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Abstract

This paper aims to investigate the antecedents of formal human resource management (HRM) in private family firms. Specifically, we adopt a socio-emotional wealth perspective to predict the relationship between family-centered noneconomic (FCNE) goals and formal HRM practices. In addition, we rely on the extension of the behavioral theory, i.e., the attention-based view of the firm, to understand the moderating effect of family governance practices (FGPs) on the relation between FCNE goals and formal HRM practices. Based on analyses of a sample of 293 Belgian privately-held family small and medium enterprises, we find that the pursuit of FCNE goals is associated with less formal HRM practices. In addition, simultaneously engaging in FGPs while pursuing FCNE goals reverses this negative effect.

Keywords: HRM; family firms; family governance; attention-based view

Introduction

Human resource management (HRM) is the bundle of practices related to the selection, compensation, evaluation, and training of the workforce (Kidwell et al., 2018; Subramony, 2009). Formal HRM practices refer to the documentation and regular application of procedures and best practices (Aronoff et al., 2011; de Kok and Uhlaner, 2001; Kotey and Slade, 2005). Academic interest in HRM practices in the context of family firms is gaining momentum (for recent reviews, see Botero and Litchfield, 2013; Combs et al., 2018; Hoon et al., 2019). This is not surprising, since, for family firms, estimated as representing close to 80% of all companies and 50% of employment around the world (La Porta et al., 1999), HRM practices are important factors in attracting and retaining talented and motivated personnel (Astrachan and Kolenko, 1994; Astrachan and Shanker, 2003; de Kok et al., 2006). With few exceptions (e.g., Pittino et al., 2016), scholars have also found evidence of the added value of formal HRM practices for organizational outcomes, such as sales growth (Carlson et al., 2006) and return on assets (Dekker et al., 2015), corroborated for family SMEs.

Despite the generally positive benefits, family SMEs tend to adopt less formal HRM practices compared to nonfamily SMEs (Aldrich and Langton, 1997; de Kok et al., 2006; de Lema and Duréndez, 2007; Kotey and Slade, 2005; Reid and Adams, 2001; Sánchez-Marín et al., 2019; Stewart and Hitt, 2012). Yet our understanding of the mechanisms that drive family firms to formalize their HRM practices is still quite limited (Hoon et al., 2019). Our core research objective is, therefore, to explore whether certain business family characteristics, including family-centered noneconomic (FCNE) goals and family governance practices (FGPs), are associated with the decision to formalize their HRM. FCNE goals represent the benefits that family members as the dominant coalition of the family business strive for, such as family harmony or family social status. FGPs represent the mechanisms or structures intended to facilitate and structure the relationship between the business family and the family business (Aronoff et al., 2011; Gersick, 1997; Neubauer and Lank, 2016), and hence guide the business family's behavior (Suess, 2014). In this study, we consider in particular family councils and family constitutions as two such structures.

Our choice of antecedent variables is partly based on the assumption that family members as the dominant coalition (via ownership, management, and/or governance) are likely to shape the family firm's HRM practices (Hoon et al., 2019). Our use of FCNE goals as the independent variable is rooted in one of the basic assumptions of the *behavioral theory of the firm*, namely that organizational goals affect a firm's behavior (Cyert and March, 1963). Building on this perspective, family business researchers note that FCNE goals can have an important influence on the decisions of the family as the dominant coalition. These FCNE goals thus play a key role in explaining differences between family and nonfamily firms, and among family firms (Chua et al., 2015; Gómez-Mejía et al., 2011). Gómez-Mejía et al., (2007) label the benefits derived from pursuing FCNE goals as *socio-emotional wealth* (SEW) (see also Chua et al., 2015 and Mensching et al., 2014).

In the first part of our study, we consider whether the extent to which family SMEs emphasize FCNE goals can explain the presence of formal HRM practices. While some researchers do suggest that FCNE goals may shape HRM practices (Chrisman et al., 2014; Kellermanns et al., 2012), empirical evidence of the proposed relationship is either limited or nonexistent. Thus, as our first research objective, we examine the relationship between the emphasis on FCNE goals among family firms and the presence of formal HRM practices.

Answering recent calls to consider heterogeneity among family firms (e.g., Combs et al., 2018; Rovelli et al., 2021), we also explore certain conditions under which FCNE goals may hinder or enhance the use of formal HRM practices based on differences in FGPs across family SMEs. We focus on FGPs because governance mechanisms are deemed a potential moderator in the relationship between organizational goals (in our study FCNE goals) and outcomes, such as firm behavior (in our study formal HRM practices) (Kotlar et al., 2018). More specifically, we rely on an extension of the behavioral theory of the firm, i.e., *the attention-based view* (Ocasio, 1997), to understand how family-related HRM decisions and communication through FGPs might also focus more attention on formal HRM practices for the firm. Thus, as our second research objective, we examine whether the presence or absence of FGPs moderates the relationship between FCNE goals and the adoption of more formal HRM practices.

We test our hypotheses using regression models with a sample of 293 Belgian family SMEs. While our study supports the hypothesis that FCNE goals are negatively associated with the adoption of formal HRM practices, our results also reveal that the presence of FGPs reverses this negative effect, consistent with predictions derived from the attention-based view.

Our paper contributes to the family business and HRM literature, as well as to the attention-based view in the organizational behavior field. First, support for our first hypothesis, regarding the negative relationship between FCNE goals and formal HRM practices, suggests the benefit of considering the SEW perspective to consider strategic decision-making in the family business context. Second, our study adds insights into HRM practices in SMEs (Aldrich and Langton, 1997; de Kok et al., 2006; Reid and Adams, 2001; Sánchez-Marín et al., 2019) by clarifying the boundary conditions for which family firms use more or less formal HRM practices. In so doing, we respond to Nordqvist et al.'*s* (2014) call to consider family firm heterogeneity, in our case with respect to FCNE goals and FGPs to better understand firm behavior. Third, we enhance our understanding of the beneficial spillover effects of FGPs on nonfamily employees, a stakeholder group typically overlooked in the family business governance literature (Suess, 2014). FGPs may be beneficial not only to cultivate family harmony and other family-related goals (e.g., Berent-Braun and Uhlaner, 2012; Sundaramurthy, 2008) but also for the business system (Prigge and Thiele, 2019). Fourth, while our paper focuses on the family firm context, our findings provide indications for research in other contexts. For instance, in identifying the antecedents of HRM practices in other SMEs, researchers might consider the potential interaction effects of the dominant coalition's goals and the governance structure. Relatedly, our study enhances our understanding of the attention-based view of the firm (Ocasio et al., 2018) in its application to organizational goals and governance mechanisms. In the family firm context, FGPs can be viewed as an attention structure (Ocasio, 1997) that governs the focus of attention of family firm decision-makers on formal HRM practices while pursuing FCNE goals.

The remainder of the paper is structured as follows. The next section discusses the relationship between FCNE goals, family governance, and formal HRM practices. We then describe the dataset and the variables used in the analyses. The subsequent sections present the empirical findings followed by a discussion. The final section concludes by considering the implications of our findings and identifying potential avenues for future research.

Theoretical background and hypotheses development

In this section, we present the overall research framework, graphically depicted in Figure 1, together with our hypotheses and rationale.

(Insert Figure 1 about here)

The importance of formal HRM practices in family SMEs

Most studies agree that the adoption of formal HRM practices in SMEs leads to superior firm performance (Dekker et al., 2015; Sánchez-Marín et al., 2019; Saridakis et al., 2017), sales growth (Carlson et al., 2006), and resilience in economic downturns (Lai et al., 2016). These practices have several benefits, especially in the family SME context. First, a more formal HRM system can be an important device to signal legitimacy to external stakeholders (Cardon and Stevens, 2004; Graham and Harvey, 2001), and especially potential applicants, since family SMEs must compete for talented employees not only with nonfamily SMEs but also with larger firms. Prior research suggests that a firm's recruitment ability is tied to the formalization of its HRM practices (Carlson et al., 2006; de Kok et al., 2006; King et al., 2001). Second, formal HRM practices may reduce perceptions of nepotism and increase procedural justice in the treatment of nonfamily employees, also making the firm more attractive to potential recruits and serving as an aid to retention (Barnett and Kellermanns, 2006; Hiebl and Li, 2020; Tabor et al., 2018). In contrast, less formal HRM practices may be a sign of negative imprinting by the founder, for example, due to parental altruism (Kidwell et al., 2018) or bifurcation bias (asymmetric treatment of family and nonfamily employees) (Daspit et al., 2017), both potentially leading to destructive outcomes for the firm. Third, having a formal HRM system can help family SMEs qualify for loans from financial institutions since SMEs with a low level of formal HRM practices are often downgraded and seen as less attractive loan applicants by senior credit officers (Nguyen and Bryant, 2004).

Despite the proven benefits of formal HRM practices, family SMEs are generally found to adopt less formal HRM practices compared to their nonfamily counterparts (Aldrich and Langton, 1997; de Kok et al., 2006; Hafeez et al., 2008; Reid and Adams, 2001; Sánchez-Marín et al., 2019; Stewart and Hitt, 2012). Moreover, in line with the emerging literature on the recognized heterogeneity of family firms (Daspit et al. 2018; Jaskiewicz and Dyer, 2017; Randerson et al., 2020; Wasim et al., 2018), studies note variations in formal HRM practices amongst family SMEs (e.g., Cater et al., 2019; Kidwell et al., 2018; Madison et al., 2017). In the next section, we introduce the concept of family-centered noneconomic (FCNE) goals to provide an explanation for such variations.

Family-centered noneconomic goals and formal HRM practices

Organizational goals have been defined as "desired organizational outcomes that can be used to guide action and appraise organizational performance" (Kotlar et al., 2018: S4). According to the behavioral theory of the firm, such goals stem from the different coalitions in the firm, including its shareholders, managers, and employees. Family business research has focused especially on the family (dominant) coalition as a key group defining such goals. In particular, FCNE goals represent a subset of goals that family members as the dominant coalition of the family business may especially strive for (Astrachan and Jaskiewicz, 2008; Le Breton-Miller et al., 2004; Chrisman et al., 2012; Zellweger and Astrachan, 2008; Zellweger and Nason, 2008) to secure and maintain the family's *socio-emotional wealth* (Gómez-Mejía et al., 2007; Chua et al., 2015). Such goals include family harmony, family social status, and family and firm identity linkage (e.g., Astrachan and Jaskiewicz, 2008; Chrisman et al., 2012; Sharma et al., 2001). However, to achieve their FCNE goals, the dominant coalition may attempt to influence a variety of processes, including organizational decision-making (Chrisman et al., 2012; Hambrick and Mason, 1984). The focus that family firms place on FCNE goals can thus be decisive in predicting their behavior and performance (Kotlar and De Massis, 2013). While the SEW perspective has been used to explain differences between family and nonfamily firm behaviors, it may also prove useful to explain heterogeneity in family firm behavior (Chrisman et al., 2012; Jaskiewicz et al., 2013; Hu and Hughes, 2020), especially in privately-held family firms (Williams et al., 2019). The importance placed on FCNE goals varies widely among family firms, hence their heterogeneity (Chrisman et al., 2007; Dibrell and Memili, 2019), which may help explain differences in their decisions and behaviors related to formal HRM practices.

As explained previously, formal HRM practices are known to have positive effects on firm performance and growth in all SMEs. Nevertheless, many family firms are reluctant to formalize their HRM practices. We argue that differences in the importance placed on FCNE goals (which may in turn reflect the strength of the underlying motive to preserve or build the family coalition's socio-emotional wealth) may provide one explanation for such differences.

Especially in smaller family firms, connectivity between the family and the firm is often accomplished through family employment in the firm, at both management and nonmanagement levels. For these firms, the unfettered flow of family employment is seen as an essential part of maintaining this connectivity, and thus the character of the firm as a family business. For example, implementing formal HRM hiring practices, which give preference to qualified but unrelated applicants over (less qualified) family members, might thus be perceived as thwarting the pursuit of the FCNE goal of family control or family connectivity to the firm, and thus jeopardizing its 'stock' of socio-emotional wealth (Aldrich and Langton, 1997; Bellow, 2003; Jaskiewicz et al., 2013). An underlying emphasis on nepotism (to enhance family control, harmony, and connectivity) over the qualifications of existing staff might also reduce the perceived need to offer formal training to improve the competence of (nonfamily) employees. Again, enhancing the qualifications of existing staff might only increase the obstacles for hiring less qualified family members to the firm. Where nepotism is a factor for recognizing and rewarding family owners or employees, periodic performance evaluations and a pay-for-performance policy applied to nonfamily employees could potentially also be viewed as unnecessary, or even as counterproductive to the pursuit of FCNE goals to preserve the family's socio-emotional (or even its financial) wealth. As such, the pursuit of FCNE goals might result in family business behavior that also affects nonfamily stakeholders (Williams et al., 2018) in a seemingly less favorable way. Therefore, we expect family firms that place a high emphasis on achieving FCNE goals to adopt less formal HRM practices. We thus posit:

H1: In private family SMEs, the importance placed on FCNE goals is negatively associated with the presence of formal HRM practices.

The moderating effect of FGPs

In this section, we propose that FGPs moderate the relationship between FCNE goals and the adoption of formal HRM practices. FGPs represent the mechanisms intended to facilitate and structure the relationship between the family and the business (Aronoff et al., 2011; Gersick, 1997; Neubauer and Lank, 2016), hence guiding the family's behavior (Suess, 2014). Two commonly used FGPs are the family forum and the family charter. A family forum (also family council or family meeting) provides a platform that promotes communication between family members and the opportunity to express their different expectations and opinions through which conflicts can be discussed and resolved even before they affect the business (Brenes et al., 2011; Poza, 2013). A family charter (also referred to as family constitution or family code of conduct) consists of a document that outlines the guiding beliefs shared among family members in their relationships with each other and the business (Montemerlo and Ward, 2011), clarifying the shared beliefs, rules, and regulations regarding, for example, working in the business (Neubauer and Lank, 2016). The family charter, together with the family forum, can therefore facilitate the development of formal HRM practices, documenting the rules and principles the family has agreed on concerning the selection, compensation, and evaluation of family members (Eckrich and McClure, 2012; Montemerlo and Ward, 2011). FGPs, therefore, provide an excellent opportunity to enhance the communication of HRM practices of family members.

To justify our view that FGPs *moderate* the relationship between FCNE goals and HRM practices, we draw on the attention-based view. Organizational strategy scholars introduced the *attention-based view* (Ocasio, 1997) as an extension of the behavioral theory of the firm (Joseph and Wilson, 2018) to understand how goals shape the firm's strategic behavior via attention structures. The central tenet is that a firm's behavior is the result of how it channels and distributes the attention of decision-makers via attention structures (Ocasio, 1997). Attention structures are "the social, economic, and cultural structures that govern the allocation of time, effort, and attentional focus of organizational decision-makers in their decision-making activities. They *regulate* (1) the valuation and legitimization of issues and answers, (2) the creation and distribution of procedural and communication channels, and (3) the interests and identities that guide decision-makers' actions and interpretations" (Ocasio, 1997: 195).

Drawing upon the rationale put forward by Ocasio (1997), we argue that FGPs serve as the attention structure of family businesses through which the effect of family goals on HRM practices is *regulated*. First, the FCNE goals and the extent to which they are pursued by the business family affect family council discussions on how these goals can be met via family and business behavior and the shared beliefs and values formally captured in the family constitution (Montemerlo and Ward, 2011; Eckrich and McLure, 2012). These discussions are likely to generate a set of values that determine the legitimacy, importance, and relevance of strategic issues and the responses on which to focus, e.g., formalizing HRM practices. Second, this attention focus leads to a specific set of procedures and their communication, i.e., the formal

HRM practices adopted in the family firm. Third, attention structures like FGPs provide decision-makers with a structured set of interests and identities, i.e., which issues to focus on as the owning family, how to identify as a business family member with the discussed issues and goals, and the ensuing business behavior. These mechanisms explain *how* FGPs can structure attention toward formal HRM practices while discussing the implications of pursuing FCNE goals as a business-owning family in family councils and drafting a family constitution. In the absence of FGPs, the focus on FCNE goals and how they translate into firm behavior is informal and even implicit. It is in the setting of FGPs that an attention structure is developed, which enables communication based on values, shared vision, and identification of the dominant family coalition, and which regulates the translation of FCNE goals into firm behavior (e.g., in formalizing HRM practices). FGPs enable and foster attention to and decisions on formalizing HRM practices for family and nonfamily employees. They do so, not merely because of information processing but also due to the social interactions and reflections among family members, thus shaping the *communication* dynamics in FGPs (Montemerlo and Ward, 2011; Ocasio et al., 2018).

More specifically, building on the attention-based view (Ocasio, 1997), we argue that family forums and charters serve as mechanisms to focus the firm's attention on its HRM practices, first of all for *family members*. For instance, family forums and charters typically address HRM-related practices concerning family members, such as which family members can be employed (e.g., spouses), how they should be compensated, and so forth. In doing so, we argue that such discussions may also increase awareness of policies in relation to *nonfamily* employees. Preventing or reducing conflicts between family members through a "fair process practice" for HRM-related decisions (Van der Heyden et al., 2005) might strengthen the attention focus on having fair and engaging HRM practices for nonfamily employees. By acknowledging the importance of considering fairness and equity practices among family members in the family forum or family charter (Gnan et al., 2015), family decision-makers may thus be more inclined to also consider the benefits of such policies for nonfamily employees. For example, meritocracy can be a guiding belief stipulated in a family charter that serves as a principle of the potential roles of family *and* nonfamily members within the firm to ensure less conflict and more commitment to join or stay connected to the business (Montemerlo and Ward, 2011).

In sum, drawing on the attention-based view, we argue that FGPs may channel the attention of family decision-makers towards fairer HRM practices for family members, and in parallel, the salience of related policies affecting nonfamily members. As such, they can attenuate the negative relationship between the pursuit of FCNE goals and HRM decisions in family firms. We thus posit:

H2: There is a positive moderating effect of FGPs such that the negative association between FCNE goals and formal HRM practices is **less negative** when firms have FGPs in place.

Method

Sample and data collection

The empirical data we use to test our hypotheses is part of a wider survey exploring family business practices in a set of Belgian SMEs. As a pre-test, we first sent the questionnaire to five family business owners and three colleagues, resulting in some reformulations and minor adaptations. We collected the data by means of an electronic questionnaire emailed to the CEOs of a convenience sample of 6,861 SMEs[1] in 2014. After two waves of emails, we received a total of 644 questionnaires, corresponding to a response rate of 9.8%. Given the length of the

[1] This list of email addresses was obtained via a Belgian business magazine and comprised the personal email addresses of the CEOs of Belgian nonfinancial firms with at least 10 employees (in order to exclude micro-organizations) and a maximum of 250 employees.

survey and the sensitivity of the questions, together with the secretive nature of family businesses in general (Neubauer and Lank, 2016), this is considered a satisfactory response rate and in line with prior research targeting CEOs of privately-held firms (e.g., Bammens et al., 2008; Cruz et al., 2010; Michiels et al., 2015). The mean (median) sample firm has 32 (21) employees, corresponding to the mean firm size of the SME population in Belgium. The geographic spread of the sample firms corresponds to the total population. We complemented our data with Bureau Van Dijk's Bel-First database containing financial data on all Belgian firms.

Next, we classified firms as *family firms* when they met one of the following criteria: (1) the family owns the majority of shares and has a decisive impact on the management of the business; or (2) the CEO perceives the firm as a family business (Dyer, 2003; Westhead and Cowling, 1998; Roffia et al., 2021). As we were unable to assess this 'family firm' characteristic ex-ante from publicly available databases, these two questions were included in the survey. Although there are many different ways to define and operationalize what constitutes a family firm, a combination of these two criteria is commonly used in the family business field to do so After removing cases with missing values, our final sample contained 293 privately-held family SMEs.

Due to the limitations of using survey data, we sought to mitigate the risk of common method bias in the questionnaire through procedural remedies such as affirming there were no right or wrong answers, using different response scales for the dependent (dichotomous) and independent variables (5-point Likert scale), and ensuring anonymity and confidentiality. While there is also the possibility that respondents might not answer truthfully (Graham and Harvey, 2001), we did not expect the CEOs to take the time to complete our extensive questionnaire with the intention of being untruthful. To assess potential non-response bias, we tested for possible differences between early and late respondents, as the latter are found to be more similar to non-respondents (Oppenheim, 2000). The T-tests on the key firm characteristics that might covary with the variables of interest revealed no significant differences between early and late respondents. In addition, an insignificant F-value for Levene's test for equality of variances supports the conclusion of equal variance between early and late respondents.[2] We therefore expect the risk of biased responses to be very small (Kanuk and Berenson, 1975).

Measures

Dependent variable: Formal HRM practices. In line with prior research (e.g., Flamholtz and Randle, 2007; Kim and Gao, 2010; Lai et al., 2017; Madison et al., 2017; Reid and Adams, 2001), we asked the family firm CEOs about the presence or absence of four different formal HRM practices related to selection, compensation, performance evaluation, and training. An overview of the items is presented in Table 1. Next, we constructed an overall average index ranging from 0 to 1, similar to earlier studies (e.g., Lai et al., 2016; MacDuffie, 1995; Wright et al., 2003; Youndt et al., 1996). A higher score indicates a greater reliance on formal HRM practices. For the index, as opposed to a scale, we assume that the different items grasp the level of an underlying construct and are not caused by it. Therefore, we do not expect our formal HRM items to have high intercorrelation (Delery, 1998).

Independent variable: Family-centered noneconomic (FCNE) goals. The scale used to operationalize the FCNE goals consists of three items measured on a 5-point Likert-type scale (1 = strongly disagree; 5 = strongly agree). The items for this scale were adopted from previous studies (e.g., Astrachan and Jaskiewicz, 2008; Le Breton-Miller et al., 2004; Chrisman et al., 2012; Westhead and Howorth, 2007; Zellweger and Nason, 2008), aimed at representing the

[2] We classified firms that responded before a reminder was sent as 'early respondents' and the other group as 'late respondents'. The early respondents and late respondents do not differ significantly in terms of key firm characteristics that might covary with the variables of interest: firm age (t = -0.41, p = 0.68; Levene's statistic = 0.17, p = 0.68); firm performance (t = 0.91, p = 0.36 ; Levene's statistic = 2.15, p = 0.14); firm size (t = 1.78, p = 0.08; Levene's statistic = 1.76, p = 0.19); and industry (t = -0.55, p = 0.58; Levene's statistic = 2.50, p = 0.11).

benefits that family members might desire and in relation to which they use their influence in the family firm. The items are as follows: (1) “family harmony is an important goal in making business decisions”; (2) “the social status (reputation) of my family is an important factor in making business decisions”; (3) “we strive for family members feeling connected to the business”.

Although these items have been extensively used in prior research investigating FCNE goals, we calculated Cronbach’s alpha and performed a confirmatory factor analysis (CFA) to examine the underlying properties of this scale for noneconomic goals. Similar to Chrisman et al. (2012), this three-item measure yielded a fully saturated model where fit indices could not be generated, and each item significantly loaded onto the construct with standardized loadings ranging from 0.60 to 0.80. Alongside Cronbach’s alpha of 0.75 (identical to Chrisman et al., 2012) and AVE of 0.51, these results suggest that the internal consistency and convergent validity of this scale are sufficient for our statistical tests (Bagozzi and Yi, 1988). We used standardized factor scores in the regression analyses.

(Insert Table 1 about here)

Moderating variable: FGPs. We included the dummy variable FGPs to measure their use, similarly to Michiels et al. (2015), coded 1 when the family firm has instituted a family forum and/or charter, 0 otherwise.

Control variables. Consistent with prior research, we included several firm characteristics that might influence the use of formal HRM practices. We controlled for *firm size* measured as the number of full-time employees, since this may also influence the level of formal HRM practices (Kim and Gao, 2010; Lai et al., 2016) in SMEs (de Kok et al., 2006), even though larger firms are more complex and might need more formal HRM practices (Barrett and Mayson, 2007). As the distribution of this variable is positively skewed, we transformed it using a natural logarithm for the statistical analyses.

Firm age might also impact the use of formal HRM practices. Previous studies found a significant negative effect of firm age on the use of formal HRM (Nguyen and Bryant, 2004) and variable pay practices (Kim and Gao, 2010; Newman and Sheikh, 2014). Due to multicollinearity between firm age and firm size, we substituted *First Generation* for age as the control variable, as used in other studies on formal HRM practices in family firms (e.g., Pittino et al., 2016), coded 1 when ownership is concentrated in the first generation, 0 for later generations.

In line with the findings of Miller et al. (2011) that lone founders might give greater priority to business logic but embracing a family logic if surrounded by other family members in the business, we explicitly controlled for *Single Owner* in addition to generational stage.

The development of HRM practices in SMEs might also be influenced by the CEO's human capital (Mayson and Barrett, 2006). More specifically, CEOs with a higher level of education are found to be more able and willing to adopt formal business practices (Hall and Nordqvist, 2008; Hiebl and Mayrleitner, 2019) and HRM practices in particular (Hannon and Atherton, 1998; Newman and Sheikh, 2014). Thus, we included the dummy variable *CEO Education*, coded 1 when the CEO had obtained a higher education degree, 0 otherwise.

As implementing formal HRM practices requires financial resources that might be lacking in some SMEs, we controlled for *Past Firm Performance*, which measures the return on assets in 2013 (one-year time lag prior to data collection) (Chittoor and Das, 2007).

Nonfamily involvement in the top management team (TMT) has been found to increase the use of formal HRM practices (Aldrich and Langton, 1997). Therefore, we included the dummy variable *Nonfamily Involvement in TMT* (henceforth *Nonfamily in TMT*), coded 1 for firms with at least one nonfamily manager, 0 otherwise. Similarly, control for the presence of *Nonfamily*

*Members in the Board of Directors (*henceforth *Nonfamily in Board*), coded 1 for firms with at least one nonfamily board member, 0 otherwise.

In addition, we conducted an explicit robustness test to check for the substituting effect of an *Active Board of Directors*, defined as having more than one board meeting annually (coded 1 when the firm has an active board of directors, 0 otherwise).

Finally, we controlled for the industry in which the firm is active by adding the dummy variable *Industry*, coded 1 when the firm operates in the manufacturing industry, 0 otherwise. Similar to previous studies (Gómez-Mejía et al., 2003; Kim and Gao, 2010; Michiels et al., 2017), we did not use finer industry breakdowns in our analyses to conserve the degrees of freedom in the regression models.

Results

Descriptive statistics and univariate analyses

Table 2 reports the descriptive statistics and correlations for all variables used in the statistical analyses. The mean sample firm has 32 employees and is active in the manufacturing industry in about 54% of cases. In slightly less than half (49%) of the sample, a second or later generation is involved in the firm. In 28% of our sample, ownership is entirely in the hands of a single owner. In 30% of our sample, nonfamily managers are involved in the TMT, and in 29%, a nonfamily member sits on the active board of directors. The CEOs of our sample firms have a university degree in about 69% of cases. Furthermore, 19% of these firms have adopted FGPs. The mean for the Formal HRM Practices index is 0.34, meaning that, on average, the family SMEs adopted slightly more than one-third of the formal HRM practices. Lastly, the average firm pursues FCNE goals to a moderate extent (3.42 on a 5-point Likert scale).

Formal HRM practices, the dependent variable, is significantly and negatively correlated with FCNE goals and significantly and positively correlated with FGPs, firm size, firm performance, nonfamily in TMT, and nonfamily in board. The highest absolute correlation between the explanatory variables is 0.31 (in absolute value), which is well below the 0.80 threshold above which multicollinearity problems could arise (Gujarati and Porter, 2003). In addition, the variance inflation factor (VIF) values indicate no multicollinearity issues in our regression models (presented in Tables 3 and 4), as the largest VIF of 1.35 is considerably below the threshold of 10 (Gujarati and Porter, 2003).

(Insert Table 2 about here)

The impact of FCNE goals on formal HRM

To investigate the factors that influence formal HRM practices in family firms, we use hierarchical multiple regression analysis, as shown in Table 3. Model 1 (step 1) shows the effect of the control variables only. Firm size, generational stage, nonfamily in TMT, and nonfamily in board all have a significant positive effect on formal HRM practices, whereas CEO education has a significant negative effect. Firm performance, single owners, and industry are not significantly related to formal HRM practices.

Model 2 (step 2) captures the impact of FCNE goals on formal HRM practices while controlling for sector and CEO characteristics. The results show that family goals have a significant and negative effect on Formal HRM practices, supporting H1.

(Insert Table 3 about here)

The moderating effect of FGPs

The FGPs variable is added in the third model (step 3). The results indicate that FGPs have a significant direct effect on formal HRM practices. This result is in line with the results reported in Table 2 (significant positive correlation between FGPs and formal HRM practices). However, H2 also predicts that FGPs moderate the relationship between FCNE goals and Formal HRM practices since they assist in decreasing the negative effect of family goals, thereby facilitating formal HRM practices. To test this hypothesized moderating effect, the fourth model (step 4) includes the moderating variable *FCNE Goals*FGPs*. The coefficient of the interaction variable is significant and positive. Figure 2 graphs the moderating effect, showing a *reversal* effect of the FGPs moderator such that for firms with one or more FGPs, the relationship between FCNE Goals and Formal HRM practices is positive. We see a positive effect of FCNE goals on formal HRM practices for family firms that strongly pursue FCNE goals.

(Insert Figure 2 about here)

Power and effect size

Our sample size (n = 293), the number of independent and control variables (11), and the detected level of explained variance in our hierarchical regression models (adjusted R^2 between 0.15 and 0.20) reveal that our post-hoc power estimation is satisfactory (Hopkins and Ferguson, 2014). The incremental increases in R^2 for FGPs (3.6%) and for our moderator variable FCNE Goals*FGPs (about 1%) are rather small. Nonetheless, the standardized regression coefficient for our moderator variable FCNE Goals*FGPs ($\beta = 0.12$) (based on model 4 in Table 3) is of a comparable magnitude to the standardized regression coefficient of the other professionalization variables in the model (Nonfamily in TMT, $\beta = 0.13$, and Nonfamily in Board, $\beta = 0.15$), all indicating small effect sizes. These findings confirm the validity of a moderating effect of FGPs on the relationship between FCNE and formal HRM practices in family firms.

Robustness test

We performed a robustness test to check whether the FGPs moderator effect more aptly represents an underlying *corporate* governance effect rather than a *family* governance effect, per se. To do this, we re-estimated the final model, replacing the FGPs variable as moderator variable with the variable, active board of directors. The results are reported in Table 4. Here, the interaction variable (FCNE Goals*ActiveBoD) shows no significant effect compared to the original interaction variable (FCNE Goals*FGPs). Our robustness test reveals that in family-owned SMEs, unlike FGPs, an active board of directors, proxying corporate governance practices () does not attenuate the negative effect of pursuing FCNE goals on the adoption of formal HRM practices. These findings are consistent with the interpretation that formal corporate governance mechanisms do not replace the effect of FGPs.

(Insert Table 4 about here)

Discussion and conclusions

The results of our empirical analyses of a sample of 293 Belgian privately-held family SMEs support the argument that the pursuit of FCNE goals leads to less formal HRM practices and that this relationship is moderated by FGPs. This suggests that FGPs can prevent family firms from basing their HRM decisions mainly on achieving FCNE goals, confirming – at least in part – that the main function of FGPs is synchronizing the relationship between the business family and the family business (Suess, 2014). Our results also suggest that FGPs may be beneficial not only for family members, as often indicated in prior research, but also for nonfamily employees. After all, attracting, hiring, and retaining qualified nonfamily employees is one of the greatest challenges family businesses face (Chrisman et al., 2003). As our results indicate, FGPs can assist in preventing the potential detrimental HRM effects associated with the pursuit of FCNE goals to preserve or enhance the family coalition's SEW, such as favoring an unskilled family member over a skilled but unrelated applicant. More formal HRM practices, despite the pursuit of FCNE goals, could result in more motivated nonfamily employees and managers (Daspit et al., 2017). The desire for a fair process urges family members involved in FGPs to balance business needs (such as attracting and maintaining qualified nonfamily employees) with the family's needs (such as family control, family harmony, and family employment). Reflecting on and discussing the family values and shared vision and how these can be transferred to the business (typically through FGPs) might reveal the need for more formal HRM practices also in relation to nonfamily employees. The consistent treatment of family and nonfamily members might be necessary to put these espoused values into practice. A common vision and the desire to continue to participate in the business family group enable family members to promote business needs beyond the family's needs as expressed in FCNE goals (Uhlaner et al., 2015). Hence, FGPs constitute an important mechanism to reverse the negative effect of FCNE goals on formalizing HRM practices.

Finally, in providing greater transparency through formal HRM practices, family firms pursuing FCNE goals *and* FGPs are better equipped to circumvent the winner's curse where "neither the economic nor noneconomic goals of family owners are fully achieved" (Chrisman et al., 2014, p. 1). Therefore, FGPs might help overcome the reluctance to relinquish full family control and attract talented and fully motivated nonfamily employees-managers at market price, especially in family-owned SMEs.

Our study adds a new element to the debate on how FGPs can contribute to the business system, especially as research on the impact of FGPs is scarce (Prigge and Thiele, 2019). As we do not find a moderation effect of the board of directors on the relationship between FCNE goals and formal HRM practices, our results support the view expressed in other family governance studies, e.g., Gnan et al. (2015), that family forums may act as relational contexts that allow family members to express and discuss their opinions, share their values and vision, develop mutual trust, and more effectively translate these into collective plans and actions (influencing firm behavior, such as formalizing HRM practices for nonfamily members) than corporate governance mechanisms formally regulated by law and practice, such as board meetings.

Theoretical implications

Our paper contributes to the family business and HRM literature, as well as to the attention-based view of the firm in the organizational behavior field. First, our study empirically tests and confirms prior findings (Combs et al., 2018) on the role of FCNE goals on family firm behavior, such as formalizing HRM practices, confirming predictions drawing on the SEW perspective. In our sample of family SMEs, the pursuit of FCNE goals has a negative effect on adopting formal HRM practices.

Second, by taking into account family firm heterogeneity, in our case FCNE goals and family governance, to determine the differences in formal HRM practices in family SMEs, we contribute to the call of Nordqvist et al. (2014) to go beyond comparing family and nonfamily firms. Beyond the importance of FCNE goals, our results also indicate that FGPs can reverse the negative effect of FCNE goals on formal HRM practices in family firms that strongly pursue FCNE goals. Third, we highlight the spillover benefits of FGPs to nonfamily employees, a stakeholder group typically overlooked in the family business governance literature (Suess, 2014). Specifically, FGPs may cultivate not only family harmony and other family-related goals (Berent-Braun and Uhlaner, 2012; Sundaramurthy, 2008), but also the overall business goals (Prigge and Thiele, 2019). To understand how FGPs can attenuate or even reverse the negative effect of FCNE goals on formal HRM practices, we adopt the attention-based view of the firm. We consider FGPs as attention structures that can enhance the attention focus on formal HRM practices for family and nonfamily employees, discussing the importance and impact of FCNE goals on family firm FGPs. Fourth, while our paper focuses on the family firm context, the identified antecedents, i.e., effects of the dominant coalition's goals and governance structures, might lead to a better understanding of the antecedents of formal HRM practices in other SME contexts. Last, by using the family firm context, our study demonstrates the benefits, more broadly, of considering the attention-based view of the firm (Ocasio et al., 2018) in relation to the goals of the dominant coalition and governance mechanisms. In the family firm context, FGPs can be viewed as an attention structure (Ocasio, 1997) that governs the attention focus on formal HRM practices of family business decision-makers while pursuing FCNE goals. The process of discussing which FCNE goals to adhere to, the values to share as a business family, and translating those goals or values into business behavior empowers FGPs to focus the attention of the dominant coalition on strategic issues, such as formalizing HRM practices for family as well as nonfamily members. In accordance with Ocasio et al. (2018) and the attention-based view of the firm, our study considers FGPs not only as an information processing channel but also as attention structures in which communication as a social process among family business decision-makers determines attention focus. In the absence of FGPs, the focus on FCNE goals lacks an attention structure. Hence, this attention focus on FCNE goals is more an informal implicit reference frame for making decisions and shaping the business behavior of the dominant family coalition. By contrast, in family firms with FGPs, the FGPs serve as an attention structure which provides an impetus for more formal family discussions, reflections, and agreed procedures, leading to (amongst other business behaviors) the increased likelihood of formal HRM practices applied to both family and nonfamily employees. Hence "the attentional engagement is shaped by this communication" in FGPs (Ocasio et al., 2018: 158) and further guides the behavior of the family in relation to the business.

Limitations and directions for future research

This study has some limitations that may provide interesting avenues for future research. First, the cross-sectional nature of our data and the use of a single informant per firm is perhaps not ideal. Future research using multiple respondents over a period of time could provide more robust insights into the relationship between FCNE goals, FGPs, and the adoption of formal HRM practices. Second, our sample only consists of Belgian privately-held family firms. Although this might seem a limitation of the study, it gives us the advantage of matching our questionnaire data with accurate, objective financial data on privately-held firms (obtained from the Bel-First database of Bureau Van Dijk), which is uncommon in most countries. Third, data from a more detailed survey could build on our findings. Future research might, for example, more explicitly incorporate the mechanism through which FGPs yield formal and beneficial employee practices for nonfamily employees and managers in family firms. We suggest taking into account the chair of the family forum's characteristics, or the philosophy underlying the family charter, or the quality of communication between family members in the family forum. Qualitative research might be useful in this context to examine the communication processes in place while at the same time answering the "why" and "how" questions that are difficult to answer via quantitative research (Reay, 2014). In addition, future research could investigate the higher or lower impact of FGPs on formalizing HRM practices for nonfamily employees depending on which FCNE goals prevail. For instance, Kammerlander and Ganter (2015) reveal that the different FCNE goals on which the family CEO focuses attention might affect the business family's behavior.

Practical implications

Our results support the notion that family firms face a delicate balance of fulfilling the needs of both the family and the business. They also indicate that FGPs might be an important driver in this balancing act in terms of trade-off decisions, such as adhering to family employment or hiring the most talented person using formal HRM selection practices. In the scholarly and family business practice literature, the rationale for investing in FGPs is mainly to benefit the family system by preventing or resolving family conflicts. However, our research suggests there may also be spillover effects to other areas of the firm, most notably the more effective HRM practices affecting nonfamily employees. Such benefits include more transparent and formal HRM practices, giving family firms more power in the competition for talent.

Conclusion

Based on a sample of 293 family SMEs, our study reveals that the interplay of organizational goals (in our case, FCNE goals) and governance structures (in our case FGPs) act as antecedents of formal HRM practices in family SMEs. Our results contribute to understanding why formal HRM practices differ among family SMEs despite their proven benefits. These insights might also inspire future studies in the (family) SME context to advance knowledge on the antecedents of formalizing HRM practices. Our approach to FGPs as attention structures in family firms highlights that these practices can boost the attention focus on formalizing HRM practices while maintaining a high attention focus on FCNE goals.

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Figure 1. Research Framework

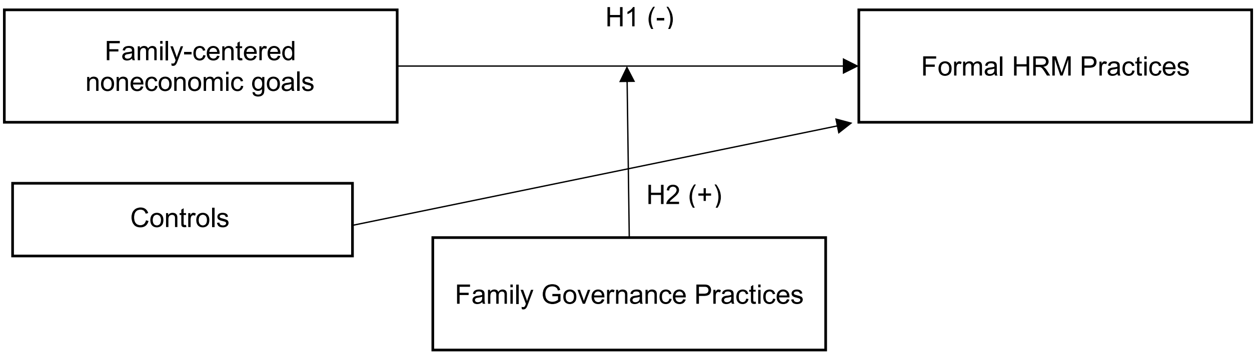
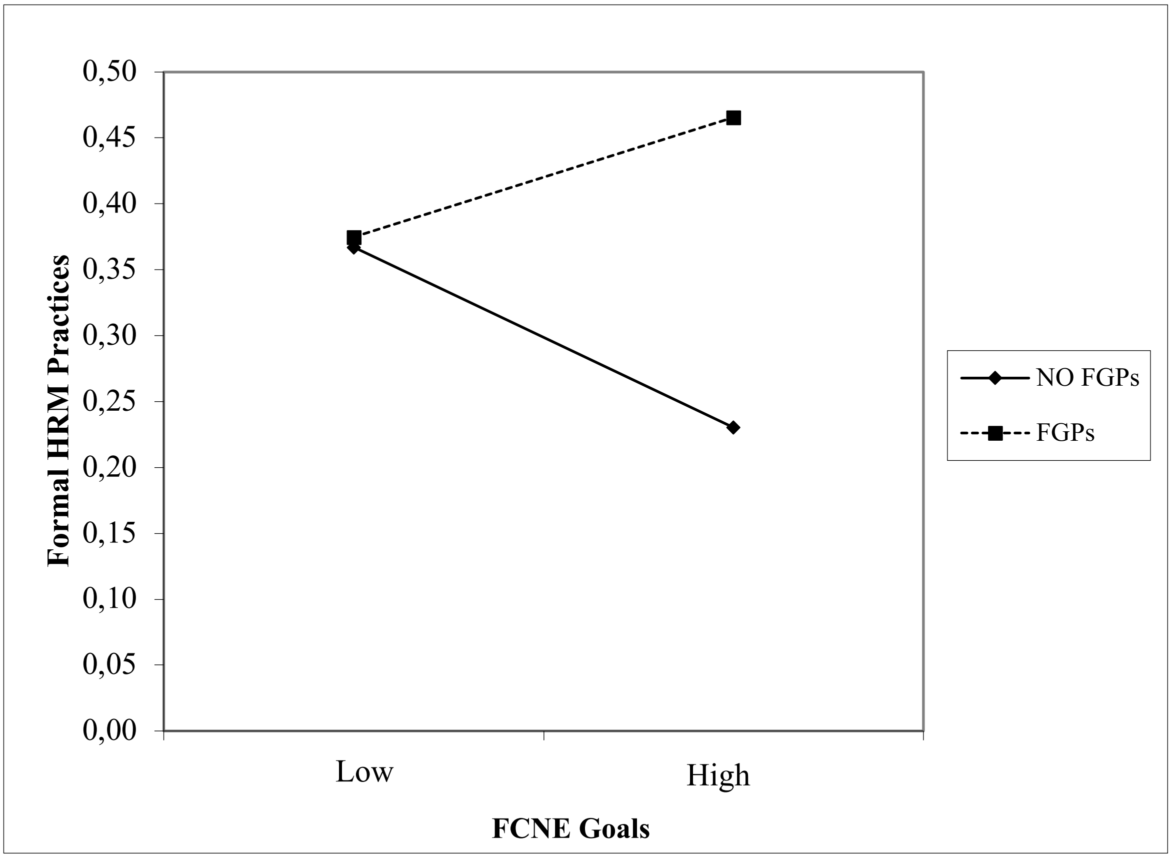


Figure 2
Family governance × FCNE goals on formal HRM practices



Note: Variable FCNE goals entered around the mean.

Table 1. Scales and items

Measure	Item Description	
Formal HRM practices[1]	*The company has written procedures regarding the selection of new personnel*	SELECTION
	The company uses periodic performance evaluations for its managers and employees	EVALUATION
	The company provides formal internal or external training programs for its employees	TRAINING
	The company uses pay-for-performance, for example, via bonuses	COMPENSATION
Family-centered noneconomic goals[2]	*Family harmony is an important goal in making business decisions*	
	The social status (reputation) of my family is an important factor in making business decisions	
	We strive for family members to feel connected to the business	

[1] All formal HRM practice items were measured as dichotomies: either 'apply' or 'not apply'. The items for this scale were adtoped from previous studies (e.g., Flamholtz and Randle, 2007; Kim and Gao, 2010; Lai et al., 2017; Madison et al., 2017; Reid and Adams, 2001).
[2] All FCNE goal items were measured on a 5-point Likert scale ranging from 'completely disagree' to 'completely agree'.' The items for this scale were adopted from previous studies (e.g., Astrachan and Jaskiewicz, 2008; Le Breton-Miller et al., 2004; Chrisman et al., 2012; Westhead and Howorth, 2007; Zellweger and Nason, 2008),

Table 2. Descriptive statistics and correlations for all variables

Variables	Mean	S.D.	1	2	3	4	5	6	7	8	9	10	11
1. Formal HRM practices	.34	.33											
2. FCNE goals	3.42	.94	-.15**										
3. FGPs	.19	.40	.20**	.24**									
4. Firm size	32.27	31.36	.29**	-.06	.08								
5. Past firm performance	3.82	.95	.12*	.00	.05	.12*							
6. First generation	.51	.50	.07	-.10†	-.09†	-.09†	.04						
7. Single owner	.28	.45	-.08	-.02	-.06	-.00	.02	.012					
8. Education	.69	.46	-.05	-.01	.13*	.12*	-.09	-.09	-.05				
9. Nonfamily in TMT	.30	.46	.28**	-.10†	.12*	.31**	.05	-.03	.07	.01			
10. Nonfamily in board	.29	.46	.27**	-.07	.14**	.15**	.11†	-.15**	-.07	.06	.27**		
11. Industry	.54	.50	-.02	-.08	-.00	.05	-.15**	.01	-.04	.02	.08	-.01	
12. Active board of directors	.33	.47	.19**	.01	.15**	.11*	.08	-.02	-.20**	.10†	.12*	.59**	.01

Notes: $N = 293$; †$p < .10$, *$p < .05$, **$p < .01$; two-tailed test; to ease interpretation, we provide the mean of the FCNE goal scores instead of the standardized factor scores;
FCNE goals: family-centered noneconomic goals; FGPs: family governance practices.

Table 3. Hierarchical regression analyses

	Step 1 *Controls*	**Step 2** *Controls + FCNE*	**Step 3** *Controls + FCNE + FGPs*	**Step 4** *Controls + Interaction*
FCNE goals		-.04*	-.06**	-.08**
		(.02)	(.02)	(.02)
FGPs			.17**	.13**
			(.05)	(.05)
FCNE goals x FGPs				.12*
				(.06)
CONTROLS				
Firm size[a]	.11**	.11**	.11**	.11**
	(.03)	(.03)	(.03)	(.03)
Past firm performance	.02	.02	.02	.01
	(.02)	(.02)	(.02)	(.02)
First generation	.07†	.06†	.06†	.06†
	(.04)	(.04)	(.04)	(.04)
Single owner	-.06	-.06	-.05	-.05
	(.04)	(.04)	(.04)	(.0391)
Education	-.07†	-.07†	-.09*	-.09*
	(.04)	(.04)	(.04)	(.04)
Nonfamily in TMT	.12**	.11**	.0923*	.09*
	(.04)	(.04)	(.04)	(.04)
Nonfamily in board	.12**	.12**	.11*	.11**
	(.04)	(.04)	(.04)	(.04)
Industry	-.01	-.01	-.02	-.02
	(.04)	(.04)	(.04)	(.04)
Model F	*9.46***	*8.88***	*10.93***	*10.17***
Adjusted R^2	*.15*	*.16*	*.19*	*.20*
ΔR^2(ΔF-test)		*.01*†	*.04***	*.01**

Notes: N = 293; †p < .10, *p < .05, **p < .01; two-tailed test; heteroscedasticity-robust standard errors in parentheses; [a] natural logarithm; FCNE goals: family-centered noneconomic goals; FGPs: family governance practices.

Table 4. Robustness test: Substituting Active board of directors for FGP

	Model
FCNE Goals	-.06*
	(.03)
Active board of directors	.09*
	(.04)
FCNE Goals x Active board of directors	.04
	(0.04)
CONTROLS	
Firm size[a]	.11**
	(.03)
Firm performance	.02
	(.02)
Generation	.05
	(.04)
Single owner	-.05
	(.04)
Education	-.07†
	(.04)
Nonfamily in TMT	.13**
	(.04)
Industry	-.01
	(.04)
Model F	*7.76***
Adjusted R^2	*.15*

Notes: $N = 293$; $^{\dagger}p < .10$, $^{*}p < .05$, $^{**}p < .01$; two-tailed test; robust standard errors in parentheses; [a] natural logarithm; FCNE: family-centered noneconomic goals; FGPs: family governance practices.