Spotlight
by CeFEO

What happens when family leaders put people before policies?

How do family values shape the way businesses care for their people?

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People are the backbone of any business — and in family businesses, this truth takes on an even deeper dimension. Employees often become part of an extended family, bound not just by contracts but by shared values and mutual commitments. Human resource management (HRM) in this context isn't just about performance appraisals and training budgets — it's also about trust, continuity, and relational depth.

But how do family businesses formalize these values into actual HR strategies? And what role do family leaders play in shaping these practices?

This article investigates how leadership by family members and their broader involvement in top management teams affect the adoption of **mutuality-oriented HRM practices** — those that emphasize mutual respect, development, and well-being for both employer and employee. The findings offer timely insights for SMEs looking to balance tradition with modern management practices.

WHAT WE STUDIED

To explore these dynamics, the researchers conducted a **quantitative survey** of **207 family-owned SMEs in Austria**, covering multiple industries. These firms had a clear family identity, with active participation of family members in ownership and governance.

Two key variables were examined:

1. **Family Leadership**: Whether the CEO (or equivalent) is a member of the owning family.
2. **Family Involvement**: The percentage of family members within the top management team.

The dependent variable was the extent to which firms implemented **mutuality-oriented HRM practices** — strategies characterized by long-term employment relationships, employee development, participation in decision-making, and mutual support between employers and workers.

The analysis was grounded in two theoretical frameworks:

- **Stewardship Theory**, which posits that family members tend to act as stewards rather than agents, prioritizing long-term relationships and care for the organization.
- **Socioemotional Wealth (SEW) Perspective**, which suggests that family firms seek to preserve non-financial aspects of the business, such as identity, reputation, and family legacy.

Regression models were used to test the impact of family leadership and involvement on the adoption of mutuality HRM practices, including interaction effects.

KEY INSIGHTS

1. Family Leaders Promote People-Centered HRM

When a family member holds the top executive role, the firm is significantly more likely to adopt mutuality-based HRM practices. These leaders are more attuned to the long-term well-being of both the business and its employees, and are willing to invest in practices that promote development, trust, and job security. This suggests that family leadership serves as a catalyst for more human-focused management styles.

2. Family Involvement Isn't Always Reinforcing

Contrary to expectations, increasing the proportion of family members in the top management team does not necessarily enhance mutual HRM practices. In fact, the study found a **negative moderating effect** — meaning

that when family involvement is too dominant, it can **dilute or neutralize** the positive influence of a family CEO on HR practices.

Why? The authors suggest that excessive familial homogeneity in leadership may lead to **closed decision-making**, **less openness to professional HR norms**, or even **risk aversion** — limiting innovation in HR practices and reinforcing traditionalist approaches that may not favor employee empowerment.

3. Mutuality HRM Benefits Both Sides

Firms that engage in mutuality-oriented HRM benefit from more than just good vibes. These practices are linked to **greater employee satisfaction**, **reduced turnover**, and **higher organizational commitment**. They also help in **attracting and retaining talent**, especially among younger workers who value supportive and inclusive workplaces.

TAKEAWAYS

Leadership Matters — But So Does Diversity

Having a family member at the helm can bring a people-first ethos to HR. But overloading the top management with only family members may inadvertently create a leadership bubble. To sustain mutual HRM practices, diversity in leadership — including external voices — is essential.

Mutuality Builds Loyalty and Trust

HR practices that focus on development, inclusion, and well-being reinforce the relational culture of family firms. Investing in these areas is not just an ethical decision — it's a strategic one, especially for SMEs that rely on loyal, multi-skilled teams.

Formal HRM Isn't the Enemy of Family Culture

Some family firms shy away from formal HR practices, fearing they may erode their unique culture. This study shows that structured, mutual HRM practices can **amplify**, not undermine, the relational strengths of family businesses — if they are implemented with the same values of care and trust.

IMPACT

This research highlights a critical tension in family-owned SMEs: the desire to preserve a unique, values-driven identity versus the need to professionalize and modernize HRM strategies. As younger generations enter family firms, and as labor markets become more competitive, mutuality-based HRM can become a **strategic asset**.

Moreover, the findings call for **a shift in how we think about leadership** in family businesses. It's not enough to have family in charge — the composition and diversity of the leadership team matter immensely in ensuring sustainable, people-centered practices. Future research could explore how external managers and next-generation family leaders co-create more inclusive, trust-based HRM systems.

RECOMMENDATIONS

- **Empower Family Leaders to Champion Mutual HRM**
  Encourage family CEOs to institutionalize practices like mentoring, employee voice mechanisms, and participative goal-setting.
- **Diversify the Top Team**
  Introduce non-family executives or HR professionals to enrich perspectives and bring balance to leadership dynamics.
- **Educate the Family on Modern HRM Tools**
  Training programs and workshops for family managers can bridge the gap between tradition and innovation in HR strategy.
- **Measure and Monitor HRM Impact**
  Use feedback tools and employee surveys to ensure that mutual HR practices are delivering the intended outcomes and are evolving with employee needs.

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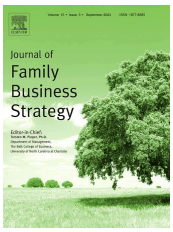
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