Performance management systems should include family employees

Managers who evaluate family members' performance need the business leader's support and encouragement.

By Leslie Dashew

FOR DECADES, management research has shown that one of the key strategies for enhancing productivity and employee morale is systematic performance management. Yet few family companies take full advantage of this strategy. Families in business may conduct reviews of non-family employees but fail to do the same for family members. Conducting regular, thorough and systematic reviews of all staff, especially family members, is essential to ensure that the company is being well run and that family members understand that their performance is important to the success of the company.

Productivity and performance management

The four concepts found to correlate with productivity are:

Communication. Employees should understand the direction of the company, what is needed for the company to be profitable and how an individual's performance contributes to the company's success.

Continually improving performance. The most productive companies are focused on continually improving the performance of the enterprise and its employees. Today's performance will not keep the company competitive tomorrow. So leaders—and employees, as well—should seek ways to improve performance through process improvements and increased employee productivity.

Employee involvement. This principle underlies most productivity improvement programs, such as "quality circles," "total quality management" and "open book management." Increasing the involvement of employees in identifying and implementing changes that improve productivity and profitability is the key.

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Commitment to employees. Mutual commitment results in greater effort to efficiently achieve company goals and reduce waste. Commitment to employees includes fair remuneration and genuine concern for the employee.

These four concepts are all part of performance management. When supervisors sit down regularly with employees and discuss their performance in a substantive manner, communication is enhanced. The focus of the dialogue is on how the employee's performance can improve. Whether the performance is poor, adequate or excellent, there is always room to grow. The dialogue allows the employee to understand how he affects the performance of the company, thereby helping the employee understand the importance of his effort.

Supervisors who give employees feedback are demonstrating that they are committed to the employee; otherwise, they wouldn't bother taking the time to review their performance, organize and deliver feedback, and find out the employee's point of view. Exploring career goals and the employee's level of contentment helps her to see that management is interested in her. Employees want to know where they stand; a thoughtful review gives them this perspective.

The performance review should center on these three questions, asked by a supervisor:

1. What are the areas in which you feel you are particularly effective (with examples)?

2. What are areas in which you can stand to improve?

3. What can I, as your supervisor, do to help your job be more enjoyable and less frustrating?

A two-way dialogue around these questions helps establish a shared understanding of expectations, desired improvements and plans to achieve them. If the employ-

There must be a separation between pay for those working in the business and distributions to shareholders. Managers as shareholders should receive the appropriate wage for their position plus a return for being a shareholder of the company. A performance bonus for meeting certain goals set by the shareholders should also be considered. Remuneration for employees' contributions should not be mixed with what they could receive as shareholders. Remember: *"Fair is not always equal."*

5. Letting the finances of the company and/or how much Dad and Mom make be a secret. Many adult children do not understand the career opportunities they could attain because they do not know the financial reward the company can create. "I don't want to go into the family business because I have watched how hard Mom and Dad work and I don't believe they have ever made a lot of money." Too often the senior generation in a family business does not take the time to lay out the realistic opportunities for financial rewards and career growth for the next generation. Question: *"How can adult children make a career choice when they don't know the opportunities?"*

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6. Emotional issues and threat of conflict used to determine pay. This leads to giving raises in order to avoid conflict or to get other family members "off my back." A very natural tendency of a family is to strive to avoid conflict (even though some families will say the opposite is true). Using money as a way to achieve harmony never works. Remember: *"Avoidance of conflict only adds to it."*

7. Not regularly or formally discussing individual performance expectations and results with each family member. When this is not done, family members do not know if they are being properly judged when raises and bonuses are distributed. Does everyone in the family business really understand what is expected of him? Evaluations must be realistic, based on specific job criteria and put in writing. Remember: *"When I am not told how I am doing, I must be doing great!"*

8. Goals not established for each family member in the business regarding career development, retirement or lifestyle. Without them, it is often perceived that someone may be getting paid more than others to do less. There must be clear communication between generations so everyone understands the financial expectations of one another in advance. Otherwise, what one person believes he needs to live on for retirement could cause the business to fail, or what another person believes she should receive as compensation could cause hardship for a retiring family member. Example: If a senior-generation member receives a retirement paycheck that is as large as what he earned while working, a cash crunch and family bitterness could result. On the other hand, paying a next-generation member an excessively large salary can create hardship for retiring family members. Remember: *"What I don't know, I assume! Open communication is the key."*

9. Establishing "perks" to keep family members happy instead of being honest about their productivity and contributions to the company. Perks should go only to those people in the company who contribute to the success of the business. Giving a perk to one family member because "he hasn't been to a hockey game in a while" is not a good policy. We are all for extra perks for family members, but they must be understood, controlled and earned. Remember: *" 'He who makes the most noise gets what he wants' is a bad policy!"*

10. Setting a negative example by overpaying yourself. Set the rules and live by them. Remember: *"Actions speak louder than words."*

That doesn't mean you don't deserve the rewards of the company you built. It means keeping wages as clear and understandable as possible. If you don't, the person in line to take over your position may perceive that she deserves the over-inflated wages you were paying yourself. This can cause a split with other family members who find the wage gap unfair. Owner equity withdrawals, quarterly distributions and other tools can be used to get money out of the company without corrupting the wage policy for family members.

Create a written policy

Making compensation decisions in a family business is never easy. Without a clearly written policy for family compensation, conflict will arise and family relationships will be strained or possibly destroyed. There also may be a tendency to withhold information affecting company decisions owing to a resentful "I am not getting paid for this" attitude.

Put the right rules in place concerning compensation for your family members. Be sure each of the working family members understands how compensation is determined. Put your compensation plan in writing.

Don't let these traps befall your family and business. Avoid them by keeping your family in focus and your business on track. FB ee shares her viewpoint first, it gives the supervisor a chance to see how the employee perceives expectations. Often, this explains why the employee may not be performing to expectations.

Frequently, the employee's views on improvements parallel the supervisor's and make it easier for the supervisor to give constructive criticism.

Family member reviews

We recommend that family members not be supervised by one another, since that reduces objectivity and credibility. It is difficult for an offspring to accept feedback from a parent. The younger-generation member in such cases often feels that Dad or Mom is "parenting" him rather than treating him as an employee. An uncle overseeing a niece may hesitate to give candid criticism for fear that his sister would be upset if he were to offer critical feedback to her daughter. Further, we find that family members believe that if they criticize each other at work, repercussions or retaliation may occur within the family.

Supervision by professionals who are not related increases the odds that a family member will receive appropriate and constructive feedback. If managers are encouraged to be forthright with family members, these reviews can be very helpful to the growth of budding leaders.

Best business practices include 360-degree reviews, whereby a supervisor collects feedback from an employee's peers, other managers who observe his or her work, and employees who report to the person being reviewed. This feedback increases the probability that an employee will gain a full understanding of how his performance is viewed and where he can stand to improve. In family businesses, 360-degree feedback helps validate that the family member is receiving objective perspectives, since the supervisor includes a range of viewpoints. The collection of data protects those giving feedback until it is clear that the environment is safe and that feedback is accepted constructively.

Family members must be role models of this practice, or no one will take it seriously.

With one client, we instituted the practice of semi-annual reviews of all employees' performance. In December, every employee (several hundred) received a review. This was a first in company history. Two things helped this to get accomplished: One, we trained all managers and supervisors on how to conduct reviews. Two, managers were told that they would not be eligible for year-end bonuses unless all of their employees received reviews.

Managers who previously have not reviewed family members need support and encouragement to do so. They may fear that if they give critical feedback to an offspring of the family leader, he might run back to his parent and the manager's job might be in jeopardy. In one situation, I sat down with the young family owner and facilitated the dialogue. The young man said, "That is the first time I have ever received constructive feedback. Now I know what to do to be more effective in my role." He appreciated the feedback and began immediately to improve his performance.

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In this situation, the young man's father was the leader of the company. He had given his son an ultimatum about improving his attitude, work habits and performance. The executives reviewing the son understood, at this point, that the success of the young man—and their own—depended on their taking the steps to give him feedback. Prior to this, they assumed their feedback would fall on deaf ears.

Developing a policy

Family leaders who are committed to the long-term success of their businesses must be clear with relatives that their continuity in the business depends on good performance and growth. It is useful for families to commit to writing family employment policies that underscore this concept. Similarly, leaders must tell executives and managers that competence and accountability is essential to the business, and that this requires that they hold family members to the same standards they expect from non-family employees.

In another family business, a second-generation leader began increasing the accountability of all employees. When a cousin would not go along with these changes after being coached about their importance, he was terminated. Other managers got the point: Not even family members were exempt from these practices. That encouraged them to give all employees feedback on performance, even family members.

Creating a culture where family members are held accountable can be difficult. This is at the heart of "separating the circles": running the business like a business and the family like family. While terminating a cousin may seem harsh, improving the operations of a company requires that all employees grow. Family members must be role models of this practice, or no one will take it seriously. Family leaders who wish to make this change can:

1. Articulate the vision for the business and explain how continued improvement of performance contributes to its achievement. Communicating this practice to the family as well as non-family members lets everyone know that working in the business is a privilege, not a right, and that specific output from every employee is necessary—not optional—for the well-being of the business.

2. Establish a system of performance management beginning at the top. The family leader can be evaluated by the board and/or leadership team through a 360-degree process. Then the leader should review each employee reporting to him and document this review in personnel records. Further, the leader should discuss the reviews conducted by his direct reports to ensure they are being completed and are thorough. If there is a human resources department, oversight of the implementation of this process can be coordinated by professionals in this area.

3. Implement consequences for non-compliance. When a new system is being implemented, it is essential that all employees are held accountable for implementing it. If a manager does not complete reviews or ensure that everyone in her department has been reviewed, her own evaluation should reflect this poor performance. In some cases, financial rewards can be connected to performance.

4. Support managers who are concerned about fallout from confronting family members' underperformance. Coach them about how to do this in a constructive fashion and assure them that they have your backing. Without this, they will be in a "Catch-22": They may worry that your role as a "parent" or family member will win out over your role as a "boss."

In companies that have established a system of performance management for all employees, including family members, it has become an accepted, appreciated practice. When there is "bad news," a plan for correction is put in place. When there is disagreement over an evaluation, that too is documented and (more) objective criteria can be added for the future.

When compensation is tied to fair market value and performance—as we recommend—the evaluation and record of past performance provide good data to determine whether increases are in order. And as candidates are considered for succession, a record of performance and a plan for growth can help determine who best suits new roles. FB