



COMMITTEE REPORT: FAMILY BUSINESSES

By **Brett Dearing** & **Susan R. Schoenfeld**

Embracing Diversity and Inclusion

Acquiring the best talent is good for business

Now that 2020 is in our rear-view mirror, we can think about it with the benefit of hindsight, if only just. Of course, we'll primarily associate the year with COVID-19 and the pandemic's life-altering impact on our planet's health, mortality, restrictions on personal freedom for both our own benefit and for the greater good and the devastating impact on the global and local economy.

Another significant development in 2020 was the heightened embrace of racial equality and inclusion and acknowledgment of the toll that centuries of divisiveness has had on our country. That, plus the continued awareness of the Me Too movement for recognition of gender discrimination and harassment, resulted in the most diverse U.S. House of Representatives ever seated. The Senate runoffs in Georgia in January 2021 elected both an African-American preacher and a Jewish filmmaker. We have our first-ever female, African-American, Asian-American vice president.

How should national trends toward increased diversity and inclusion (D&I) of underrepresented populations translate to the family business? Should family businesses be making a concerted effort to offer a seat at the table to populations historically excluded? What are the benefits of doing so, and what are the risks, if any?

Good for Business

To answer these questions, one must first understand

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that the primary priorities of a family business are longevity, profitability and legacy. And so, the lack of diversity for most businesses isn't intentional. That being said, the fundamental benefit of developing a systemic policy of inclusion by family businesses is good for business on many levels. It will be important for family businesses to shift their thinking from why inclusion matters to strategy around the implementation of D&I.

One way that inclusion is good for business is the ability to seek out and hire the best minds to focus on your company's mission. The demand for amassing best thinking and thought leadership for the purpose of guidance and high level thought processes for your business has never been greater. The end of business as usual has a much deeper and potentially more devastating result for family businesses. The pandemic has made decision-making timelines shorter and more important to survival. It's also made the ability for strategic thought and planning a necessity.

Both racial and gender inclusion policies are good for business. If the business has a homogeneous management team, business decisions will inevitably reflect their shared perspective. As family businesses race to attract and retain top talent, they risk losing out by systemically excluding whole swaths of the talent pool.

Acquiring the Best Talent

When thinking about your company's hiring needs, the linchpin of your hiring thesis should be broadening your search with the goal of hiring the best minds through diversity and the inclusion of the best people. Without that guiding principle, your business risks falling behind the competition.

The year 2020 spotlighted issues and challenges that have been impacting family businesses for decades. One of those challenges is finding and retaining talent in C-suite and other key positions.



The real opportunity moving forward for family businesses to minimize the long-term impacts of the pandemic and to ensure profitability and longevity is by acquiring the best talent. To do so, increasing efforts around human talent initiatives to include expanding search efforts to reach more diverse, qualified candidates will be key. Advisory boards of family firms are echoing the same request for more diversity, not only in the family business but also on the board and executive team.

The Boston Consulting Group produced a study showing companies with a more diverse management team:

- have 19% higher revenues due to innovation;¹
- are 33% more likely to generate better-than-average profits;² and
- are 70% more likely to capture new markets.

In fact, not expanding search initiatives during and post-COVID-19 has the potential of becoming a long-term detriment to a family business's ability to compete, grow, expand and execute at a high level in the future. Recent studies have shown that due to the pandemic, many large organizations have had to quietly restructure their businesses to adjust for lack of profitability or reduced market relevance, creating displacement of highly qualified and experienced individuals who've expressed an urge to be more entrepreneurial in nature. Family business owners should make a concerted effort in 2021 in their business planning to monitor the success of all expanded efforts to acquire human resource talent. A good practice for monitoring progress and initiative success is to include it as an agenda item in your weekly management meetings.

It's equally important to make sure the search firm representing the family business in hiring endeavors is on the same page when it comes to this specific initiative. There have been alarming studies³ showing that it's common practice to pre-qualify candidates by the sound or appearance of their name on a resumé. Unfortunately, this creates a breakdown in the implementation of broadening your search. A common acceptable inference to share with your search representative is to make sure the key focus is placed on the qualification of resumes. It sounds fundamental, but unspoken habits can sometimes drive the hiring pro-

cess, and business owners should work against that.

If your family business doesn't have a mission statement, you should create one around the mission of hiring qualified personnel based on their qualifications, experience and ability to impact the longevity and legacy of your business. Share your mission statement with any representative and key employees responsible for your efforts to ensure your mission and culture stamp are clearly illuminated for all involved to see.

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Gender Diversity

Similar opportunities arise in the area of gender underrepresentation in the C-suite and other key positions. A recent *Harvard Business Review* article⁴ studied why having women on a corporate board statistically results in better business decisions and increased profitability for shareholders. The study concluded that having female board members helps temper the overconfidence of male CEOs, which potentially causes them to overestimate returns and underestimate risk.

Another benefit of having female directors or senior management is a greater diversity of thought and perspective. Women don't belong to old-boy networks and may therefore be less likely to conform to the prevailing view and more likely to innovate, think outside the box and consider a wider range of strategic options. Anecdotally, in addition, businesses with females in senior management create a firm culture with better employee retention and satisfaction rates.

In a recent study, researchers at Credit Suisse looked at more than 3,000 companies from 56 countries and specifically focused on 476 family-owned firms. Giving an example of what they called "striking results," the researchers wrote: "Over the past five years, family-owned companies with at least one women [sic] executive have outperformed male-only family-owned companies in every year."⁵



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Challenges and Risks

So, what are the risks and challenges for family businesses looking to implement diversity? The first challenge may be the initial thought or opinion that implementing this initiative is overly difficult. Secondly, many family businesses have struggled with creating and implementing a long-term hiring plan that aligns with the needs of the business while continuing to execute on their strategy to pursue the best talent. The biggest challenge to family business owners on implementing a successful diversity initiative is the power of complacency: The mindset of “it’s worked well this long. Why should I change now?” Not understanding the importance of why diversity is important to the long-term success of a family business can be an ideology that risks the business’s ability for longevity and success. The main focus that will help with minimizing challenges of implementation and maximize success is having an advisory council assisting with creating a long-term talent acquisition strategy that has progress milestones and success indicators around your diversity mission.

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A key risk is resistance—whether merely passive or overtly active—from existing team members, who may have preconceived notions about working with other races, a preference not to do so or just resistance to any change. The outcome for all three scenarios is the same. The way to overcome these types of implementational challenges is by setting business cultural expectations from the top down. This is especially

important for family businesses that have the ability to mandate that the culture and values of their business reflect their personal and family value systems.

An additional implementational challenge often mentioned is that family businesses cite difficulty finding people of color and women with the right skill set to fill open leadership and board member positions. Again, a mandate to the search firm to concentrate on resumé qualifications will help address this perceived challenge, as will an effort to build skills internally by hiring a more diverse workforce across the board and then identifying high potential talent in the lower ranks and offering them high visibility responsibilities to expand their skills and prepare them to succeed in senior roles.

It’s worth mentioning that many family business owners, after they do sell, often look for ways to contribute to similar causes of diversity, social injustice or nonprofits geared towards empowering those very individuals underrepresented. This creates a very real conflict for family business owners who understand the importance of social diversity and inclusion but may struggle with the business case for that same view when it comes to their own family business.

The true risk is that, without D&I, family businesses will continue to struggle operating at the highest level. Not only is diversity the right thing to do from a humanity perspective but also, it’s a smart business decision. Most importantly, diversity is a key element of leadership. The ability to show guidance, directorship and sovereignty around having part of your legacy be inclusive to others is a true sign of a leader. 

Endnotes

1. www.weforum.org/agenda/2019/04/business-case-for-diversity-in-the-workplace/.
2. <https://hrexecutive.com/how-the-worlds-most-admired-companies-drive-diversity-and-inclusion/>.
3. <https://hbswk.hbs.edu/item/minorities-who-whiten-job-resumes-get-more-interviews>.
4. <https://hbr.org/2019/09/research-when-women-are-on-boards-male-ceos-are-less-overconfident#:~:text=And%20several%20studies%20suggest%20why,taking%2C%20yielding%20benefits%20for%20shareholders>.
5. www.independent.co.uk/news/business/news/women-executives-fe-male-companies-shares-revenue-profits-gender-a9150621.html.