

**Consultation and Communication in Family Businesses in Great  
Britain**

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# Consultation and Communication in Family Businesses in Great Britain

## Abstract

Nationally representative data on family businesses are available in the 1998 Workplace Employee Relations Survey, alongside comparable information for other types of firms. We use these data to compare differences in the use of different consultation and communication procedures. We cover such practices as the use of direct communication schemes (e.g. briefings; the provision of information on financial performance to the workforce) as opposed to indirect methods such as the use of Joint Consultative Committees. There is an *a priori* expectation in the literature that family-owned businesses are either more likely to use direct forms of communication (vis-à-vis indirect forms) or that they will not be involved in direct communication or consultation with their employees, and we test this using multivariate techniques. Finally, we consider whether the type of consultation/communication structure matters in terms of establishment performance, and what differences exist with respect to family-owned businesses. In particular this paper tests if those firms that consult directly with staff, as opposed to those that consult through Joint Consultative Committees or Trade Unions, have higher productivity and/or other measures of performance. Concurrently we test whether there are separate 'family business' effects, or whether it is generally establishment size that "matters", by estimating a model for family-owned and non family-owned establishments. In general, our results show that not only do family-owned establishments have lower levels of communication and consultation, when the latter is present this does not generally translate into greater economic benefits (as is the case in non family-owned firms).

## 1. Introduction

According to Leach (1994) and Cromie *et. al.* (1995), family-owned businesses comprise the great majority of business enterprises in Britain. A recent survey for Barclays Bank (2002) confirms the importance of family-owned firms within the SME sector, showing that three out of every five businesses in Britain with an annual turnover of less than £5 million are owned and managed by family members. The importance of this sector has also been confirmed for the USA (Dyer, 1988; Ward and Sorenson, 1987; Gersick, *et. al.*, 1997), Australia (Reed, 1989) and many other parts of the world. Indeed Kotkin (1992) argues that in China, Japan and India the family is the firm.

Much of the research into family businesses emphasises that vis-à-vis non family-owned firms they can operate under a different set of constraints and often with different objectives, since family and business/commercial objectives are often incompatible (Friedman, 1991; Lazar and Korman, 1992). That is, since family-owned firms are businesses in which a single family exercises significant managerial and financial authority (Goffee, 1996; Kirchoff and Kirchoff 1987; Leach; 1994; Ward and Aronoff 1991), and since families seldom relinquish control to non-family managers (Francis, 1980), there is often a tension between rational profit seeking activities and the non-commercial objectives of the family business. Non-family managers are kept on a tight reign (Goffee and Scase, 1985) and ownership allows the family to pursue such non-commercial objectives as ensuring inter-generational employment for family members, and a paternalistic approach to running the company with a particular culture that is strong on trust, loyalty and inclusiveness (Dyer, 1986).

In addition to the pursuit of non-commercial objectives, family-owned businesses are often managed differently (Ward 1987; Leach 1990, 1994; Reid et al., 1999). Ward (1988) suggests that a general lack of strategic planning in family businesses has contributed to their high failure rate as they attempt to survive from one generation to the next. It is well documented that only a small proportion of family-owned firms survive to the second or third generation (Lansberg, 1988, Kets de Vries, 1993). Resistance to the process of succession by individuals and groups is characterised by 'fear of losing status' in the family and the firm (Sonnenfeld & Spence 1989), rivalry between the different generations (Levinson, 1971; Davis & Tagiuri, 1989) the strong psychological link between founder and firm (Levinson (1971), and difficulties in accepting mortality (Lansberg, 1988). Indeed such is the importance of survival and retaining family control over the business, Poutziouris (2000) states that to date family firm research has been dominated by issues relating to succession.

This paper is not concerned with succession issues but rather concentrates on certain differences in the operation of human resource management in family businesses. There has been some previous research on HRM practices in family-owned firms (e.g. Reid *et. al.* 2002)<sup>1</sup> but generally it did not consider employee involvement (EI) practices and the impact of EI on firm performance. Earlier work (cf. Tagiuri and Davis, 1992; Holland and Boulton, 1984; Beckhard and Dyer, 1983) suggested that relationships between the management of the firm and the family increase the complexity of organisational and management problems. In particular Astrachan and Kolenko, (1994) suggest that this special relationship between family

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<sup>1</sup> An early comprehensive review of family business literature and publications Desman and Brush (1991) reported that only 4 percent of the 202 citations reviewed dealt with the development of human resources through education and training. In the period since this review, little additional research into HRM in family businesses has been undertaken.

and firm creates a volatile situation with respect to tasks such as employee selection, compensation, appraisal and personal development. They also suggest that family-owned businesses more frequently use employee reviews, compensation plans, written employee policies, and written job descriptions rather than written succession plans or formal entry requirements for family members. Thus the emphasis in the literature relating to family businesses and HRM has also generally concentrated on the role of family members in the business rather than whether non-family employees benefit from HRM policies that lead to greater efficiency and better performance.

In this study we use data from the 1998 Workplace Employee Relations Survey (WERS98) for Great Britain (which asked a question on whether private sector plants were family owned)<sup>2</sup> to look at consultation and communication practices in family-owned businesses and in particular whether these impact on firm performance. The advantages of using such data are that it is a nationally weighted sample and by concentrating on private sector plants (excluding PLC's) it is possible to compare family-owned and non family-owned establishments. The main disadvantage is that only plants employing 10 or more are included in WERS98, so many smaller family-owned plants are excluded from the analysis. Taking this into account, Figure 1 shows the relative importance of family-owned plants in terms of their employment share in Great Britain in 1998, confirming that they are an important sector but much less so when we exclude the smallest firms. This needs to be borne in mind throughout the rest of this paper.

The paper is organised as follows: in the next section we consider whether family-owned businesses are likely to take a different approach with respect to

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<sup>2</sup> There is a debate about how best to define a family-owned vis-à-vis non family-owned firm (see for example, Daily and Dollinger, 1993). In this study we are constrained by the question asked in the 1998 Workplace Employment Relations Survey (if the establishment was in the private sector but was

employee involvement and other HRM strategies related to worker effort. In section 3 we test various hypotheses that family-owned businesses are less likely to communicate directly and consult with their workforce when compared to non family-owned private sector firms. Section 4 looks at the economic performance of family-owned establishments using the WERS98 database, and the paper ends with a summary and conclusions.

*Figure 1 around here*

## **2. Family-owned establishments and employee involvement**

Mizrahi (2002) reports “...a remarkable consensus... regarding the fundamental principles needed to achieve competitiveness in individual enterprises...(such as) high standards of employee selection, broad task design and teamwork, employee involvement in problem-solving, and a climate of co-operation and trust” (p.690)<sup>3</sup>. In this paper, we concentrate on the impact that employee involvement (EI) has on firms and their workers, primarily focusing on communication and consultation aspects of EI as they relate to activities at the workplace,<sup>4</sup> since it has been argued (e.g., Addison *et. al.*, 2000) that greater involvement increases employee loyalty, responsibility and effort, so increasing efficiency. That is, consultation and co-operation leads to creative

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not a PLC, it was asked: “does a single individual or family have controlling interest over this company, where controlling interest means at least 50% ownership?”).

<sup>3</sup> See also Wood *et. al.* (2002); they provide empirical evidence of the link between what are termed high involvement HR systems and organisation performance, as do Arthur (1994), MacDuffie (1995), Huselid (1995), Becker and Huselid (1998), Appelbaum *et al.* (2000).

<sup>4</sup> Freeman *et. al.* (2000) include the following as examples of EI practices: the extent of self-managed work teams, worker involvement in the design of EI programmes, the extent of TQM, committees on productivity, worker involvement in work processes, formal suggestion or complaint systems, formal information-sharing with employees, and surveys of workers regarding their satisfaction.

outcomes and shared goals (especially in ‘tough times’), as set out in the Freeman and Lazear (1995) works council/employee involvement model.<sup>5</sup>

A consideration of communication and consultation practices is also particularly relevant when considering differences between family-owned and non family-owned enterprises, since the culture of the former is very different. For example, Dyer (1986) points out that the most common type of culture in family-owned firms can be described as *paternalistic*; where there are hierarchical relationships and centralised authority and the family looks after its own employees such that it is supposed that there is a strong culture of trust, loyalty and inclusiveness. In such an environment, the family members make all significant decisions and closely supervise employees (a ‘what is good for business is good for employees’ mentality, where employees are seen as subordinate to the owner’s view of what is best for the firm – see Scott *et. al.*, 1989, and Ram and Holliday, 1993). Dyer (*op. cit.*) goes on to discuss other less common forms of culture in family-owned firms, such as *laissez-faire* (similar to paternalistic but employees are treated as more trustworthy and given greater scope on how to accomplish the strategy decided by management); and *participative* (rare in family-owned firms, it involves team-working, downplays the power of the family, and has a more fully-developed HRM strategy for the workforce).

Others take a similar approach. Wray (1996) points out that family-owned firms often start out (when small) with a traditional paternalism that relies on face-to-

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<sup>5</sup> We recognise that there is a debate concerning the extent to which employee involvement (and its constituent elements) leads to increased employee loyalty, responsibility and effort, and thus increased efficiency, or whether these measures actually lead to ‘work intensification’ operated through a different form of employer control (cf. Marchington and Grugulis, 2000). A fundamental issue is whether EI leads to greater employee empowerment (Wilkinson, 1998) or whether it is a mechanism for the appropriation of employee knowledge and while giving workers greater specific control over their day-to-day tasks nevertheless allows management greater general control over the work system as a whole. This is an important debate, but if the outcome is still greater productivity of the workforce

face deference between workers and owner-managers. The day-to-day involvement of owner-managers includes personal contact with the workforce, a lack of sophisticated management techniques, a lack of formal procedures and an employment relationship regulated for the employees and not by them. However, when the family-owned firm grows and increases in size, it becomes difficult to sustain a traditional paternalistic approach, and therefore owner-managers resort to a more sophisticated paternalism where there are devolved managerial systems, above average remuneration, training, and EI mechanisms, all of which is in the image of 'best practice HRM' (Dundon *et al.*, 1999). However, Wray (*op. cit.*) points out that this type of paternalism should not be confused with EI initiatives as associated with HRM: "...both incorporate employees through mechanisms of consultation and involvement...the defining difference is to be found in the underpinning rationale for each style of management. Sophisticated paternalism remains loyal to the familial culture of traditional paternalism, becoming 'sophisticated' only in attempts to maintain that culture in the face of the contingencies of modern industrial society" (p. 703).

Consequently, it is argued that paternalistic family-owned firms act differently to non family-owned businesses with respect to the problem that arises in agency theory whereby owners (who are also actively engaged in the management of the company) face the moral hazard problem of how to engender a high level of worker output (Chami, 2001). For example, there is an expectation that such family-owned firms will rely less heavily on strategies such as performance-based wages to induce higher effort; in contrast, the standard agency theory approach predicts that greater EI should be complemented with shared compensation schemes (to provide and reinforce incentives for workers to increase efficiency and thus raise output). There is also the

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(through empowerment or greater control), then it might be argued that EI initiatives still can achieve their goals.

likelihood that in family-owned businesses paternalistic behaviour is reinforced by a high degree of altruism on the part of family members, and this will mean that the firm does not necessarily seek to just increase efficiency but is also concerned with equity issues (i.e. employees are 'looked-after' and treated fairly in return for their loyalty and effort). As shown in Chami (*op. cit.*) when trust is low and/or altruism is asymmetric, the agency problem in the family-owned business is exacerbated and often interferes with the survival of the family business.

If family-owned firms take a different approach with respect to EI and other HRM strategies related to worker effort, this does not necessarily imply that they do not engage in EI practices (although the purpose of such practices – as stated above – may be to support a sophisticated paternalism rather than best practice HRM). Similarly, it is argued (in the context of worker participation in general) that alongside greater EI there is a risk that workers will want to increase their share of the firm's profits (and with greater EI they have the information and ability to pursue this<sup>6</sup>). Thus, EI increases productive efficiency but inefficiency can set in if EI encourages greater rent-seeking; thus from the management side, the optimal level of EI is usually (considerably) below the maximal level possible, indicating the profits-EI trade-off curve is an inverted U-shape. Thus, in both family-owned and non family-owned enterprises there are limits to EI; however, the limits in the family-owned business set-in at a (much) lower level, and this is likely to be reinforced by a culture that is based on a view that EI is less necessary (workers are looked-after and do not need EI – and even less so trade union representation), as well as EI possibly being seen as a greater threat to the culture of the family-owned business if it engenders rent-seeking and challenges to the way the business is run by family members.

### **3. Extent of communication and consultation in family-owned establishments**

Given the discussion in the previous section, we wish to test various hypotheses that family-owned businesses are less likely to communicate directly and consult with their workforce, when compared to non family-owned private sector firms. This assertion is not necessarily linked to firm-size (indeed later, in the statistical analysis, workplace size is controlled for), although in this study we have excluded public limited companies and therefore the majority of workplaces covered are private sector SME's. There is general acceptance in the SME literature that such firms tend to adopt relatively informal approaches to employment relations, and indeed formal "...communication strategies are often non-existent" (Wilkinson, 1999, p. 209). Even where practices are adopted because they become embedded in supply-chain relationships (e.g. through the need to obtain ISO9000 certification in order to become a supplier of a larger organisation), the form of EI adopted is often more informal than formal (Bacon *et. al.*, 1996). Thus, since most family-owned firms are also SME's, it could be argued that separating out the former from the latter is not particularly informative since it is already generally accepted (see above) that HR tends to be more informal and organic in such firms (as in SME's in general). However, others have argued that there is a need to separate: "Even when it is acknowledged that ownership...remains largely concentrated within a single private family, such information is rarely applied to explanations of managerial or organizational behaviour. By thus divorcing the issue of ownership from that of managerial control it is possible to construct organizational models which depict small- and medium-sized (family) business as "simple"...while larger (publicly owned) enterprises are regarded

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<sup>6</sup> Although, see footnote 4 which points out that there is a debate as to whether greater EI leads to more empowerment of workers or rather greater work intensification. Limiting EI to greater consultation and

as “complex”. Such analyses miss the point that most family businesses...involve highly complex interrelationships between...the family and the business” (Goffee, 1996, p. 36).<sup>7</sup> As a result of the arguments put forward in the last section, this study sets out to empirically test whether there are differences in EI between family- and non family-owned firms, and whether this makes a difference to the financial performance of the firm.

The data used were taken from the 1998 Workplace Employment Relations Survey for Great Britain (WERS98), which includes information on a nationally representative sample of establishments (see Cully *et. al*, 1999, for details), including firms that were family-owned.

*Table 1 and Figure 2 around here*

Table 1 (and Figure 2) presents the (weighted) mean values for certain variables, starting with overall HRM strategies and then considering certain basic characteristics that are potentially important when considering communication and consultation procedures (and relevant later when we consider the determinants of workplace financial performance). ‘Internal fit’ relates to the “synergistic benefits resulting from the introduction of HRM as an institutionally supported package of practices that cohere with and mutually reinforce each other” (Hoque, 1999, p. 422). Many (e.g. Pfeffer, 1998) have argued that a ‘bundle of practices’ rather than isolated approaches are needed for an effective impact. Thus based on such a contingency-based approach, it is argued that for consultation and communication initiatives to

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communication, it does seem likely that this offers more scope for attempting greater rent-seeking.

<sup>7</sup> More generally, researchers in family business believe that family involvement makes a family business distinct from a non family-owned business, but “...unfortunately, our understanding of the nature of this distinction and its impact on firm performance is incomplete” (Chua *et. al.*, 2003, p. 331). One of the aims of this study is to test whether being family-owned is empirically important, and to try to identify the channels through which such firms operate differently (and the consequences that arise).

have an impact, they need to internally fit with similar EI practices.<sup>8</sup> Internal fit is measured here by counting the number of appropriate HRM practices that are used, with the list of such practices based on Hoque (*op. cit.*, Table 1) and defined in Table A1.

Similarly, ‘external fit’ can be argued to be an important intervening variable in terms of how EI practices affect performance. Only if the HR strategy of the firm is meshed with a business strategy that emphasises quality enhancement or innovation (Schuler and Jackson, 1987; Schuler, 1989) will EI prove to be effective. Here external fit is measured by whether or not workplaces set targets for the quality of the product or service (in a similar way to targeting sales and/or costs and/or profits, etc.). Table 1 shows that on average family-owned workplaces use (significantly) fewer numbers of HRM practices, and are significantly less likely to target product quality (some 25% adopt such targets compared to 39% of non family-owned private sector non-PLCs).

Turning to other characteristics, the size of the plant, the length of time it has been in operation, and the extent to which it is unionised, as well as ownership characteristics and industrial distribution, are all likely to influence the extent to which management consults or communicates with employees. The data presented show that while family-owned plants were on average smaller, the difference with respect to non family-owned private sector plants was not statistically significant. Similarly, there was no statistical difference in the average age of the plants in the two sub-groups.<sup>9</sup> However, family-owned establishments were much less likely to be

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<sup>8</sup> This contingency-based approach will be tested later by introducing our variables for consultation and communication in conjunction with a measure of internal fit, to see if the former impact on performance only when introduced as composite (i.e. interactive) variables involving internal fit.

<sup>9</sup> Note, WERS98 only covers establishments employing 10 or more employees; micro-firms are therefore omitted and this is likely to explain the fact that surveys that include smaller firms tend to find that family-owned establishments are on average older (see Barclays Bank, 2002)

unionised (indeed 88.1% of establishments had no union presence, compared to 61.4% of establishments in the non family-owned sector), and fewer were foreign-owned. Thus, the family-owned sector was much less likely to be involved in negotiating and consulting with trades unions. Lastly, Figure 2 also shows that family-owned plants were more likely to be located in sectors such as distribution, hotels and restaurants, agriculture and manufacturing.

The remaining variables in Table 1 (which later we will use as possible determinants of financial performance at the establishment) indicate that family-owned plants experienced considerably less change in the workplace in the last 5 years (in fact some 14% experienced no change compared to just 5% of non family-owned establishments). This suggests that family-owned plants are more stable, but probably less innovative and flexible workplaces when compared to non family-owned establishments. Table 1 also shows that just over half of plants offered some form of profit-related pay, with no statistical difference between the family-owned and non family-owned sub-groups. Thus, the expectation (cf. section 2) that family-owned firms are less likely to use performance-based wages to induce higher effort is not supported by the WERS98 data for Great Britain. However, the distribution of earnings was greater in family-owned establishments as shown by the *t*-test statistic associated with the Gini coefficient<sup>10,11</sup> Non family-owned plants were overall more likely to have outsourced certain activities or services that previously were done by

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<sup>10</sup> WERS98 collected information of the number of full-time males (and females) that earned in 6 different earnings bands (from <£9,000 to £29,000 or more). This information was used to calculate a Gini coefficient that measures the relative inequality of the wage distribution for each establishment. Note, there are differences in the relative value of the Gini coefficient across industries; e.g., in distribution, hotels and restaurants (where family-owned plants are concentrated), the coefficient for family-owned establishments is 0.35 compared to 0.40 in non family-owned plants; in agriculture, the relative values are 0.22 and 0.33, respectively. However, in most every other sector the Gini coefficient is larger in the family-owned sub-group.

<sup>11</sup> Although not shown in Table 1, family-owned plants also had more male full-time workers earning less than £9,000 (21% as opposed to 13% in non family-owned plants) and less earning £29,000 or

employees of the establishment, and they made much greater use of temporary and/or fixed-term workers than did family-owned plants. There was little difference in the proportion of establishments that served national or international markets (as opposed to local or regional markets), while competition faced by 71% of family-owned plants was deemed to be very high or high compared to 62% of non family-owned plants. Family-owned establishments were also more likely to be single establishment enterprises, but (as already noted) significantly less likely to be owned by a foreign company.

*Table 2 around here*

Table 2 shows the proportion of plants that were involved in various communication and/or consultation activities, sub-divided into family-owned and non family-owned plants.<sup>12</sup> On the basis of a range of indicators (e.g., whether management briefed their workforce, used Joint Consultative Committees, provided information on the financial position of the plant, or meet regularly with the workforce), family-owned plants were significantly less likely to be involved.<sup>13</sup> However, they were no less likely than non family-owned plants to provide information on investment plans (although only some 43% did), and family-owned plants tended to use emails more.

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more (7% compared to 14%). *T*-tests that these means are statistically different are highly significant at better than the 1% level.

<sup>12</sup> Note, we recognise that there can be quite important differences between employee information sharing, communication and consultation practices as these relate to empowerment of employees. However, as argued by Wilkinson (1998), management increase downward communication typically via newsletters, the management chain or team briefing, which should result in greater employee commitment. Upward problem solving (through say the use of quality circles or suggestion schemes) should also have similar impacts. What is important to distinguish is whether such practices are either (i) absent or (ii) communication and consultation is direct or mediated by employee representation (i.e. JCC's). Hence, our grouping of practices in Table 2 into those presented in Table 3.

<sup>13</sup> Note, when workplaces belonging to enterprises employing more than 500 employees are omitted (i.e., just using the SME's in the WERS database), we still get a similar set of significant results vis-à-vis those reported in Table 2. Note, Table 2 (last column) controls for size differences in any event.

Since these results may be influenced by such factors as the size of the plant, the final column of Table 2 is based on estimating a multivariate logit regression model that controls for the impact of the age of the plant, its (employment) size, ownership characteristics, TU density at the plant, industry and region. Details are provided in the appendix. The last column in Table 2 shows that when the plant is family-owned the probability that the workforce received briefings was 12% lower; the use of JCC's was also 12% lower; and the likelihood of formal surveys being used or information on the financial position of the plant being provided was some 20-22% lower in family-owned plants. Thus, the results presented in the first two data columns of Table 2 (in terms of the differences between the two sub-groups) are largely substantiated by the marginal effects obtained from the logit model, which is discussed in the appendix.<sup>14</sup> In general, there is significantly less direct communication and less negotiating with employee representatives in family-owned plants, as predicted given the arguments presented in section 2.

*Table 3 around here*

Lastly, Table 3 attempts to summarise the information on communication and consultation by grouping family-owned and non family-owned establishments into three categories: those involved in direct communication only, those involved in direct communication but also negotiated with JCC's (thus consultation and communication is to some extent mediated by employee representatives), and those plants involved in none of the direct communication/consultation procedures outlined in Table 2. There were no plants that consulted with JCC's that did not also use direct

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<sup>14</sup> Note, all marginal effects are calculated at the mean of the variables concerned.

communication procedures. Table 3 confirms that family-owned establishments were about 2 times less likely to use JCC's and were some 2½ times more likely to have no direct communication and/or consultation<sup>15</sup> (and these differences remain after controlling for such factors as size, age and industry – see the footnote to Table 3).

#### **4. Economic performance of family-owned establishments**

Economic performance (in terms of financial performance, labour productivity, and the quality of the product or service) was measured in WERS98 based on asking management respondents to provide a ranking relative to others operating in the industry to which they belonged.<sup>16</sup> The outcome, sub-divided into family-owned and non family-owned private sector establishments, is presented in Table 4; family-owned plants were (significantly) more likely to report that their financial performance was average or below average when compared to non family-owned plants. However, there is no statistically significant difference in performance with respect to labour productivity, and only weak evidence that family-owned businesses ranked their quality as being a lot better than average. After controlling for other factors (in addition to whether the plant was family-owned or not), there is only a statistically significant difference between the two ownership sub-groups with respect to financial performance, and thus we shall limit our analysis to only this aspect of economic performance.

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<sup>15</sup> As expected, nearly all family-owned plants that had no direct communication/consultation also had no trade union members, although interestingly 5.3% of such plants did.

<sup>16</sup> There are potential problems associated with bias when using such 'perception' based data. However, Wood *et. al.* (2002) state that if there is bias then as long as it is uniform this will not invalidate the measures used. In addition, they report that correlations among the various performance measures are low (respondents were not overly optimistic in any systematic sense); they also found no bias in performance results between workplaces that were involved in benchmarking and those that were not.

*Table 4 around here*

In order to model financial performance<sup>17</sup>, we include in our estimating equation the types of variables that have been used by others when undertaking this type of analysis (see Addison and Belfield, 2001), although other variables derived from Tables 1-3 are also included given the focus of the present study (and our own predilections). Table A1 in the appendix defines the variables used, while Table A2 reports the results of estimating a (weighted) ordered probit model that included both the family-owned and non family-owned sub-groups in a single regression equation . However, in the expectation that there are substantial differences between the sub-groups, we allowed every variable to be included to also enter a second time after being multiplied by a dummy variable that took on the value of 1 if family-owned. This allows us to test if the impact of, for example, size, age, TU presence, sector, region, etc. is different for family- and non family-owned plants. These composite variables were allowed to enter in a stepwise fashion, and therefore only significant differences are captured (and reported in Table A2).<sup>18</sup> Other composite terms were also included in a stepwise approach, given earlier arguments about the importance of internal and external fit, and that consultation and communication may only impact on performance contingent on such ‘fit’. Thus, external fit multiplied by internal fit was entered to test if either required the other to achieve an impact; and both internal and external fit (and the composite variable external multiplied by internal fit) were

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<sup>17</sup> Since the data used are cross-sectional, the results produced cannot be used to substantiate any causal relationships, only associations between the variables used (although in most cases we believe that the dependent variable – financial performance – is likely to be causally determined by the regressors we include in the model).

<sup>18</sup> An alternative approach would be to estimate separate equations. However, this reduces the sample size through sub-dividing the data (especially when – as will be seen – we wish to allow other variables such as external and internal fit to act as intermediaries in terms of how other variables impact on performance) while pooling potentially separate equations also allows us to test the significance of any differences directly (through whether composite variables are statistically different from zero or not).

separately multiplied by the variables representing whether consultation and communication was 'direct' or whether it was absent.<sup>19</sup>

Here we concentrate on the variables that were significant and comment on their marginal effects, since the parameter estimates from the ordered probit model do not necessarily lend themselves to a straightforward interpretation.<sup>20</sup> The first row in Table 5 shows that (*ceteris paribus*) family-owned plants were some 17.5% less likely to report a level of performance that was 'a lot better than average', while family-owned plants were 30% more likely to believe their financial performance was average or below average.

Internal fit is important<sup>21</sup>, since the greater the number of HRM practices used by a plant the greater the positive impact on financial performance although the size of the impact is not large (e.g., such plants were 1.3% more likely to report a level of performance that was 'a lot better than average'). None of the composite variables involving internal fit were significant (hence are not reported), suggesting that consultation and communication impacts are not contingent on this variable.

The key variables in which we are particularly interested are those relating to direct communication/consultation and no communication with the workforce. Table 5 shows that plants that have EI schemes that involve direct communication with the workforce are more likely to report better than average performances (*vis-à-vis* plants that negotiate with JCC's); for example, the probability of being a lot better than average is 12.1% higher if there is direct communication. However, if the plant is family-owned, these benefits largely disappear. This is seen by adding together the

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<sup>19</sup> All these extra variables were also entered again multiplied by the family-owned dummy to ensure we captured all potential channels for contingency effects.

<sup>20</sup> See Greene (2000, especially pp. 877-878), who states: "...it is quite unclear how the coefficients in the ordered probit model should be interpreted".

two rows of data for the direct communication variables<sup>22</sup>, to obtain the probability of being in any financial performance sub-group when the plant is family-owned (e.g., the probability of being a lot better than average is only 1.5% (i.e. 12.1 – 10.6) higher if there is direct communication in a family-owned plant).

Workplaces engaged in no direct communication/consultation with their workforces also (cet. par.) benefit in terms of their financial performance when compared to the benchmark group comprising plants that have JCC's (indeed the relationship is even stronger). Here the probability of being a lot better than average is 26.3% higher with no communication, for a non family-owned establishment. Again, if the plant is family-owned, these benefits generally disappear (as can be seen by adding together the two relevant rows in Table 5). The exception to this are those family-owned plants that engage in no direct communication and are also involved in targeting the quality of the product or service produced (i.e., external fit). Thus for this relatively small sub-group<sup>23</sup>, the probability of being a lot better than average is overall 29.6% higher (obtained from summing 0.317, -0.284 and 0.263).

Thus, in summary, while direct communication/consultation improves the financial performance of non family-owned plants, these effects are largely absent in family-owned establishments, implying that not only do such establishments have lower levels of this aspect of EI (Table 2), when EI is present this does not translate into greater economic benefits. We also found that while relatively more family-owned establishments are not involved in using the consultation and communication

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<sup>21</sup> The 'external fit' variable itself was entered in a stepwise approach, and apart from its featuring in one statistically significant composite term (discussed below), external fit was found not to be a significant determinant of financial performance.

<sup>22</sup> Also compare the parameters reported in Table A2 for the direct communication variables, which have almost equal but opposite values.

<sup>23</sup> Some 2.6% of family-owned workplaces had no communication with their workforce *and* targeted the quality of the product or service.

procedures discussed in Table 2, unlike non family-owned establishments this is not associated with better performance.

In addition, the results presented in Table 5 show that, *ceteris paribus*, having relatively small percentages of the workforce belonging to trades unions reduces the probability of financial performance being a lot better than average (by some 4.7%) and increases the likelihood of average or below average performance (by over 8%). In contrast, having a large proportion of the workforce in unions has a positive impact on financial performance (e.g., the probability of a lot better than average performance is nearly 7% higher when union density is 50% or more). Since there is no difference whether the workplace is family-owned or not (as composite variables involving the family-owned dummy were not significant), this suggests that union presence in family-owned businesses can have a beneficial impact (although only 3.2% of family-owned plants had unionisation levels of 50% or more).

Older plants do marginally better than younger plants in terms of financial performance, while size was only found to impact on performance in family-owned workplaces. Plants experiencing little or no workplace change in the last 5 years had lower financial performance when compared to those that experienced a lot of change. Since family-owned plants were less likely to have had a lot of workplace change (Table 1), this suggests that stability in such plants had an important adverse impact on their ability to perform well.

The greater the proportion of female (part-time) workers in the plant, the greater (worse) was economic performance in both the family- and non family-owned sector, although the impacts are relatively small. The use of profit-related pay had an important, negative impact on performance in the family-owned sub-group, while the greater the inequality in earnings, the more likely that financial performance was

stronger in both sub-groups. This supports previous results for the UK by Beaumont and Harris (2003) who found that the tournament theory of a hierarchical wage structure provided greater incentives to worker efforts (*vis-à-vis* the benefits of a more egalitarian, compressed wage structure). The fact that the profit-related pay effect appears to be confined to family-owned plants suggests that altruism is indeed asymmetric in this sub-sector, and agency problems may be as severe in such firms as it is likely in the non family-owned business sector.

Lastly, the use of outsourcing, temporary/fixed term workers (which is more prevalent in non family-owned plants), and supplying national/international markets are all associated with lower financial performance in both the family- and non family-owned sub-groups.

## **5. Summary and conclusions**

As a result of factors such as cultural differences, family-owned establishments are likely to take a different approach to employee involvement (EI) practices (e.g. with respect to consultation and communication) and indeed other HRM strategies related to worker effort. In particular, it is expected that family-owned firms that take a paternalistic approach will engage in lower levels of EI since the management culture is based on a view that EI is less necessary (workers are looked-after and do not need EI – and even less so trade union representation), as well as EI possibly being seen as a greater threat to the culture of the family-owned business if it engenders rent-seeking and challenges to the way the business is run by family members.

In terms of the evidence from the WERS98 database on consultation and communication, the paper finds that family-owned establishments were much less

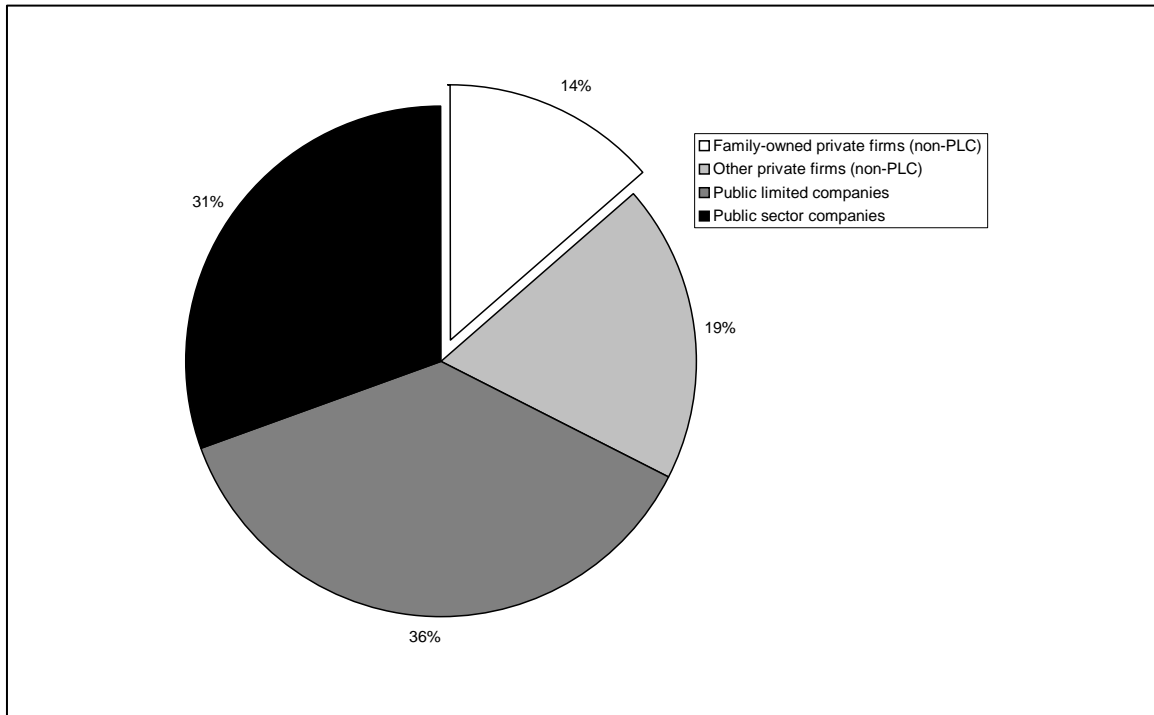
likely to be unionised (e.g., 88.1% of establishments had no union presence, compared to just over 61% of establishments in the non family-owned sector). Moreover, on the basis of a range of indicators (e.g., whether management briefed their workforce, used Joint Consultative Committees, provided information on the financial position of the plant, or meet regularly with the workforce), family-owned plants were significantly less likely to be involved. Indeed the data show that family-owned establishments were about 2 times less likely to use JCC's and were some 2½ times more likely to have no direct communication and/or consultation (and these differences remain after controlling for such factors as size, age and industry). It was also found that family-owned plants experienced considerably less change in the workplace in the last 5 years (in fact some 14% experienced no change compared to just 5% of non family-owned establishments). This suggests that family-owned plants are more stable, but probably less innovative and flexible workplaces when compared to non family-owned establishments.

In terms of the economic performance of establishments, the data from WERS show that family-owned plants were (significantly) more likely to report that their financial performance was average or below average when compared to non family-owned plants. And when we model the determinants of financial performance, we find that – after controlling for a range of covariates – family-owned plants were some 17.5% less likely to report a level of performance that was ‘a lot better than average’, while family-owned plants were 30% more likely to believe their financial performance was average or below average. Moreover, while direct communication/consultation or none improves the financial performance of non family-owned plants, these effects are largely absent in family-owned establishments, implying that not only do such establishments have lower levels of EI, when EI is

present this does not translate into greater economic benefits, confirming that such EI likely supports sophisticated paternalism rather than good practice HRM.

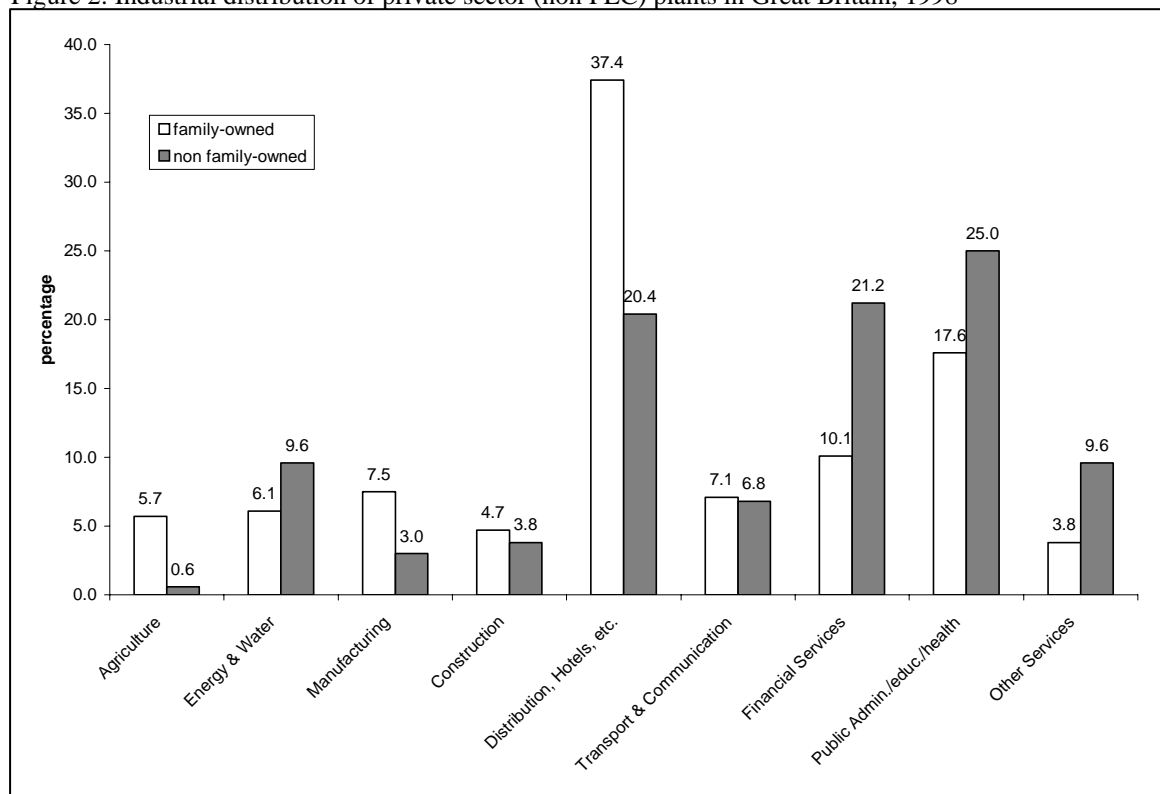
The results reported in this paper warrant further, detailed investigation using other data and/or different approaches (e.g. more case studies of HRM in family-owned workplaces). Hopefully this will both confirm the outcomes we have reported based on the present analysis using WERS98, and also help further explain the impact of culture on HRM practices in family-owned firms. The WERS dataset is also a valuable resource for considering other differences between family- and non family-owned establishments that have been touched on here, such as the extent of change in the workplace and issues surrounding levels and types of employee remuneration.

Figure 1: Employment share of family-owned private sector firms, Great Britain, 1998 (only plants employing 25+ are included)



Source: based on weighted total employment obtained from WERS98 (Cully *et. al*, 1999)

Figure 2: Industrial distribution of private sector (non PLC) plants in Great Britain, 1998



Source: weighted data from WERS98

Table 1: Weighted mean values of certain characteristics of private-sector establishments<sup>a</sup>, Great Britain, 1998 (all figures are proportions unless stated)

Variable	Family-owned	Non family-owned	<i>t</i> -test of difference
<u><i>HRM</i></u>			
Internal fit (no. of HRM practices from 0-14)	4.71	5.52	-6.87
External fit (plant targets quality of product)	0.25	0.39	-5.12
<u><i>Basic characteristics</i></u>			
Number of employees	36	52	-1.46
Age of the plant (in years)	28	26	-0.81
Union density	0.04	0.13	-7.81
Foreign-owned	0.04	0.12	-5.11
Little workplace change last 5 years	0.41	0.34	1.96
No workplace change last 5 years	0.14	0.05	4.30
Employees receive profit-related pay (incl. shares, dividends)	0.51	0.53	-0.52
Gini coefficient relating to FT male earnings	0.36	0.33	1.98
Outsourcing in last 5 years	0.21	0.28	-2.81
Temporary/fixed term workers	0.15	0.37	-7.94
Supply national/international markets	0.36	0.35	0.42
Competition is very high/high	0.71	0.62	3.34
Single establishment enterprise	0.67	0.47	6.56
<u><i>Workforce characteristics</i></u>			
% Part-time workers	0.28	0.30	-0.97
% Female workers	0.47	0.55	-3.79
% Manual workers	0.50	0.37	6.45

<sup>a</sup> Excludes PLC's. See Table A1 for definitions

Source: WERS98

Table 2: Weighted mean values of whether communication and/or consultation took place in private-sector establishments<sup>a</sup>, Great Britain, 1998 (all figures are proportions unless stated)

Variable	Family-owned	Non family-owned	<i>t</i> -test of difference	$\partial(y=1)/\partial\text{family-owned}^b$
Briefed workforce	0.70	0.81	-4.34	-0.12
Used JCC's	0.12	0.24	-5.14	-0.12
Used quality circles	0.23	0.33	-3.61	-0.11
Formally surveyed workforce	0.20	0.43	-7.24	-0.20
Provided info. on investment plans	0.43	0.43	0.06	0.00 <sup>c</sup>
Provided info. on financial position	0.39	0.61	-7.28	-0.22
Regularly meeting with workforce	0.32	0.38	-2.22	-0.07
Systematically used management chain	0.33	0.52	-6.06	-0.19
Used suggestion schemes	0.17	0.23	-2.29	-0.02 <sup>c</sup>
Distributed regular newsletters	0.12	0.42	-11.12	-0.29
Used emails	0.10	0.07	1.81	0.03 <sup>c</sup>
Used none of last 5 communication schemes	0.28	0.14	5.69	0.11

<sup>a</sup> Excludes PLC's. See Table A1 for definitions

Source: WERS98

<sup>b</sup> Probability that communication-type is practiced if plant belongs to the family-owned sector (obtained from a weighted logit regression controlling for TU membership, plant size and age, industrial sector, region and whether foreign-owned). All marginal effects reported are significant at the >5% level except those with a superscript <sup>c</sup>.

Table 3: Summary of type of communication/consultation practiced in private-sector firms<sup>a</sup>, Great Britain, 1998 (figures are column percentages)

Type	Family-owned	Non family-owned	Total
Direct communication only	70.5	68.6	69.5
Direct communication only + use of JCC	11.8	23.2	18.0
No direct communication/consultation	17.7	7.2	12.5

<sup>a</sup> Excludes PLC's

Source: WERS98

Note: A  $\chi^2$ -test rejects the null of no association for this two-way cross-tabulation, at the 1% significance level. In addition, and based on a weighted multinomial logit model (controlling for TU membership, plant size and age, industrial sector and whether foreign-owned), the probability of the plant having no direct communication if it belongs to the family-owned sector is 10.4% *higher* than if it belonged to the non family-owned sector. The probability of the plant having direct communication + a JCC if it belongs to the family-owned sector is 10.7% *lower* than if it belonged to the non family-owned sector. The direct communication only sub-group is the base group in the multinomial logit.

Table 4: Workplace performance: Great Britain Private Sector Plants, 1998 (data are column percentages)

Ranking:	Financial performance		Labour productivity		Quality of product/service	
	non family-owned	family-owned	non family-owned	family-owned	non family-owned	family-owned
Lot better than average	15.8	13.8	11.5	13.8	26.3	35.1
Better than average	50.8	31.1	40.3	32.2	52.7	46.6
Average	30.3	45.1	45.1	48.7	18.1	16.7
Below average	2.8	10.0	2.6	5.1	2.7	1.7
Lot below average	0.2	0.0	0.5	0.2	0.2	0.0
$\chi^2(4)$ test of no association	55.4**		9.2		10.3*	

\*\*(\*) significant at 1% (5%) level. Excludes PLC's.

Source: Weighted data from WERS98

Table 5: Marginal effects of workplace financial performance (coded 0=below average to 3=lot better than average): Great Britain Private Sector Plants, 1998<sup>a</sup>

Variables	$\partial(y=0)/\partial x$	$\partial(y=1)/\partial x$	$\partial(y=2)/\partial x$	$\partial(y=3)/\partial x$
Family owned	0.098	0.202	-0.126	-0.175
Internal fit	-0.007	-0.015	0.010	0.013
Direct communication with workforce	-0.068	-0.140	0.087	0.121
"-" × family-owned	0.060	0.123	-0.077	-0.106
No communication with workforce	-0.148	-0.305	0.190	0.263
"-" × family-owned	0.160	0.330	-0.205	-0.284
"-" × family-owned × external fit	-0.178	-0.368	0.229	0.317
<i>ln</i> age of plant	-0.015	-0.031	0.019	0.027
<i>ln</i> employment size × family-owned	-0.033	-0.068	0.042	0.059
Single establishment enterprise	-0.032	-0.067	0.041	0.057
TU density 10-49%	0.026	0.055	-0.034	-0.047
TU density 50+%	-0.038	-0.078	0.048	0.067
Little workplace change last 5 years	0.033	0.068	-0.042	-0.058
No workplace change last 5 years	0.063	0.129	-0.080	-0.112
% part-time	0.001	0.002	-0.001	-0.002
% female	-0.001	-0.001	0.001	0.001
Employees receive profit-related pay × family-owned	0.054	0.111	-0.069	-0.095
Gini coefficient relating to FT male earnings	-0.076	-0.158	0.098	0.136
Outsourcing in last 5 years	0.028	0.057	-0.036	-0.050
Temporary/fixed term workers	0.039	0.082	-0.051	-0.070
Supply national/international markets	0.038	0.080	-0.049	-0.069

<sup>a</sup>Only significant effects included based on Table A2

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## Appendix

Table A1: Definitions of variables used

Variables	Definition
Briefed workforce	Any system of briefings for any section of workforce
Used JCC's	Any committees of managers/employees primarily concerned with consultation rather than negotiation
Used quality circles	Groups to solve specific problems or aspects of performance/quality
Formally surveyed workforce	Whether formal survey of employees' views in last 5 years
Provided info. on investment plans	Regularly supply employees with information on internal investment plans
Provided info. on financial position	Regularly supply employees with information on financial position of establishment
Regularly meeting with workforce	Regular meetings of entire workforce present
Systematically used management chain	Systematic use of management chain/cascading of information
Used suggestion schemes	Use suggestion schemes
Distributed regular newsletters	Regular newsletters distributed to all employees
Used emails	Use emails
Used none of last 5 communication schemes	None of last 5 schemes
Internal fit	Number of HRM practices used in workplace from following list: (1) Formal procedure for dealing with individual grievances (2) Formal written EO/managing diversity policy (3) Guaranteed job security/no compulsory redundancies for any group (4) Standard induction for new employees in largest occupation group (5) Conduct personality or attitude tests when filling vacancies (6) Conduct performance or competency tests when filling vacancies (7) > half non-managerial workers have performance formally appraised (8) Workplace accredited as Investor in People (9) > half non-managerial workers are multitasked (10) Largest occupation group has a lot of discretion over how they work (11) > half of largest occupation group in formally designated teams (12) QCs used (see above) (13) > half non-managerial workers receive performance related pay (14) > half non-managerial workers receive profit related pay
External fit	Workplace targets quality of product or service
Number of employees	Total number of full- and part-time employees
Age of the plant (in years)	How long has the establishment been operating at this or any previous address
Union density	The no. of employees who are members of a trade union (or staff association) whether recognised or not
Foreign-owned	Establishment is (predominantly – i.e. 51% or more) foreign-owned
Little workplace change last 5 years	Whether there has been a little change at workplace over last five years
No workplace change last 5 years	Whether there has been a lot of change at workplace over last five years
Employees receive profit-related pay (incl. shares,	Whether any employees receive variable payments (e.g., profit-related,

dividends)	share ownership, group-performance)
Gini coefficient relating to FT male earnings	Based on number of male full-time workers with annual earnings in 6 specified bands from <£9k to £29k or more.
Outsourcing in last 5 years	Whether contractors are carrying out activities/services (e.g., cleaning, security, catering, computing, training) provided in-house 5 years ago
Temporary/fixed term workers	Whether temporary and/or fixed term workers are used
Supply national/international markets	Market for main product/service is national or international
Competition is very high/high	Degree of competition in market is very high or high
Single establishment enterprise	Whether a single plant enterprise (no other plants in organisation)
% part-time	Percentage of workforce that are part-time
% female	Percentage of workforce that are female
% manual	Percentage of workforce that are manual workers

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Source: WERS98

### Multivariate Logit Model

The results reported in Tables 2 and 3 are based on the following (weighted logit) model (where  $y_i$  – the dependent variable – denotes whether the activity took place (coded 1) or not (coded 0) in plant  $i$ ):<sup>24</sup>

$$y_i = \beta_1 \ln(\text{age}_i) + \beta_2 \ln(\text{size}_i) + \beta_3 FO_i + \beta_4 \text{Family}_i + \sum_{j=1}^3 \delta_j TU_{ij} + \sum_{k=2}^9 SIC_{ij} + \sum_{l=2}^{10} REG_{ij} + \varepsilon_i \quad (\text{A1})$$

Thus, estimating equation (A1) controls for age, size (number of employees), ownership (whether foreign-owned or not), TU density (3 groups covering density levels of 1-9%; 10-49%; and 50+%), and the industry and region to which the plant belonged. The variable of interest is  $\text{family}_i$  (i.e. whether the plant was family-owned or not), and based on the marginal effect of the probability that  $y = 1$ , it can be seen, for example, that when the plant is family-owned the probability that the workforce received briefings was 12% lower.

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<sup>24</sup> Note ‘ln’ refers to natural logarithm. Continuous variables were included in logged-form as this resulted in greater significance of the associated parameters estimates.

Table A2: Weighted ordered-probit model of workplace financial performance (coded 0=below average to 3=lot better than average): Great Britain Private Sector Plants, 1998

Variables	$\hat{\beta}$	z-statistic
Internal fit	0.071	2.73
Family owned	-0.933	-2.49
Direct communication with workforce	0.645	3.62
"-" × family-owned	-0.569	-2.01
No communication with workforce	1.405	4.43
"-" × family-owned	-1.520	-3.61
"-" × family-owned × external fit	1.697	2.47
<u>Control variables</u>		
<i>ln</i> age of plant	0.143	2.34
<i>ln</i> employment size	0.013	0.15
"-" × family-owned	0.313	2.29
Foreign-owned	-0.296	-1.30
Single establishment enterprise	0.306	2.38
TU density 1-9%	-0.194	-0.94
TU density 10-49%	-0.251	-1.73
TU density 50+%	0.359	2.62
Little workplace change last 5 years	-0.312	-2.60
No workplace change last 5 years	-0.596	-2.53
% part-time	-0.009	-3.15
% female	0.006	2.19
% manual	-0.001	-0.08
Employees receive profit-related pay (incl. shares, dividends)	0.180	1.09
"-" × family-owned	-0.510	-2.28
Gini coefficient relating to FT male earnings	0.726	2.86
Outsourcing in last 5 years	-0.265	-2.00
Temporary/fixed term workers	-0.376	-2.80
Supply national/international markets	-0.366	-2.99
Competition is very high/high	0.103	0.83
$\mu_1$	-0.699	1.55
$\mu_2$	0.948	2.12
$\mu_3$	2.421	5.30
Sample size (unweighted)	520	
LR $\chi^2$ (36)	185.060	
Pseudo R <sup>2</sup>	0.148	

Excludes PLC's. Industry and regional dummies are not reported

Source: WERS98