This is Not Your Father's HR Department

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Families, talent and business success

Jack Ma said in a television interview, shortly after the wildly successful Alibaba initial public offering, that for him customers came first; employees second; and shareholders third. He added that if shareholders were unhappy with his priorities they could either refrain from buying Alibaba shares or sell the ones they owned. As a classic example of an entrepreneur bootstrapping sweat equity into business success, he is right about this ranking of priorities. Without customers, any enterprise is just a hobby. Without talented employees and executives, high growth businesses cannot compete successfully over time, irrespective of the brilliance of their business model. And as Jack Ma added to his interview, if the customers are satisfied and willing to recommend, then the employees will be emboldened, and the shareholders will do well.

This essay addresses how family controlled, high growth enterprises ensure that employees and managers do well, i.e. how such companies find, recruit and retain the talent needed to sustain their business growth. It proposes a strategy for strategic talent acquisition, and addresses the cultural congruencies between family control of an enterprise and that enterprise's success at talent management. Finally, this essay focuses on the constraints that family control places on effective management of human capital in a high growth enterprise and offers remedies for such shortcomings.

The new, new thing in human capital management

The "new, new thing" for all growth companies to recognize is that there are new rules around human capital. There is a huge glut of private equity and other third party financial capital available to founders and controlling shareholders of growth companies in many developed economies. Thus, the greatest constraint on growth today isn't money. It's people. The capital shortage all high growth companies confront, the gating factor they must surmount, is a chronic shortage of human capital, i.e.: Talent. Owners and managers of all businesses that seek to grow need to rethink how to find and motivate their key people, who will in turn manage in ways that increase the productivity of their human capital, of their people. Family controlled growth companies are no exception to this market demand. But, as seen below, they offer both assistance and roadblocks to senior leadership teams endeavoring to optimize talent management in such companies.

The chronically talent constrained companies of Silicon Valley have confronted this challenge longer than any other sector of the American economy. During my 15 years as a recruiting leader in Silicon Valley and elsewhere, I have helped create and deploy strategies to identify, vet, recruit and retain the most highly skilled leaders and managers (there is a difference) I could find. And every day of those 15 years I vied with numerous other high technology leaders and executive search firms engaged in the same effort. This focus on talent, which began in high tech, has now spread across the entire economy. As a result, "human resources" is no longer just about benefits, compensation and employee development. The strongest call on senior executives, and the greatest need in the 21st century human resources department, is talent acquisition--which may be a controversial epiphany to many readers.

A new strategy for recruiting talent

Historically, the key variables in hiring management talent were compensation, a strong corporate culture and competitive corporate policies on financial and other benefits. Today, companies can no longer attract top talent simply by offering competitive compensation and benefits. What is needed in a human capital constrained world is a "Chief Talent Officer," whose explicit primary responsibility is to lead a strategy for finding and converting searches for world class talent into successful recruitment of executives for his or her employer. This addition to the senior executive ranks of all companies above a certain size is necessary because having a management team that develops great strategy, but only mediocre talent to execute it, is akin to trying to make great hamburgers out of mediocre meat. The top of the recruitment funnel has to be broad. Employee retention and succession planning are important, but secondary to acquiring the best talent at the outset. How you identify game changing talent and ensure they join the firm comes first. In today's marketplace, the first step is everything. If you misstep, everything else is a detour to your destination. As my old high school basketball coach used to say "even a blind pig finds a carrot every once in a while" – and that is not a strategy.

Culture based recruitment

Values driven, culturally specific companies in highly competitive industries and/or geographic markets that enter the market to recruit executives have a powerful competitive edge. Perhaps a creative genius can go out to his or her garage and invent a new algorithm or gadget that can drive the fortunes of a new company. But building corporate culture, like planting trees to landscape a new home, requires a decade or more to achieve success. If a company has a distinctive culture, and leverages it effectively, it has a powerful competitive edge in the battle for talent acquisition.

The entire experience of defining the position for which someone is being recruited through the close of the search should be premised on demonstrating experientially to all search candidates the competitive advantage of joining your company and embracing its culture. All candidates should be screened at the start for cultural fit. Candidates can adapt to the culture. The converse is not true. It is only a slight exaggeration to suggest that the candidate experience is akin to immigrating to a new nation/new culture. Most people do not dare to undertake the journey.

Those that do consider a journey to a culturally specific company present character traits that are highly valuable to high growth companies. The candidate is akin to an immigrant journeying to a new nation/new culture. Such individuals are self selected for their willingness to learn, adapt and share what they know. These traits are indispensible for management team members in a learning organization. If a candidate demonstrates the eagerness to try the "new, new thing," look for evidence that the candidate walks the walk and does not just talk the talk. Everyone on the team should make an impression with each connection to such a candidate; one that lasts and turns candidates into believers that their journey to a new company is worth the risk. Great companies have a culture of true believers, and only let new believers in. If you have made the candidate a believer in the corporate culture, and articulated the corporate mission and strategy, closing becomes a natural extension of the recruiting conversation in lieu of the hard close. Whether a candidate joins or declines, the recruiting conversation is about creating advocates and believers in the culture, the brand and the product or service.

Family controlled enterprise based recruitment

Be clear about and represent the cultural attributes of your company.

To any shopper in New England there is an immediate, powerful and highly visible difference between the corporate cultures of family owned Demoulas Supermarkets and Wal-Mart. In the summer of 2014 virtually all of Demoulas' 25,000 employees, from the highest ranking executives to the newest employee restocking shelves, walked off the job and stayed off the job until the board of directors controlled by an opposing family faction that fired Arthur T. Demoulas as CEO, reinstated him. Any review of Demoulas Supermarkets' history demonstrates beyond a reasonable doubt that to Arthur T. Demoulas and his senior management team, employees are fundamentally important assets to the well being of the business and not merely "labor costs." This fundamental cultural principle is seen in both numerous Demoulas Supermarkets employment policies and the recent news reporting of the profoundly active personal relationships Arthur T. Demoulas has, and has always had, with employees at all levels of his company. Wal-Mart, on the other hand, has generated such public hostility based on how it treats its employees that several websites exist with the primary purpose of highlighting stakeholder and stockholder grievances about these policies.

No company needs the trauma of its near total shutdown over allocation of free cash flow versus distributions to shareholders to emphasize the point that corporate culture can constitute a profound competitive advantage in highly competitive industries. By the same token, no company can create a distinctive corporate culture in two weeks, two months or two years. It takes many years to create a self sustaining corporate culture. Since family firms generally derive their corporate culture from the culture of the founding/controlling family, they enjoy a tremendous head start against all other types of enterprises in developing corporate culture as a competitive advantage.

Culturally based recruitment policies can drive successful talent acquisition.

Perhaps no hire is more crucial to success and at the same time fraught with peril as the recruitment of the first non-family Chief Executive Officer of a high growth family controlled firm. Clearly, the best candidates available are highly portable, on the radar of all major search firms that service a particular industry, and need a compelling reason to select one new opportunity over many others that are likely to come their way. Most family firms discourage such candidates from accepting the invitation of a search firm to study the situation simply because of the time worn cliché that there is little chance to really “drive the bus” in a company controlled by a family shareholder control group. Yet this ought to be, and can be, a rebuttable presumption, not a conclusive presumption. It is unclear, for example, whether the freedom to build a business controlled by a private equity firm is any less burdened by constraints arising from the cultural norms, e.g. a short term time line from acquisition to disposition, than a comparable company controlled by a family. Rather, it may be the case that a clearly demonstrable commitment to both family and corporate governance can highlight the absence of some plausible family firm constraints on CEO performance that burden other, non-family controlled companies. I know of several high growth family controlled companies, who have successfully recruited world class non-family CEO’s once the model of governance, undergirded by deeply held cultural norms, was understood by top candidates. Thus, it is not the “familiness” of the control group that ultimately serves as talent recruitment constraint. Rather, it is the cultural norms of a particular family controlled firm that can prove irresistible to the “A-Level” candidate.

Conclusion

In the 1950’s the Boston Braves were a competitive baseball team in the National League because they had on their roster two of the game’s finest pitchers, Warren Spahn and Johnny Sain. Of the chances for the Braves to win the pennant, it was quipped that what the Braves needed was “Spahn and Sain and two days of rain.” When an enterprise has on its roster the very best talent available, it can overcome many competitive disadvantages. Sixty-five years later, you might not need the rain, but you most certainly need Spahn and Sain. However, like the weather, not all challenges can be controlled by management initiative. Prayer for rain may have efficacy, but it rarely offers reliability. Recruiting the very best talent, as suggested in this essay, can promote family controlled enterprises from contenders to winners. But to do so, owners and managers of family firms must master the most effective strategy to recruit top talent and understand how their family firm’s culture may both promote retention of key executives and drive others to depart for greener, i.e. non-family, pastures.

