

# **Employee Involvement in Family and Non Family-owned Businesses in Great Britain**

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## Abstract

Nationally representative data on family businesses is available in the 1998 Workplace Employee Relations Survey, alongside comparable information for other types of firms. We use this 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 short paper reports the outcome of testing if those firms that consult directly with staff, as apposed to those that consult through Joint Consultative Committees or Trade Unions, have higher productivity and/or other measures of performance. 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 translate into greater economic benefits (as is the case in non family-owned firms).

## Key words

Employee involvement

family-owned firms

performance

## INTRODUCTION

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). That is, since family-owned firms are businesses in which a single family exercises significant managerial and financial authority (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).

Poutiouris (2000) states that to date family firm research has been dominated by issues relating to succession. In contrast, this short 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. Taguiri 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 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 Employment Relations Survey (WERS98) which asked a question on whether private sector plants were controlled by a family or a single individual, 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 Public Limited Companies – 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. This needs to be borne in mind throughout the rest of this paper.

This 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 employee involvement and other HRM strategies related to worker effort and thus we go on 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. Section 3 looks at the economic performance of family-owned establishments using the WERS98 database, and the paper ends with a summary and conclusions.

### EXTENT OF COMMUNICATION AND CONSULTATION IN FAMILY-OWNED ESTABLISHMENTS

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>2</sup> since it has been argued (e.g., Addison *et. al.*, 2000) that greater involvement increases employee loyalty, responsibility and effort, so increasing efficiency<sup>3</sup>. In particular, we expect there to be major 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. Such a culture is likely to result in a view that EI is less necessary (workers are looked-after and do not need EI – and even less so trade union representation; see Scott *et. al.*, 1989, and Ram and Holliday, 1993), as well as EI possibly being seen as a greater threat to the culture of the family-owned business if it engenders rent-seeking (i.e. greater returns to employees through higher pay) and challenges to the way the business is run by family members.

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-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, in this 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. The data used is taken from the nationally representative sample of establishments contained in the 1998 Workplace Employment Relations Survey for Great Britain (see Cully *et. al.*, 1999, for full details<sup>4</sup>).

*Table I around here*

Table I presents the (weighted) mean values for certain variables, starting with 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). That is, apart from whether an establishment is family-owned or not, 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 shows 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>5</sup> However, family-owned establishments were much less likely to be 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 were much less likely to be involved in negotiating and consulting with trades unions.

*Table II around here*

Table II 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. 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. 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.

Since these results may be influenced by such factors as the size of the plant, the final column of Table II is based on estimating a (weighted) logit regression model where the dependent variable denotes whether an activity – such as the workforce received briefings – took place in a particular plant *i*. This model controls for whether the plant was family-owned or not, the age of the plant, size (number of employees), ownership (whether foreign-owned or not), trade union (TU) density (3 groups covering density levels of 1-9%; 10-49%; and 50+%), and the industry and region to which the plant belonged. Full details on the definition of these variables are

provided in the appendix (Table A1). Thus, the final column of Table II shows that when the plant is family-owned, and after controlling for all other effects (such as size, industry and region), the probability that the workforce received briefings was 12% lower (vis-à-vis non family-owned plants); the use of Joint Consultative Committees (JCC's)<sup>6</sup> 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. Hence, the results presented in the first two data columns of Table II (in terms of the differences between the two sub-groups) are largely substantiated by the marginal effects obtained from the logit model (see the last column of Table II). In general, there is significantly less direct communication and less negotiating with employee representatives in family-owned plants, as predicted given the arguments presented above, since it is possible to summarise the information on communication and consultation and 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<sup>7</sup> (and these differences remain after controlling for such factors as size, age and industry).

### 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 (usually the financial director)<sup>8</sup> to provide a ranking relative to others operating in the industry to which they belonged.<sup>9</sup> The outcome, sub-divided into family-owned and non family-owned private sector establishments, is presented in Table III; 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.<sup>10</sup> After controlling for other factors (in addition to whether the plant was family-owned or not), we find using multivariate techniques that there is only a statistically significant difference between the two ownership sub-groups with respect to financial performance, and thus we shall limit our discussion to only this aspect of economic performance.

*Table III around here*

Various multivariate regression models of the determinants of financial performance are presented in Harris *et. al.* (2003) – such as ordered probit models – and here we shall simply summarise the main findings as they relate to EI and workplace performance. Firstly, the results show that after controlling for a wide-range of relevant factors,<sup>11</sup> family-owned plants were some 12.6% less likely to report a level of performance that was ‘a lot better than average’, while family-owned plants were over 25% more likely to believe their financial performance was average or below average.

Secondly, few variables are significant in the model determining workplace performance in family-owned establishments as compared to those factors that are significant in non family-owned plants. That is, both high levels of communication/consultation (or none) and/or high union density improves the financial performance of non family-owned plants; however, these effects are absent in family-owned establishments, implying that not only do such establishments have lower levels of EI (Table II), when EI is present this does not translate into greater economic benefits.

### SUMMARY AND CONCLUSIONS

This paper provides what we believe to be one of the first attempts (using British data) to link ownership structure (particularly whether the firms is family-owned) with important HRM variables (such as employee involvement), and firm performance. As a result of such factors as cultural differences, family-owned establishments were found to take a different approach to employee involvement (EI) practices (e.g. with respect to consultation and communication) and indeed we suspect other HRM strategies related to worker effort. In particular, family-owned firms engage in lower levels of EI 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.

In terms of the evidence from the WERS98 database on consultation and communication, this paper finds that family-owned establishments were much less likely to be engaged with the workforce via a range of consultation and communication approaches: for example, they are less 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.

In terms of the economic performance of establishments, the data from WERS shows 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 the determinants of financial performance are modelled using multivariate techniques, it is found that – after controlling for a range of covariates – family-owned plants were much more likely to believe their financial performance was average or below average. Moreover, while both high levels of communication/consultation (or none) and/or high union density improves the financial performance of non family-owned plants, these effects are absent in family-owned establishments.

Clearly there are some complex relationships between ownership structure, EI practices and performance that this paper only begins to highlight. And the data used are also subject to limitations (such as being self-reported on financial performance) and it is not possible to differentiate clearly between formal versus informal linkages between employers (owners) and employees. Further work is needed to consider further the reasons why family-owned firms may take a different approach, and experience different outcomes with respect to HRM practices. This is important given previous research that tends to show a clear, and important, link between EI and firm performance in general.

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Table I: 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
<i>Basic characteristics</i>			
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
<i>Workforce characteristics</i>			
% 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

Source: WERS98

Table II: 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

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 – see Harris, *et. al.* 2003, for details). All marginal effects reported are significant at the >5% level except those with a superscript <sup>c</sup>.

Table III: 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

## 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
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, dividends)	Whether any employees receive variable payments (e.g., profit-related, 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

## Endnotes

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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.

<sup>2</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.

<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), and Guest *et. al.* (2003).

<sup>4</sup> We accept 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 not a PLC, it was asked: does a single individual or family have controlling interest over this company, where controlling interest meant at least 50% ownership?).

<sup>5</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)

<sup>6</sup> These are consultation groups between employers and employees (not necessarily involving trade unions) that meet relatively frequently to consider issues such as health and safety, production issues, pay issues, etc. Their agendas are set by mutual agreement (although often limited by management to certain issues).

<sup>7</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>8</sup> It is not known exactly who the respondents were (they may or may not have been family members in family-owned firms) but the WERS survey attempts to interview the person most likely to provide the needed information for the survey.

<sup>9</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.

<sup>10</sup> The literature provides conflicting and ambiguous results on whether family-owned firms are more/less productive/profitable than non family-owned firms. See, for example, Daily and Thompson (1994) and the review of this area provided in Daily *et. al.* (2002). The latter argues that (mainly US) studies do generally show that the performance of quoted founder-led firms is superior, but this is not the sub-group of companies considered here (private sector, non-PLC, firms that dominate industry in terms of their numbers).

<sup>11</sup> Such as ownership (foreign owned and whether a single-plant enterprise), TU density, whether there has been workplace change in the last 5 years, the composition of the workforce (by part-time/full-time status, gender, whether manual/non-manual and ethnicity), which markets were supplied, plant size, industrial sector, and the regional location of the plant.