

## **IMPLEMENTING HR BEST PRACTICE A WASTE OF TIME FOR MANY SMALL FIRMS SUGGESTS NEW RESEARCH**

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Many family firms employ apparently irrational and inefficient human resource practices. These range from hiring people on the basis of family relationships rather than skills, to organising work according to social networks within the firm rather than via a planned workflow. Now, new research by the UK's Advanced Institute of Management Research (AIM) reveals that such apparently unproductive and uncompetitive work practices may have benefits as well as disadvantages depending on the type of firm involved.

The new report shows that conventional ideas about links between human resource management practices and company performance need rethinking when it comes to small and medium enterprises (over 95 per cent of businesses in the UK) and especially family firms. In particular, a wider move to so-called High Performance Work Systems (HPWS) – an ideal set of HR practices – may not be appropriate for many small firms.

### **Seven types of firm**

The report identifies six key factors influencing the behaviour of family firms: the product market; the labour market; resources; strategic choice; rules and routines; and management style. It then uses these factors to identify seven types of small firm:

The modern firm has entered the "mainstream"; is driven by a strategy in the context of its market circumstances, and resources are positive because the distinct features of the small firm, such as its human and social capital, are deployed in the pursuit of the strategy.

The closed niche firm has some product market control, but has not used this to enter the mainstream. It remains caught embedded in limited networks in terms of the sources of labour supply. Family and other resources are more likely to impose constraints than with the modern firm.

The fraternal firm has an established niche, workers are hired through word-of-mouth means, family resources help to sustain the business, and workers are treated as the equals of managers. Workers' preferences are treated seriously but the firm is the property of the owner-manager, and workers who question the brotherly and harmonious image may be forced out.

With the atomistic firm the product and labour markets approximate to free market conditions. There is therefore no space for strategic choice or rules that diverge from market principles.

In the traditional family firm, the negative aspects of family control are relatively strong, which militates against a strategic approach. Rules are shaped by personal

and family relations. There is a degree of labour market openness because the firm is set up as a family operation but without being exclusively or restrictively so. A small firm in the retail sector, for example, might be founded as a family operation but advertises openly for staff.

In the classic sweatshop workers are largely powerless and are subject to arbitrary managerial authority. Some firms, for example those employing illegal workers, come close to this model.

The paternalistic firm introduces a group of practices in which there is a degree of responsiveness to employee concerns even though the external environment is harsh. Many family-owned firms are likely to contain paternal elements, in the sense of caring for employees where pure market logics might dictate otherwise but also see the owner as the authority figure that must not be challenged.

### **The difference a type makes**

The ability to implement High Performance Work Systems depends on firm type, suggests the research. The modern firm is most likely to be able to use ideas associated with high performance, although it may find that it lacks the management skills to implement HPW systems successfully. For the closed niche firm, the fraternal firm, and the traditional family firm, the structured approach of an HPWS may go against existing informality and prove counterproductive, especially if it sparks resistance to change among family members, employees, or both.

"The firm types outlined in this briefing provide an important reference point for managers and owners of small firms, particularly family firms," says lead author, AIM Senior Fellow, Paul Edwards. "Why? Because through understanding the characteristics that define the various types of firm, and knowing where their firm fits into the framework, managers and owners may be able to better understand the relationship between employment relations and performance, and manage that relationship for the benefit of the firm."

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### **Notes for Editors**

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