMILY MEMBER EMPLOYMENT IN FAMILY FIRMS: LITERATURE REVIEW AND INTERVIEWS

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ABSTRACT

The leaders of family-owned firms are often themselves members of the family. Many of these firms have other family members in positions of management or employment. The family business literature details interesting dynamics that arise where the leader of the company is also a family member. We look specifically at the perceptions and observations of family firm leaders who work with family members. This research explores several major questions raised by our review of the family business literature. How do leaders feel about family employees and do they have good relations? How do they judge the performance and dedication of family members and how do they compare to non-members? Does the leader see evidence of the benefits of stewardship and socioeconomic wealth and do leaders perceive less risk of agency costs or nepotism? What are leader views toward the development of younger members, mentorship, and prior experiences of family members before they joined the firm? And finally, what are the views on compensation of family members vs. non-members? In this study we explore several research questions via personal interviews with 20 top leaders of 20 well-established family businesses located throughout the Southeastern U.S. We were impressed by how positive leaders were generally about family employees. Many of the potential negatives predicted in the family business literature were not confirmed. It was enlightening to find that leaders of family firms are highly committed to the development and preparation of up-and-coming family members Several key insights on family employee compensation were revealed.

Keywords: Family-Owned Firms, Family Firm Leadership, Stewardship, Socioeconomic Wealth, Nepotism, Agency Theory, Family Firm Compensation

INTRODUCTION

Family business is extremely important to global commerce with upwards of 80% of companies being family-owned and literally millions employed, providing an out-sized proportion of long-term wealth creation (Astrachan & Shanker, 2021a). In 2021, 62% of the workforce was employed by family-owned businesses and family business created over 70% of new jobs. Further, an astonishing 60% of global GDP is attributable to family business (Family Firm Institute, 2023). In the U.S. there are over 30 million family businesses that generate upwards of $7 trillion in GDP (Astrachan & Shanker, 2021a; Family Firm Institute, 2023; Smith Family Business Initiative, 2024). Research has also shown family business to play a tremendous positive role in the local community with a large economic impact and also serving as a well-engaged and active corporate citizen (Family Firm Institute, 2023). Family business is a highly trusted business model and

usually benefits from a very strong company culture and shared vision/strategy as well as a pronounced resilience and longevity (Anderson & Reeb, 2003; Astrachan & Shanker, 2021b; Smith Family Business Initiative, 2024). Over 70% of family firms last for longer than 30 years (Family Enterprise USA, 2023).

The research indicates family businesses have unique corporate governance issues related to the prevalence of family involvement in the firm (Bellow, 2003; Huybrechts, Voordeckers, & Lybaert, 2022). The interplay between the family and the operation of the business creates interesting dynamics. It is quite common to employ at least one or two family members in the firm, often working with a leader who is also from the family (Neffe, Wilderom, & Lattuch, 2020; Stirpe, 2023). One key question that has been researched over the years is the perception and attitudes of the family firm leader toward the family members employed in the firm and the general effectiveness of these firms (Cunningham, Seaman, & McGuire, 2016; Davis, Allen, & Hayes, 2010; Lambrechts, Huybrechts, DeMassis, & Lehmann, 2022; Huybrechts, Voordeckers, Lybaert, & Vandemaele, 2011; Powell & Eddleston, 2017). In general, the family and especially leadership of the firm view employment of competent family members as a largely positive means to benefit (as family) from family ownership but at the same time a means to contribute to the long-term well-being of the firm (Anderson & Reeb, 2003; Huybrechts, et al., 2022; Jennings & McDougald, 2007; Lambrechts, et al., 2022). Leadership has been shown to be positive about family members working in the business due to loyalty, trust, commitment, enjoyment, enhanced knowledge of the business, strategic value of legacy and longevity, stability and other factors (Cater and Justis, 2009; Huybrechts, et al., 2022; Powell & Eddleston, 2017). Family-firm leaders are aware of the ability to pay good salaries to family members (along with various perks and benefits) on a pre-tax basis which seems preferable to other means of financially benefiting family members (Chrisman, Chua, & Litz, 2004; Tax Adviser, 2019). Family members tend to be shareholders of the firm and maintain a keen interest in the performance and livelihood of the organization and their individual ownership (Anderson & Reeb, 2003; Davis, et al., 2010; Schulze, Lubatkin, & Dino, 2003). There is evidence that working together with family is a source of great enjoyment and the ability to work together to build and grow the organization is one of the greatest benefits of family ownership (Bellow, 2003; Huybrechts, 2022: Powell & Eddleston, 2017).

Issues can arise, however, that can strain relationships and cause negative outcomes. Many of these problems evolve through conflict and role ambiguity/confusion, lack of innovation, succession issues, governance challenges, and other forms of tension and dysfunction (Donaldson, 2024; Eddleston & Kellermanns, 2007; Zellweger & Kammerlander, 2015). Charges of nepotism, favoritism, and overall lack of fairness have been considered a major negative when perceived by non-family employees of the firm (Bellow, 2003; Jaskiewicz, Uhlenbruck, Balkin, & Reay, 2013; Padgett & Morris, 2005). A major potential drawback of depending too heavily on family members is the potential to employ some who are less competent and less qualified when compared with potential non-family candidates (Davis, et al., 2010; Calabro, Minola, Campopiano, & Pukall, 2016; Wang & Chu, 2020). Of course, the propensity of family members to conflict with each other and have negative feelings toward one another is an age-old problem. There is great potential for conflict between family members and non-family employees and non-family could potentially view family members as incompetent or lacking motivation (Padgett & Morris, 2005).

To summarize, the research indicates that there are numerous strong positive and negative factors/issues that could arise in the governance and operation of family firms due to family employment. It is important and instructive to gather better insight from the family member who must deal with the multitude of positive and negative issues more than anyone, the leader of the family firm. The family/firm leader is in a tremendous position to share detail on the nuances (positive and negative) of the family members working in the family firm. **So the overall goal of this paper is to explore directly the views and attitudes (on a variety of issues) of the leaders of family-owned businesses, all of whom are themselves members of the family.** We will first provide a more detailed review of the existing literature and then report the results of semi-structured personal interviews with 20 top leaders of 20 different family-owned firms located in Georgia, Alabama, and Mississippi. This paper provides potentially unique insight as the interviewer (lead author) spent many years as a bank executive and is at least acquainted with each of the respondents personally. While the respondents were aware the interviewer was conducting research, the relaxed conversations and familiarity of participants leads one to believe the overall quality and candor of responses would be strong.

LITERATURE AND BACKGROUND

The management of family-owned firms is characterized by several interesting dynamics. Taking care of the family and its members is a very important goal for ownership of family firms (Bellow, 2003; Gomez-Mejia, Cruz, Berrone, & DeCastro, 2011). Many or perhaps most family firm leaders view family employment as fulfilling the firm's purpose of being a multi-generational enterprise (Cater & Justis, 2009; Davis, et al., 2010; Jaskiewicz, Combs, & Rau, 2015). Leaders often report a strong sense of security recognizing that family members share critical core values and can be implicitly trusted in sensitive roles (Huybrechts, et al., 2011, 2021; Powell & Eddleston, 2017). Leadership of family firms, often themselves members of the family, hold great influence in decisions about the involvement of family members. The overall view of the family leader about family employment will greatly shape structure, culture, company governance, and company performance. **The general hypothesis in this line of research is there are many positives of family involvement but also a number of complications, moderators, and potential negatives.** Regardless of the view taken by leadership or findings from research, family member employment and involvement must be viewed as largely positive because in practice most family businesses have at least two or three family member employees, oftentimes in key positions of leadership (Davis, et al., 2010).

Stewardship/preservation and safe keeping of the firm and family reputation for future generations is important. Also of utmost importance is the overall performance and well-being of family members. Under stewardship theory, family members are viewed as stewards who are motivated by long-term collective family goals rather than individual (often personal and financial goals) (Davis, et al., 2010; Miller & LeBreton-Miller, 2006). Family members feel a strong responsibility to the family long-term. So heavy involvement of family members in the firm is potentially a solution or mitigator to the agency problem where hired managers place personal goals ahead of the goals of the firm/owners (Chrisman, et al., 2004; Miller & LeBreton-Miller, 2006). When the emotions associated with individual compensation, status, and fairness clash with the family's long-term interests and viability, there is a recipe for potential conflict and angst (Eddleston & Kellermanns, 2007). According to stewardship views, there is a compelling force

among leaders to employ family members not only because they are family but because they can positively affect the firm's success in a number of ways: strengthening bonds, engagement, support, and psychological commitment while also enhancing morale and identifying closely with long-term firm values (Davis, et al., 2010; Madison, Holt, Kellermanns, & Ranft, 2016). This is an interesting dynamic for future research as Berrone, Cruz, and Gomez-Mejia (2012) revealed that millennial family members were more likely to put personal individual (often financial) goals ahead of family goals like stewardship, taking care of family members, and strategic family advantage in the firm. More senior members of the family, for example founders, perhaps because their financial vitality is less in question, adopted much more of a stewardship approach and favored family employment because it reinforced loyalty, cohesion, and long-term survival (Eddleston & Kellermanns, 2007).

The **Socioeconomic Wealth (SEW)** perspective is valuable in considering this overall issue. The SEW perspective makes the point that leaders and family members generally derive great emotional returns such as identity, pride, long-term control, overall legacy, and belonging from family involvement in the firm (Gomez-Mejia, et al., 2011). Leaders seem to greatly enjoy family employment when it strengthens SEW, though this may come at the cost of strong professionalism and rigorous qualifications/standards in the hiring process (Berrone, et al., 2012). Many leaders indicate that working in the family business together with family members is one of the greatest benefits of family ownership and one of the most enjoyable aspects of family life. They take pride in the family's status and family member representation in the community. The ability to mentor and work daily with family is a personal and emotional payoff rather than a financial one. Studies on SEW show these leaders derive great pride and meaning from the involvement of family (Berrone, et al., 2012; Lambrechts, et al., 2022). For example, Dallas Cowboys President Jerry Jones emotionally remarked in a cameo appearance on the Paramount Plus series *Landman* that working daily with his grown children running the world-famous football club was one of the "absolute greatest joys" in his life and perhaps the greatest benefit of owning the team.

Leaders of family firms often describe family members as more trustworthy and loyal than outsiders and that heavy involvement of family members at the top can be a safeguard against the agency problem (Chrisman, et al., 2004). Most CEOs concede that at some point in the history of a growing firm, outsiders will have to come in to provide additional expertise and competency, but leaders perceive family employment and the trust/confidence that comes with it as crucial to the overall legacy and vitality of the firm (Bellow, 2003; Madison, et al., 2016; Miller, LeBreton-Miller, Minichilli, Corbetta, & Pitino, 2014). Continued family involvement reinforces the legacy, history, and dependability of the family business (Padgett & Morris, 2005). Jaskiewicz, et al., (2015) revealed that the dynamics of highly interested and committed family members leads to novel ideas and continued competitive advantage. In general, family involvement appears to foster a very positive emotional tone in the firm. Huybrechts, et al., (2022) found that family-run firms tended to provide great energy and positive emotions and vibes. In their poll of nearly 1,200 family business owners, 82% reported that intergenerational collaboration was critical for growth. Owners cited loyalty, trust, and emotional support as key benefits of family employment. Many young people are going to work with their family firms because they feel a sense of duty and pride while at the same time the firm gives them a sense of stability in uncertain economic times (Berrone, et al., 2021).

A few potential negatives have been revealed in the literature over the years. First, valued non-family employees often view special treatment of family members and unfair or uneven treatment of family vs. non-family as distasteful and even offensive (Bellow, 2003; Padgett & Morris, 2005). There is great professional benefit that comes from the employment of outsider leaders with competence and managerial experience/talent being first and foremost (Anderson & Reeb, 2003; Stirpe, 2023). Research indicates that non-family employees tend to identify strongly with non-family leaders and often view them as more competent because the family element was not present when they secured their role (Jaskiewicz, et al., 2013; Neffe, Wilderom, & Lattuch, 2020). Secondly, there would appear to be great stress and pressure upon the lead family member to treat family members in a fair and consistent manner while also carefully considering what the firm can afford and what they contribute to the firm's success (Schulze, et al., 2003). The leader has not only business responsibilities but also family responsibilities.

Leaders are (or should be) very cautious about appearing biased toward family members. Research indicates that charges of nepotism and favoritism would be extremely distressing to the family and to non-family employees alike (Padgett & Morris, 2005). Favoritism has been shown to erode morale and positivity among non-family employees, which could lead to disengagement. Leaders appear to be very sensitive to charges of nepotism or favoritism. Enlightened, conscientious leaders tend to institute and enforce meritocracy (Stirpe, 2023; Wang & Chu, 2020). One CEO in this study said he would love all of his children to join the firm but "it isn't for everyone." He added that he didn't want family members to feel obligated because "everyone must make a serious contribution." Another CEO said, "you probably are going to work much harder in here than you would for other companies." Eddleston and Kellermanns (2007) cautioned that family members often juggle overlapping roles (family member vs. critical employee) which can create destructive conflict. Leaders are certainly troubled when conflict due to role ambiguity undermines cohesion and other positive energy in the firm.

The research tends to reveal some "conditional" or perhaps moderated relationships as well. Stirpe (2023) demonstrated that the more professional a growing firm becomes, adding such elements as HR systems (e.g. performance evaluation), formal boards of directors, more outsider involvement, succession planning, and various other advancements, leaders tend to get much more sensitive to the issue of employing family members and may even become much more selective. Studies indicate that while family leadership values family employment, there is also a strong demand for qualifications, competence, and external experience (Anderson & Reeb, 2003; Davis, et al., 2010). Miller (2014) discussed the extreme importance of shared vision and an open communication environment among family members. The research revealed that an autocratic leadership approach seemed incompatible with family business scenarios and participative governance tends to foster positive energy and perceptions among family members.

Zellweger, Nason, and Nordqvist (2012) found in their intergenerational research that firm founders were keen on surrounding themselves with family due to their loyalty and the strategic value of family identity/involvement. They found that later generations became less loyal to the family "source" of leadership/employment and took a much more professionalized stance, conditionally considering family members only when they objectively meet all the demands of the job. As we mentioned earlier, research by Berrone, et al., (2021) indicated that millennial leaders may prioritize autonomy and personal career identity over collective legacy, weakening the desire

to maintain heavy family involvement. It isn't that millennials are necessarily being selfish, they just don't seem to be as motivated by the potential less-tangible benefits of stewardship, SEW, and family well-being. Calabro, et al., (2016) revealed in their research that leaders were often conflicted on whether to protect the legacy and traditions or make large strategic investments (such as diversification or product line changes) that could benefit the firm but could undermine family goals related to stewardship and socioemotional wealth.

Leaders of the firm have been shown to be highly committed to education, development, and early/prior work experience of family members. They are very committed to ensuring that these younger members of the family are future key contributors to the success of the firm and they invest heavily in this future performance (Bellow, 2003; Cabrera-Suárez, De Saá-Pérez, & García-Almeida, 2001). Previous research has shown that leaders often encourage their younger family members to affiliate with a mentor, perhaps a friend with a similar type of business elsewhere. Leaders might also encourage affiliation with trade associations to take advantage of educational opportunities and staying up to date in the industry (Cabrera-Suarez, et al., 2001; Miller, 2023; Neffe, et al., 2020).

Compensation for family members is a major issue (Chrisman et al., 2004; Gómez-Mejía, Núñez-Nickel, & Gutiérrez, 2001). Results in previous literature are inconclusive about how family leaders and members working for a family firm are compensated relative to non-members, but there is evidence to suggest that family firm leaders are willing to accept lower financial compensation for the long-term good of the organization and wealth preservation (Gomez-Mejia, et al., 2001). Further, this research indicates that younger family members returning to the business may be expected to forego higher salaries as they develop and mature. Salary is but one form of compensation in family scenarios (Schulze, et al., 2003). It appears there may also be incentives for a job well done, bonuses for family events such as getting married, paid membership to the country club, credit card, car allowance, extended time off, trips to industry association events, and other perks related to family membership. Family members are very sensitive to perceptions regarding compensation and are committed to demonstrating that they are well worth what they are paid. Compensation design reflects trust, fairness perceptions, and stewardship motives, rather than purely market or performance metrics (Chrisman, et al., 2004; Davis, et al., 2010; Gomez-Mejia, et al., 2001). Clearly stewardship concerns won't allow leadership to overpay family members to the detriment of the family firm. On the other hand, family members are aware of the company tax advantages of compensating family members through expense items such as salary and benefits as well as perks such as vehicles or club memberships that can be at least partially expensed through the organization and tax-deductible (Tax Adviser, 2019).

Based on our review of the literature, the following general research questions were constructed to guide the interviews:
1. Tell me how you feel about employing family members? How do they compare to non-family employees?
2. Have you ever had any major problems or poor relations with family members working in the company?
3. Why do you like having family members working in the business? How do family-member employees contribute to the long-term goals of the company?
4. Reflect on your responsibilities to the company, family, and employees.

5. How do non-family employees feel generally about family members in the company? Are there ever any major problems? Do employees perceive that they are treated fairly? Do you sense any issues related to perceived nepotism or favoritism?
6. Have you brought in specific outsiders to expand the knowledge base and business acumen of the firm as it has grown? What has been the impact?
7. As the company grows, do you get the sense that things need to get more structured, detailed, and comprehensive regarding things like handling HR and judging employee qualifications, competence, and merit?
8. Do you ever think of being more oriented toward taking care of yourself and your family? Do you fear that future generations might be less attuned to taking care of family interests and be in it more for their own goals? Do you ever have second thoughts about major decisions you make because they could potentially undermine your leadership position or the status of the family?
9. Tell me about all you do to ensure your up-and-coming family members are well-prepared and viewed as being highly competent contributing employees. Tell me about your use of education, seminars, mentoring, etc. How important is previous experience with other firms before joining the family firm?
10. How do you handle compensation of family members? How do you structure your pay and their pay? Non-pay perks and benefits. Any tax considerations?
11. Other comments or observations you would like to make in order to help us better understand family business management?

METHODS

In this study the lead author interviewed 20 leaders of 20 different family businesses located in Georgia, Alabama, and Mississippi over a period of about four months in late 2024 and early 2025. All firms utilized for interviews were deemed to be performing well and the general business environment and economy was deemed positive. All the leaders interviewed were family members and all had at least two other employees working for the firm who were also family members. All interviewees were either top managers or at least members of the top management team. We did not determine the exact experience level of each leader, but all respondents were deemed seasoned and experienced. We utilized an informal interview format with the questions listed above as a framework but with other questions and clarification potentially included.

In most cases, the top leader was interviewed but in 4 instances a senior manager family member (other than the top leader) was interviewed. Interviewees were from multiple generations. Of the 20, seven were founders of the firm but nine leaders were children of the founder and four were grandchildren or great grandchildren. Of the 20 firms interviewed, 19 had at least two generations represented in the firm. Only five of the 20 interviewees were female. Businesses were all substantial with at least 10 employees in each firm ranging upwards to over 200 employees. Firms had anywhere from $1 million in revenue to just over $50 million in revenue. Family members employed in the company (including the leader) ranged from three to 11. Industries represented included trucking, convenience stores, banking, insurance, lumber production, commercial real estate, oil distributorship, HVAC company, LP gas dealer, law firm, car dealerships, contract food manufacturer, restaurant franchisor, timber and pulpwood company, and family farming operation.

As we have mentioned, the interviews were very casual and conversational and while the lead researcher made some notes during the interview, he mostly listened carefully and participated in the conversation. Shortly after each interview, the interviewer developed a short summary response to each of the research questions listed above. Also following closely after each interview, the interviewer would highlight especially interesting and useful responses. Qualitative information and explanation given by the interviewee were considered and strong examples/quotes are offered in the findings and discussion. The researcher reserved the right to call respondents back for follow-up and clarification and did so with five of the 20 interviewees. Many leaders interviewed frankly didn't provide the lengthy information-rich answers we had hoped to receive but all at least gave the interviewer enough information to formulate good answers to the research questions. Responses from many of these busy executives were relatively brief, very "to the point" with limited explanation, discussion, or interpretation. All five who received a follow-up call were rather brief with their original responses.

MAJOR INTERVIEW FINDINGS

Leaders interviewed were generally enthusiastic and quite positive about family members working for the firm. None of the respondents cited severe misgivings (negatives) about significant employment of family members (other than potential family conflict and minor clashes/misunderstandings). This overall positivity might be expected since we interviewed firms that chose to employ multiple family members and firms that were performing quite well. Among our respondents, it was clear that having family members working in the company was embraced, enjoyable, and very important to the firm leader. Reasons given in positive responses included loyalty, continuity, trust, community relations, and positive culture. As one respondent put it, "having my family in here with me is a great joy, we all work well together, and I never have to worry about their intentions or where their loyalty lies." Another respondent added that "all of us working together is mostly good and sort of defines us in the community." Another respondent said she was lucky to have family members that were very smart, educated, and professional. Only seven of the respondents spoke openly about potential negatives with having family members (most of this related to conflict and personal clashes among family members including across generations). Family members no doubt enhance trust, commitment, and comradery.

Well over half of the leaders indicated that the family dynamic is very strong and that the family members really get along well, like each other, trust each other, and spend time together. In most cases, this includes extended family and even non-family. Half of the respondents indicated that the entire staff was constantly having lunches, holiday events, and doing other things together to build comradery. One leader indicated that he personally cooks for the entire staff once a month. One leader said "we have a family reunion every year and it is a little like a stockholders meeting. We sort of update everybody on how things are going." Another indicated that the family goes to church together and on a regular basis they go out to eat together after church. Another leader indicated that most of the members of the family like to play golf together.

We received a range of answers on the comparison of family members with non-family employees, with the predominant answer being "we need both." If family members are trusted and appreciated so much, how do the leaders feel about non-family outsiders. Responses were mostly positive in favor of non-family (outsiders), especially for more senior outsiders in key

positions. Not as much positive was said about rank-and-file non-family employees but they were viewed as necessary. There definitely was some evidence of negativity and concern about outsiders. Five of our respondents spoke extensively about agency costs associated with outsiders (presumably speaking more about rank-and-file workers), with one remarking "you really have to vet folks from outside the family and know who you are dealing with." Another noted that "I know they are necessary, but I just don't have that inner trust with our hired (i.e. outside) folks, but they have been mostly good for us so far." Most interviewees were very positive about key non-family managerial employees that were brought in as the company grew, though two respondents cited concerns about loyalty, trust, and potential agency issues. One respondent noted they had fired an outside employee for embezzlement. We sensed that while family membership is likely preferred, most leaders are aware of the need for highly competent outsiders as well, if for no other reason qualified family members are probably not available in sufficient numbers or with sufficient skills. One respondent said, "we have gotten big enough that we had to bring in some managers from other companies." Well-vetted outsiders were generally viewed as well-qualified, experienced, professional, and highly objective. One of the respondents said "Greg is not related to us but is like a little brother. We really depend on him. He brings so much to the table and 'keeps us straight' (presumably referring to administrative discipline)." Another respondent stated the company was lucky to have three critical outsiders. One respondent argued passionately that with numerous family members on board it was critical to bring in a well-qualified, unbiased, trustworthy outsider to essentially run the company and receive input and "balance" from all family members.

None of the 20 respondents had any <u>major</u> negative views on family member employment, with seven or eight implying that minor and occasional conflict, arguments, and especially painful bluntness with family were quite common. Only five of the 20 interviewees cited having <u>ongoing</u> negative relations or more serious conflict with one or more family members during their tenure, but they were able to work together despite the negatives. Most cited rather minor incidents and said that conflicts with family members are not different from or more common than those experienced with non-family employees. Five respondents that worked with their spouses implied that the company business often "went home with them" and that problems at the company often caused stress that bled over into their personal lives together. One respondent lamented that he and his spouse often stay up late "fretting" about company business, remarking that "we live it 24/7." Another respondent said, "we definitely talk shop too much at family gatherings." Three respondents cited incidents over the years where they (or others) just couldn't work with family members (one was a brother-in-law, one was a cousin, and one was a sibling) and in all cases there was a somewhat amicable parting of ways. One of those respondents remarked, "I think he was wanting to go do something else anyway." Overall, conflict doesn't appear to be any more or less prevalent than in organizations not having the family ownership scenario.

When asked about the benefits of having family members onboard (or why they liked having family onboard), the majority of interviewees provided positives. Some were quite short and simplistic like "I can count on them to show up," "I know where they are coming from," or "it is easier for us to stay on the same page." One respondent said (paraphrased) "well you are limiting your pool (by) hiring a family member but there is just so much to be said for having a family business." A few respondents basically affirmed or at least hinted that it was fun and rewarding to run a business with family by your side. One man said he was thankful for being able to spend so much time with his children. Another respondent explained that her mother (in her 70's) was still

active and that it was a joy and a blessing working with her daily. We also received some comments in keeping with stewardship and socioeconomic wealth influences and of course agency theory. We received comments like "family is going to be committed long-term." Three of the respondents went so far as to recognize shared vision and positive outlook and several remarked (paraphrased) that all the family members were "working hard to build the firm and help the family rather than just in there working for a paycheck." Keeping with the paycheck theme, a couple more leaders indicated that they really liked having family members in the company because they got so much more out of it than just a paycheck. More than half of the respondents specifically alluded to "taking pride" in the family company. Several respondents admitted that non-family employees won't (usually) have the same level of interest, loyalty, engagement, motivation, and/or dedication to the firm. In most of our interviews, the values and heritage of the family was "front and center" in their personal agenda.

Agency theory plays a role in family member advantages. "Trust and allegiance" was a common theme in the interviews. Because of the innate desire to benefit the family and the firm, overall dedication, and committed hard work of family members, potential agency costs may be lower. Intrinsic goals of firm preservation and pride are critical. While virtually all respondents indicated some family members were "better contributors" than others, there was little concern about things like quality of work, full effort, loyalty, determination, or potential malfeasance or fraud. One leader remarked "in this day and age when good contributors are hard to find, you can still count on your family members." One respondent claimed the company couldn't accomplish all it did without the family members and their "higher level of commitment." A handful of respondents admitted that there was at least one family member who was less "dedicated" (or perhaps less qualified) and didn't share the same level of commitment to the family firm.

When asked to reflect on their obligations to the company, family, and employees, leaders provided a variety of answers. Over half very quickly and somewhat forcefully responded that their first obligation as firm leader is to the company and its stockholders. Most of these said (paraphrased) they "had to ensure that the family employees promoted the interests of the company and not the other way around." The basic theme was that the company must come first. One respondent remarked, "I am not running this company so my children or nieces and nephews can have big jobs." A few respondents alluded to the fact that they really didn't have a lot of time to worry about family matters and that running the company kept them very busy. One of the respondents rather bluntly remarked that they "couldn't be worrying about who got their feelings hurt or who was happy, they had a company to run." When it comes to hiring, a few respondents basically stated that they had to get the best employees they could find and when they have time to plan, family members work very well. It seems that sometimes these leaders don't have time to develop and hire a family member and they must find a highly qualified outsider. Several respondents emphasized that family members don't get the job strictly because of their family membership. Several leaders admitted heavy responsibilities to the family without much explanation. Many admitted they led the family as well as the firm. A few respondents alluded to the fact that they had to be a "peacemaker" and keep harmony in the family.

While leaders did not say a lot explicitly about stewardship or preserving socioemotional wealth, **there was the implication that family leaders view their role and duty as much larger than ensuring good economic success of the firm**. One respondent emphasized that they "had a lot of

pressure on them to promote the company and take care of the family." Several alluded to the fact that the family took great pride in the company, that the firm was a great source of income and wealth to family members, and that he/she was caretaker of the family's legacy. One respondent indicated that the company "is an extension of the family" and the family was dedicated to ensuring that the company thrived.

We asked leaders how non-family employees felt generally about the family and family members working in the company (including perceived fairness). We were interested to see only a few negatives like charges of nepotism or favoritism or any other major issues. However, we observed that family members feel compelled to go to great lengths to demonstrate their effectiveness, dedication, competence, and dependability. This seems very important to maintaining a positive rapport between family and non-family. The responses seem to indicate a mostly positive perception from non-family employed in the firm. Exactly half of the leaders admitted that the relationship between family members working for the company and non-family members **can** be a problem if the family isn't careful. As we noted above, a few leaders seemed almost obsessed with ensuring that outsiders looked up to and respected insiders. One leader spelled out how "you get hit with charges of favoritism if you aren't extra transparent and if you don't hold family accountable." Another respondent said family members have to know they are being watched and must "tow the line" so outsiders don't feel mistreated. One or two respondents admitted that they are probably "overly" worried about how the rank-and-file employees viewed "all the family working in here." Most respondents indicated that conflict was rare, and they felt on balance that all employees valued being part of a family business. Several admitted they had seen one or more occasions where a non-family employee felt negatively about what they perceived to be unfair special treatment. A few of the leaders admitted often it was difficult to be objective, for example with matters like performance evaluation, succession planning and promotion, and discipline. Interestingly, virtually all of them mentioned that they "had always been able to work through it." A couple of respondents specifically mentioned the old cache phrase "business is business" when discussing the more uncomfortable interactions with family members. We sensed that some of these "awkward responsibilities" like performance evaluation or asking about expenses or time management were some of the most challenging interactions between the leader and the family member. Three respondents specifically mentioned that family members were more likely to leave early or go take care of personal matters than non-family employees which had the potential to cause problems. It seems possible that a family member could potentially be a "free rider" and take advantage of their status to not work as hard or contribute as much as non-members. The leaders of the firms seemed convinced that outsiders were not opposed to the presence of family in the firm, but problems could emerge if they didn't do their part. If the family works hard to build a good culture, openness, and governance structure, most outsiders perhaps prefer working in a family firm. Prior research tends to support this notion (e.g. Neffe, Wilderom, & Lattuch, 2020).

We were interested to learn about the prevalence of family firms specifically looking for outsiders to add needed depth, experience, and professionalism to the management team. Twelve leaders indicated that they deliberately and intentionally brought in key outsiders for top leadership roles (to expand the knowledge base and business acumen of the firm). One leader said "there is no doubt that there are some excellent people we can bring in from elsewhere and we think there is some value to that." Another leader said "I think it would be easy to get a little stale

or outdated sticking with our management team. We needed to shake it up a little." One of the leaders indicated that the outsider they brought in had fully embraced the family and its members and had dedicated themselves to ensuring that family members were competent and productive employees. Three of the firms stated that they had non-members at the very top of the organization with family members technically working for non-members. Family members in these firms expressed great appreciation and admiration for the non-family leaders. One interviewee said of an outsider that "he is such a professional and has fully embraced the family." Another executive said, "that is the smartest man I know.' All these firms seemed very appreciative of their non-family outsider and there was evidence that they had even accepted them as a new member of the family.

Most of the interviewees felt very comfortable with their current level of transparency, professionalism, and objectivity in the HR function and other administrative areas. But most admitted that as they grew there was a greater need for transparency, extreme objectivity, pay scales, evaluation standards, etc. As the company grows, the distinction between family and non-family fades. As we mentioned earlier, most respondents are very convinced of the merits and superiority of their family employees and have experienced very little pushback from non-family employees. Only four of the respondents admitted that they needed to go in and "really tighten things up" and make their HR policies and procedures stronger and more objective. Many respondents alluded to the fact that objectivity and clarity makes the family vs. non-family distinction much more comfortable and manageable. Nearly half of the respondents stated specifically that they viewed their company as already highly professional and sophisticated in their HR and other practices/policies, with no pressing need for change.

Only four of the respondents admitted that they are tempted at times to quit worrying so obsessively about the extended family and start looking out strictly for the company and themselves/their immediate family. Almost all respondents implied that they felt tired at times and that they worried about the future. Five of the respondents told us that they could make more money working elsewhere and they had thought about taking it. About two-thirds of respondents said they understand that future generations of leaders will be less attuned to taking care of the business and family and more interested in personal advancement and outcomes. One leader indicated that they worried about the future leadership and had come to the conclusion that the company would "become less and less a true family enterprise." Another recognized that "this thing is going to get to a point where we should just bring in a professional team of outsiders and let them take care of the company and all of us." Even though one of the firms in the sample has been sold since the time of the interviews, the notion of selling was not brought up in the conversations. **Surprisingly, a few respondents (5) admitted that they had thought very hard (and even worried) about how certain investments or strategic moves would impact the family's well-being and them personally.** One respondent admitted that sometimes when looking at growth opportunities he became concerned that "we could let this thing get away from us and get bigger than we can handle." But only three felt that they had potentially let the impact on them or the family really shape their decision. One manager stated that they always had to be thinking about the company first and couldn't let personal or family interests prevent them from making good long-term decisions. He remarked "we can't let the fact that we are a family hold the company back."

Virtually all the leaders seemed highly interested in and fully committed to investing heavily in developing younger members of the family, including those who were not their own children. This theme seems highly correlated to some of the earlier discussion on ensuring that family members are always respected by non-family and viewed as highly capable. Family vs. non-family relations are no doubt much smoother when non-family members are confident in the leadership capabilities and competence of family members who own and manage the firm. But just over half the leaders also indicated that they took a strong developmental approach with non-family members as well. Perhaps this interest in educating/developing family is viewed as an effective means for ensuring competence and effectiveness and preventing charges of nepotism and favoritism. Stewardship and continuity of the family business is a big objective, and it seems likely that family firms are laser-focused on seeking out development opportunities for all the youngsters in the firm. Seven respondents said they had also encouraged young family employees to find an external mentor. A few of the interviewees mentioned mentorship within the firm and having youngsters learn "every part of the organization" as very important. Six leaders specifically cited the importance of continuity and succession as a driving force behind their obsession with family employee development (especially up-and-comers). Competence and preparation are no doubt key components in ensuring stewardship.

Related to development and training, leaders are keen on finding meaningful experiences for younger family members, often with other employers, before they join the family firm. In many cases, well over half of the firms interviewed (12), family members (including the leaders themselves) worked in another position elsewhere viewed as benefiting their preparation for joining the family firm. Often, they worked for similar firms elsewhere. For example, bankers often work for larger banking organizations with more advanced training programs. One farmer worked for a large seed and fertilizer company before coming on board at the family farm. One insurance executive indicated that he had worked for five years for a similar but much larger firm in a larger city. Leaders noted that this outside experience and success helped young family members build all-important credibility in addition to new perspective and skills. One respondent said, "there is no doubt we are better because some of us bring in experience from bigger companies." Several interviewees also noted that previous experience helped combat complacency and entitlement among younger family members. Several respondents said that they had not properly utilized opportunities to gain outside experience, for themselves or other family members, and planned to do better going forward. Interviewees indicated it was very important to communicate openly and honestly about the plan for gaining outside experience and the importance of bringing back good innovative ideas and beneficial knowledge from host organizations.

Compensation is a very important area of study in family firms. Most of the respondents acknowledged that it was not guaranteed that family members would be more highly compensated than non-members. One leader argued "I don't think you go with the family in order to get a big salary." In fact, over half (11) pointed out that younger members of the family **were not highly compensated,** but admitted with the potential benefits and advantages, the potential for high compensation was certainly there down the road. Most cited the need to be very objective and "fair" in assigning compensation and the importance of patience. One leader was adamant that family members are scrutinized by non-family and the community, and it was important that family members "don't get one dime that they aren't entitled to and earned." Three older respondents said

they told younger members of the family that they wouldn't make very much in the first few years of being at the firm until they proved themselves worthy. Family members are compensated and receive benefits for their performance but also for their ownership of the firm. About half of the 20 respondents specifically cited the tax advantage of being able to pay family members a salary that is an expense. These and a couple of others also noted all the expenses and family perks (such as vehicles) that could be expensed, as opposed to dividends that are double taxed (unless S corporation status had been elected). Over half of the respondents also mentioned that stock ownership was an important part of motivating family members. Several mentioned that once the family member gets to a point of being a major contributor, the firm tries to make all benefits pre-tax to decrease tax exposure as much as possible. As one banker in the survey pointed out, "I try to compensate family as much as I can on a pre-tax 'expense' basis because that way the government pays for a big chunk of it (the tax reduction)." Another respondent offered the old cliché phrase "it's not how much you make it's how much you keep." As we mentioned earlier, family members often make more than non-family members in total benefits (over half of the respondents admitted this) but lack of agency problems and unusually high commitment to the firm seem to justify this. But they are asked to wait for and earn these benefits of family ownership. Promotion doesn't seem to be overly challenging or convoluted by family relations. Leaders indicate that everyone recognizes excellence, and no one is surprised or taken "off guard" when a family member is promoted or takes on a more prominent role in the firm. Some of the leaders even mentioned that everyone had recognized perhaps years earlier how capable each family member is. One leader mentioned that "everyone pretty much knew I would be running the company one day." Only a few respondents indicated that they had received major negative feedback over the years about promotion or role change of a family member. It appears that family firms take a very long-term view of compensation and the benefits of the company for its family members.

CONCLUSIONS AND LIMITATIONS

One key takeaway is that this study generally found resoundingly positive results about family members working in the family firm, much more positive than some of the family firm research might have predicted. The family firm appears to create great joy and belonging among family members, which flows over into life away from the firm. The relationship between family and non-family appears mostly positive, but family members seemingly work very hard to ensure respect from non-family. Leaders seem extremely concerned that family members are always viewed as competent, committed, and highly motivated. This may drive some of the heavy focus on training, development, and career preparation. Problems related to perceived nepotism or favoritism appear rare.

Many respondents specified the strategic importance of critical non-family members. Family member involvement in leadership is a goal but being from the family is not a prerequisite for critical positions. We found evidence that stewardship, socioeconomic wealth, and agency theory were front and center as leaders make decisions. Leaders perceive a great burden of responsibility to multiple stakeholders from family and firm alike and we found only a very few leaders who had ever considered putting their own interests ahead of the family and perhaps relaxing their commitment to the family. We found little evidence of considering withdrawing, leaving the firm, or selling. Leaders seemed dedicated to objective and transparent management and very

professional HR and other processes, especially as the firm grows. Many expressed concerns about the competence, dedication, leadership ability, and family focus of younger generations going forward. Despite these concerns, employee development and competence (especially among family members) are a central focus, perhaps driven by concerns about continuity, stewardship, and respect from non-employees. Interestingly, family firms look in many cases to other family firms and leaders in the industry to serve as hosts and mentors to assist with this critical development of youngsters. Leaders seem enthusiastic and laser-focused on ensuring that the younger members of the family are fully prepared and highly capable. Despite concerns of stewardship and socioeconomic wealth, leaders say they mostly put the firm ahead of the family, but a few admitted they had worried about how rapid growth and key strategic decisions would impact long-term family ownership and benefit. Overall, leaders seem extremely dedicated to ensuring that compensation is fair and equitable for family members (usually erring on under-compensating younger family members) but recognize the long-term desire that family members ultimately benefit greatly from their ownership of the firm. Finally, leaders appear very aware that the family business can take advantage of tax implications when rewarding family members, a point rarely made in existing family firm research.

This research is important because it reveals a wide variety of very important information about the views of family firm leadership regarding their family members, non-family members, themselves, their firms, and the future. Findings emanate from very detailed but relaxed informal discussions between a unique, outstanding, and diverse sample of family firm leaders and a researcher who also happens to have spent many years running a banking organization that had banking relationships with many of these very firms and many other firms much like these. We argue that the researcher's knowing each of the respondents is a strong positive and led to candid relaxed discussion, although we admit that respondents could perhaps be influenced to present themselves in a positive and impressive light.

Unfortunately, the research is somewhat flawed and limited by the rather casual and unstructured/undisciplined research (interview) methodology employed by the study. The results are meaningful because it is an excellent sample and the findings are interesting, but this work must be considered exploratory and should be followed closely with more rigorous methods. The results come from the conclusions and "estimates" of one researcher based on perception and in many cases memory of the interview (although some notes were taken). The interviewer recorded basic answers to each research question and noted important responses immediately after each interview. The fact that the researcher knew the respondents is a positive in that the interviewer had a good memory of what each respondent said (in addition to the notes taken). Qualitative research should generally benefit from formalized and disciplined coding and multiple raters. Strong research wouldn't use words like most or "a few." The relaxed, unrecorded, unverified, and undisciplined methods of interviewing and recording responses is not ideal and this study or a very similar one should be conducted again with much more rigorous methods.

Another limitation is that some leaders were very busy and didn't provide a lot of detail and depth, but many took time out of their busy day to meet with the researcher. While there was a predetermined set of questions, the lead researcher asked some follow-up questions and clarified questions for respondents. The interviewer attempted to give respondents time and opportunity to volunteer interesting information, which was noted by the interviewer. The interviewer also placed

a few follow-up calls to clarify several responses. Clearly, much more methodologically rigorous qualitative research is necessary. There is also a need for quantitative cross-sectional study across larger samples of family firm leaders. Much of the positivity in this study might be attributable to the fact that the firms selected are all high-performing solid companies and admitting performance problems, external challenges, or operating difficulties would potentially lead to more negative responses and potential conflict within the family dynamic. With all of the respondents familiar with the researcher, there certainly could have been an element of "positive self-presentation" and painting a somewhat rosy picture of the family dynamics in the firm. However, the family business model appears to be much more positive than negative with multiple benefits to everyone involved including non-family employees.

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