

MANAGING THE PERFORMANCE OF FAMILY AND NONFAMILY EMPLOYEES THROUGH FAIR POLICIES AND COMPENSATION

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ABSTRACT

This study aims to systematically review how fair compensation policies and systems affect the performance of family and nonfamily employees in family businesses. Using the Systematic Literature Review method based on 18 articles published between 2017 and 2025, the review results show that distributive and procedural justice significantly influence the motivation, satisfaction, and productivity of nonfamily employees, while family employees are more influenced by loyalty and the value of socioemotional wealth. Implementing performance-based compensation and transparent evaluation has been proven to reduce conflict and increase organizational commitment. This study recommends that family businesses establish objective evaluation systems and annual compensation audits to ensure meritocracy and fairness.

Keywords: family business; fair compensation; organizational justice; employee performance; family employees; nonfamily employees.

INTRODUCTION

Family businesses make a significant contribution to global and national economic growth, including in Indonesia. Many businesses in Indonesia are categorised as family businesses, and many of them are the backbone of the regional economy and creators of employment. The involvement of family members in the ownership and management structure of the business gives family businesses unique characteristics that distinguish them from non-family businesses, especially in terms of employee management and compensation policies. In addition, family businesses face complex challenges, particularly in the area of human resource management. One of the main challenges that often arises is how to manage the performance of family and non-family employees fairly and professionally. The value of socioemotional wealth inherent in family businesses influences how family and non-family employees are treated, as well as how compensation systems and HR policies are implemented (Davila, et al., 2024). This difference is important because employee performance, motivation, and satisfaction can be influenced by perceptions of distributive and procedural justice within the organisation (Hsueh et al., 2023). According to Hadjielias and Discua Cruz (2025), ethics in family businesses are strongly influenced by family values and efforts to maintain socioemotional wealth. This shows that management decisions and compensation policies are not only influenced by financial factors, but also by the non-economic goals of family businesses.

Non-family employees in family businesses often face challenges related to perceptions of fairness, particularly in terms of compensation and involvement in decision-making (Hsueh et al., 2023). Procedural and distributive injustice can reduce their motivation and productivity, so companies need to implement fair and transparent policies. On the other hand, family employees are more influenced by loyalty and socio-emotional values. A fair compensation system for non-family employees while maintaining appreciation for family employees is an important strategy to ensure balance and optimal performance (Kidwell, 2025). These challenges are reinforced by the findings of various recent studies showing that the absence of fair policies and procedures can reduce the motivation and commitment of non-family employees in family businesses. Haynie and Franco-Watkins (2024) emphasise that the absence of transparent policies and performance-based evaluation systems encourages increased dissatisfaction and turnover intention. They write that "the absence of fair policies and procedures undermines the motivation and retention of non-family employees, creating perceptions of inequity and exclusion." These findings show that organisational fairness serves as a moral and strategic foundation that maintains the sustainability of human resources in family businesses.

Furthermore, Razzak, Khan, and AlAbri (2022) highlight the role of procedural justice as a determining factor in employee engagement and the sense of inclusion of non-family employees in family businesses. In their research in Oman, they found that employees' perceptions of fairness in the performance appraisal and compensation processes had a significant impact on motivation, collaboration, and affective commitment. The study confirmed that "when non-family employees perceive higher levels of procedural justice, their inclusion and engagement increase, leading to higher organisational performance."

Thus, transparency and consistency in performance management are key to building a sense of belonging and loyalty among non-family employees. From an ethical and socio-emotional perspective, Samara and Paul (2019), through the socioemotional wealth (SEW) approach, emphasise the importance of balancing fairness and

family values. They state that consistent fairness practices strengthen the ethical culture of family businesses and create a mutually respectful organisational climate. According to them, "fairness-oriented processes align socioemotional wealth goals with business performance, fostering loyalty among family members and trust among non-family employees." This means that the application of fairness not only has implications for business efficiency, but also for social cohesion that strengthens relationships between members of the organisation.

Furthermore, Pimentel, Almeida, and Morais (2025) in the context of the Portuguese hospitality industry found that perceptions of organisational justice play an important role in reducing turnover intentions and increasing psychological resilience among employees, both family and non-family members. This study confirms that "organisational justice acts as a psychological buffer that enhances commitment and reduces turnover intentions in family firms." In other words, justice not only functions as an administrative mechanism but also as a protective factor that strengthens the emotional bond between individuals and organisations.

The social and cultural context of Indonesia further reinforces this complexity. Values of collectivism, respect for family hierarchy, and reluctance to oppose the owner's decisions often make it difficult for non-family employees to voice their dissatisfaction. On the other hand, family business owners often view family involvement as a guarantee of loyalty and company continuity, leaving little room for the implementation of formal, performance-based HR systems. Family values such as loyalty and continuity often allow family members to remain in prominent positions even if their economic abilities are not outstanding (Kragl et al., 2023). Daspit (2017) emphasises the importance of a balanced and fair HR system to avoid *bifurcation bias* so that performance management in family businesses runs effectively. "Bifurcation bias is defined as the unbalanced treatment of family and non-family members within a family firm. Family firms often exhibit favouritism towards family members, which potentially manifests itself in their HR selection and pay practices. This bias leads to asymmetric HR management practices that can have damaging consequences for firm performance." This shows that unfair policies and compensation between family and non-family employees can reduce organisational performance. Inequality in compensation and opportunities can create perceptions of unfairness among non-family employees (Razzak et al., 2022).

Therefore, policies oriented towards *fairness* and *transparency* in employee performance management and compensation are needed. *Performance-based* management and proportional compensation are important steps in building trust between family and non-family employees. Such policies are expected to increase motivation, strengthen a meritocratic culture, and reduce internal conflicts. Based on this background, this study aims to analyse the role of fair policies and transparent compensation systems in improving the performance of family and non-family employees in family businesses. The research focuses on how to create a balance between family values and modern business principles, and how the implementation of a performance-based compensation system can improve fairness, productivity, and the sustainability of family businesses in an era of global competition.

METHOD

This study employs a Systematic Literature Review (SLR) approach to comprehensively examine the role of fair compensation policies and transparent performance management systems in enhancing the performance of family and non-family employees within family businesses. The SLR method was selected to ensure methodological rigor, transparency, and replicability in synthesizing existing empirical and conceptual findings. Unlike traditional narrative reviews, SLR allows for structured identification, screening, and evaluation of relevant studies to minimize selection bias and improve analytical consistency.

The data collection process was conducted through four major academic databases: Scopus, ScienceDirect, Emerald Insight, and Google Scholar. These databases were selected due to their extensive coverage of peer-reviewed journals in the fields of management, human resource management, organizational behavior, and family business studies. The publication period was limited to 2017–2025 to capture recent theoretical developments and contemporary empirical evidence related to organizational justice, compensation systems, socioemotional wealth, and performance management in family firms.

The search strategy involved combinations of specific keywords, including "family business," "organizational justice," "procedural justice," "distributive justice," "compensation policy," "human resource management," "bifurcation bias," and "employee performance." Boolean operators (AND, OR) were used to refine the search results and ensure relevance. The initial search yielded 126 articles.

The screening process followed three stages: identification, eligibility, and inclusion. First, duplicate records were removed. Second, titles and abstracts were reviewed to assess alignment with the research focus. Third, full-text articles were evaluated based on predefined inclusion criteria: (1) empirical or conceptual studies published in peer-reviewed journals, (2) articles written in English, (3) studies specifically discussing HR practices, compensation systems, or organizational justice within family business contexts, and (4) clear explanation of methodological approach and findings. Articles that focused solely on non-family firms or lacked sufficient methodological clarity were excluded.

After applying these criteria, 18 articles met the eligibility requirements and were included in the final analysis. To ensure analytical rigor, each selected article was systematically coded using a thematic analysis framework. The coding process identified recurring themes such as fairness perception, procedural transparency, distributive equity, socioemotional wealth influence, bifurcation bias, employee engagement, turnover intention,

and performance outcomes. Thematic categorization enabled the identification of patterns, contradictions, and conceptual gaps within the literature.

To enhance validity and reliability, cross-checking of thematic classifications was conducted to reduce subjective bias in interpretation. The synthesis process involved comparing findings across geographical contexts, methodological approaches, and theoretical frameworks to construct an integrative understanding of how fairness-oriented policies influence both family and non-family employees.

Through this structured methodological design, the study aims to generate a comprehensive conceptual synthesis that explains the strategic importance of fairness and transparent compensation systems in sustaining performance and organizational harmony in family businesses.

RESULTS AND DISCUSSION

Trust arising from the alignment of non-economic values can counterbalance potential compensation disparities among employees (Kragl et al., 2023). According to Davila et al. (2024), family businesses tend to have a strong ethical orientation, but this orientation also varies greatly among family businesses themselves. The findings of Davila et al. (2024) show that family businesses that prioritise social or emotional benefits for employees have a lower tendency to underfund pensions, indicating that the treatment of employees in family businesses can be fairer in certain contexts.

The involvement of non-family employees increases when they feel that organisational policies and procedures are implemented fairly (Razzak et al., 2022). Low perceptions of procedural fairness have been shown to reduce the emotional involvement and performance of non-family employees (Razzak et al., 2022). This confirms that transparency in performance appraisal systems and fair compensation policies are key to maintaining the motivation and performance of non-family employees in family businesses. Fairness in HR policies not only increases trust but also strengthens employee loyalty and productivity. "Family SMEs often face challenges in motivating and retaining nonfamily employees because of perceived inequities in reward distribution and promotion opportunities. The findings indicate that establishing transparent performance appraisal systems and equitable compensation policies can significantly enhance non-family employees' trust and commitment to the firm." (Zheng, W., Jiang, Y., & Chen, J., 2021).

Highlighting non-family employees' vulnerability to perceptions of compensation unfairness, without emotional ties such as *socioemotional wealth* (SEW), this group assesses fairness based on meritocracy and transparency. Distributive justice (allocation of rewards proportional to contributions) and procedural justice (bias-free decision-making processes) are crucial for motivation, satisfaction, and performance. Injustice in these dimensions reduces productivity and increases turnover, threatening the external talent vital to family business innovation. Hsueh et al. (2023) found that non-family employees who feel underrepresented in decision-making and receive lower compensation tend to experience decreased motivation. This highlights the importance of distributive and procedural justice as key factors in managing the performance of non-family employees.

Reinforcing the findings of previous research that performance-based HR systems and development play an important role in creating organisational fairness. By implementing fair compensation and policies, family businesses can reduce perceptions of favouritism and increase the commitment and performance of both family and non-family employees. "HR systems that emphasise performance-based pay and developmental practices help reduce perceptions of favouritism within family firms. Such systems signal fairness and professionalism, thereby enhancing both family and non-family employees' motivation and organisational commitment." (Marler, L.E., Botero, I.C., & De Massis, A., 2018).

These findings confirm that fair and transparent HR policies are not only important for maintaining internal fairness, but also contribute to the innovative performance and sustainability of family businesses. Unfair treatment of family and non-family employees can hinder collaboration and reduce overall organisational performance. "Family firms that develop fair and transparent HR practices tend to foster higher levels of trust and cooperation among family and non-family employees, which, in turn, enhances innovation and overall firm performance. Unbalanced treatment can create tensions that suppress creativity and reduce organisational commitment." (Chrisman, J.J., Chua, J.H., De Massis, A., Frattini, F., & Wright, M., 2015).

Additionally, Davila, Gómez-Mejía, & Martin (2024) emphasise that family businesses have varying ethical orientations and employee management must consider the social-emotional values inherent in family work relationships. Kidwell (2025) adds that providing performance-based incentives to non-family executives can increase their motivation, while the loyalty of family employees is maintained through recognition of socio-emotional values. Thus, a combination of fair policies and meritocracy is key to performance management.

It is emphasised that in family businesses, fairness and fair compensation policies between family and non-family employees are not only procedural issues, but are also related to the *socio-emotional wealth* values of the family. When companies focus solely on utilitarian fairness (based solely on economic performance), this can actually create perceptions of unfairness among non-family employees. "Achieving fairness perceptions also becomes an elusive ideal when utilitarian justice is taken as the only basis for non-discrimination between family and non-family employees. Practices that discriminate against non-family employees are well documented in the family business literature. For example, family employees are often provided with better employment

opportunities, better compensation packages, and better training and development opportunities than non-family employees." (Samara, G. & Paul, K., 2018).

In addition, it emphasises that fair HR policies through monitoring, compensation, and performance evaluations that are equal between family and non-family employees can improve perceptions of organisational fairness and strengthen the relationship between HR professionalisation and family business performance. "When family firms monitor both family and non-family employees to the same extent, a strategic choice is made to treat employees equally regardless of family status." (Madison, K., Daspit, J.J., Turner, K., & Kellermanns, F.W., 2018).

Linking compensation policies and fair treatment (distributive justice) as well as fair procedures (procedural justice) with employee outcomes such as job satisfaction, which is closely related to performance management. "Fair compensation, rewards, and benefits provided by the equity rule of distributive justice, as well as the equal treatment of all employees can enrich non-family employees' feelings of belongingness, strong ties, and pride for being part of the family firm." (Pimentel, 2018). Zhang, Chen & Zhu (2021) also add that compensation fairness has become a major concern for non-family managers due to their tendency to make social comparisons with existing compensation structures. Overall, the results of this review show that distributive and procedural justice are key pillars in creating a healthy, productive, and sustainable work environment for family businesses. The implementation of performance-based HR systems, compensation transparency, and objective evaluations have been proven to strengthen trust, increase motivation, and minimise conflicts between family and non-family employees.

CONCLUSION

This study concludes that the implementation of fair compensation policies and systems is key to improving employee performance and commitment in family businesses. Distributive and procedural justice have been shown to play an important role in strengthening the motivation, satisfaction, and loyalty of non-family employees who are more sensitive to favouritism, while family employees are more influenced by loyalty and socioemotional wealth. The professionalisation of HR systems through performance-based evaluations, proportional compensation, and a culture of fairness and inclusion has been shown to reduce internal conflict, strengthen trust, and create a balance between economic and non-economic values within organisations (Razzak et al., 2022; Kragl et al., 2023). Going forward, further research is recommended to explore models of integrating *socioemotional wealth* values with modern meritocracy systems to strengthen the sustainability and competitiveness of family businesses in the global era.

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