

The delicate balance between family first behaviour and formal HR in family-owned SMEs: the influence of family governance

Abstract

The objective of this paper is to investigate the antecedents of formal HRM practices in private family firms. More specifically, we look at family-centered noneconomic (FCNE) goals and family governance practices (FGP) through the lens of the behavioural theory of the firm to understand its effect on adopting formal HRM practices. Using regression models on a sample of 293 Belgian family SMEs, our results support the hypothesis that pursuit of FCNE goals is associated with less formalized HRM practices. Additionally, consistent with our second hypothesis, the simultaneous use of FGP while pursuing FCNE goals attenuates this negative effect. One implication of the research is that FGP can be beneficial not only to family but also nonfamily members of the firm.

Keywords: family firm; noneconomic goals; family governance, formal HRM, behavioural theory of the firm

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Introduction

Academic interest in HRM practices in the context of family firms is rapidly increasing (e.g., Combs, Jaskiewicz, Shanine, & Balkin, 2017; Daspit, Madison, Barnett, & Long, 2018; Kidwell, Eddleston, & Kellermanns, 2018; Madison, Daspit, Turner, & Kellermanns, 2018; Michiels, 2017; Sánchez-Marín, Meroño-Cerdán, & Carrasco-Hernández, 2017; Tsao, Wang, Chen, & Wang, 2019). This is not surprising, as for family firms, who are estimated to represent close to 80 percent of all companies and create about 50 percent of employment around the world, HRM practices are found to be important factors in attracting and retaining talented and motivated personnel (Astrachan & Kolenko, 1994; Astrachan & Shanker, 2003; de Kok, Uhlaner, & Thurik, 2006). In line with previous research, we consider HRM as the bundle of practices related to the selection, compensation, evaluation and training of a workforce (Kidwell et al., 2018; Subramony, 2009). The term, *formal*, refers to the documentation and regular application of procedures and best practices (Aronoff, McClure, & Ward, 2011; De Kok & Uhlaner, 2001; Kotey & Slade, 2005).

The importance of formalizing HR practices for family firms has been established with respect to important firm outcomes, including a positive effect on sales growth (Carlson, Upton, & Seaman, 2006) and the return on assets (Dekker, Lybaert, Steijvers, & Depaire, 2015). The added value of formalized HRM practices on organizational outcomes is explicitly corroborated for the specific context of family SMEs (e.g. Dekker et al., 2015; Mayson & Barrett, 2006). Yet, despite these proven benefits, family SMEs are generally found to use less formal HRM practices as compared to nonfamily SMEs (Aldrich & Langton, 1997; de Kok et al., 2006; Reid & Adams, 2001; Sánchez-Marín et al., 2017; Stewart & Hitt, 2012). Therefore, it is surprising that much less research (especially empirically supported studies), has focused on understanding the mechanisms that *drive* family firms to formalize their HR practices or not. The core research question of this study is therefore to explore such mechanisms. In order to provide an answer to this question, we build on the behavioural theory of the firm, which indicates that all firms have a variety of non-economic goals, besides economic goals, that

impact the behaviour and performance of the firm (Cyert & March, 1963). Family firms are likely to emphasize a specific type of non-economic goals, namely, family-centered noneconomic (hereafter: FCNE) goals (Chrisman, Chua, Pearson, & Barnett, 2012). We therefore take into account the extent to which the family SME emphasizes these FCNE goals. While not yet empirically tested, some researchers (Combs, Jaskiewicz, Shanine, & Balkin, 2018) have already proposed that FCNE goals may shape HRM practices, including family firms' decision to hire nonfamily managers (Chrisman, Memili, & Misra, 2014; Kellermanns, Eddleston, & Zellweger, 2012) or to implement more formal HRM practices (Hedberg & Luchak, 2017). Yet, up till now, there is no empirical evidence on how these family-related goals affect HRM practices. Furthermore, while past research often makes a distinction only between family and nonfamily firms, more recent research underscores the heterogeneity within family firms (e.g., Chua, Chrisman, Steier, & Rau, 2012; Combs et al., 2018). We therefore also explore conditions under which FCNE goals may hinder versus enhance the use of formal HRM practices, based on differences in family governance practices (hereafter: FGP) across family firms. After all, FGPs' main function is to synchronize the business family's relation with the family business and hence guide the business family's behaviour herein (Berent-Braun & Uhlaner, 2012; Suess, 2014).

Our hypotheses are tested 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 having family governance practices attenuates this negative effect.

We make several contributions to the state of the art on HRM and family governance insights in a family business context. First, this paper builds further on previous studies (Aldrich & Langton, 1997; de Kok et al., 2006; Reid & Adams, 2001; Sánchez-Marín et al., 2017), suggesting that the family firm context is important when studying HR formalization. Next, this article therefore adds to the debate on HRM in family firms by explicitly investigating two important aspects of family firm heterogeneity, namely FCNE goals and family governance (Chua et al., 2012), thereby going beyond comparisons between family and nonfamily firms as called for by Nordqvist, Sharma, and Chirico (2014). Thus, while the majority of previous research is focused on the outcomes of formal HRM practices, this paper aims at opening the black box of the antecedents of formal HR practices in the context of family SMEs.

Next, by using an empirical measure of FCNE goals we are able to explicitly capture the effect of these family goals on the formalization of HR, thereby responding to a recent call by Sánchez-Marín et al. (2017) to reach more underpinned insights. Finally, we add to the debate on family governance by examining the potential value of family governance practices for nonfamily stakeholders, which is overlooked in family business governance literature to date (Suess, 2014). Thus, FGPs are not only beneficial for cultivating family harmony and a shared vision, as previously highlighted in family business literature (e.g. Berent-Braun and Uhlaner, 2012; Sundaramurthy, 2008), but can also be beneficial for nonfamily stakeholders such as nonfamily employees by yielding more formal HRM practices while pursuing FCNE goals. This way, our study adds a new element to the debate on how FGPs can contribute to the business system, since extant research on the impact of FGPs is scarce (Prigge & Thiele, 2019).

The remainder of this paper is structured as follows. The first section discusses the relation between FCNE goals, family governance and formal HR practices. We then describe the dataset and the variables used in the analyses. The next 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

This section presents the overall research framework, graphically represented in Figure 1, including the hypotheses and their 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., 2017; Saridakis, Lai, & Cooper, 2017), sales growth (Carlson et al., 2006) and resilience to the downturn (Lai, Saridakis, Blackburn, & Johnstone,

2016). There may be several reasons for such benefits, especially in the family SME. First, formalization of HRM practices can assist in developing strong relationships between family firm leaders and employees (Le Breton-Miller & Miller, 2015). Second, a more formal HRM system can be an important device to signal legitimacy to external stakeholders (Cardon & Stevens, 2004; Graham & Harvey, 2001), especially potential applicants. Family SMEs must compete not only with nonfamily SMEs, but also with larger firms, for talented employees. Past research suggests that their ability to recruit is tied to the formalization of their HRM practices (Carlson et al., 2006; de Kok et al., 2006; King, Solomon, & Fernald Jr, 2001). After all, less formal HRM practices may be a sign of negative imprinting by the founder e.g. due to parental altruism (Kidwell et al., 2018), or bifurcation bias (i.e. the asymmetric treatment of family and nonfamily employees) (Daspit, Madison, Barnett, & Long, 2017), both of which can lead to destructive outcomes for the firm. Third, formal HRM practices may reduce perceptions of nepotism and increasing procedural justice in treatment of nonfamily employees, also making the firm more attractive to potential recruits and as an aid in retention (Barnett & Kellermanns, 2006; Tabor, Chrisman, Madison, & Vardaman, 2018). Finally, having a formalized HRM system can help the family SME qualify for loans from financial institutions, since SMEs with a low level of formal HRM practices are often downgraded as less attractive loan applicants by senior credit officers (Nguyen & Bryant, 2004).

Yet, despite the proven benefits for financial performance, growth and resilience of formalized HRM practices, family SMEs are generally found to use less formal HRM practices as compared to their nonfamily counterparts (Aldrich & Langton, 1997; de Kok et al., 2006; Reid & Adams, 2001; Sánchez-Marín et al., 2017; Stewart & Hitt, 2012). Moreover, previous research indicates that there is quite a bit of variation in the formalization level of HRM amongst family SMEs. In the next section, we introduce the concept of family-centered noneconomic (FCNE) goals to provide an explanation for this variation.

Family-Centered Noneconomic Goals and Formal HRM Practices

The behavioural theory of the firm, as reflected in the seminal work of Cyert and March (1963), posits that, apart from economic goals, all firms develop and pursue non-economic goals and that these noneconomic goals are expected to influence their behaviour. In small family firms, non-economic goals

related to the family itself are found to be of special importance (Chrisman et al., 2012). These FCNE goals differ substantially among family firms and are considered to be better at explaining firm behaviour than mere family involvement (Chrisman et al., 2012; Jaskiewicz, Uhlenbruck, Balkin, & Reay, 2013; Molly, Uhlener, De Massis, & Laveren, 2018), especially in privately-held family businesses (Williams, Pieper, & Astrachan, 2019). More specifically, the focus that family firms place on FCNE goals can be crucial in predicting their behaviour and performance (Kotlar & De Massis, 2013). FCNE goals aim at representing the benefits that family members might desire and for which they could use their influence on the firm (Astrachan & Jaskiewicz, 2008; Breton-Miller, Miller, & Steier, 2004; Chrisman et al., 2012; Gómez-Mejía, Haynes, Núñez-Nickel, Jacobson, & Moyano-Fuentes, 2007; Paul Westhead & Carole Howorth, 2007; Zellweger & Astrachan, 2008; Zellweger & Nason, 2008). Consistent with previous studies, we focus on the following FCNE goals: family harmony, family social status and family and firm identity linkage (Astrachan & Jaskiewicz, 2008; Chrisman et al., 2012; Gomez-Mejia, Haynes, Nunez-Nickel, Jacobson, & Moyano-Fuentes, 2007; Sharma, Chrisman, Pablo, & Chua, 2001). For example, 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 & Mason, 1984). The importance placed on FCNE goals can vary widely among family firms, thereby recognizing their heterogeneity (Chrisman, Chua, Kellermanns, & Chang, 2007; Dibrell & Memili, 2019), which may help in explaining differences in HRM formalization in family firms, which belongs to the strategic decision making domain.

Formalizing HRM practices in the family firm requires consideration of factors that militate against these FCNE goals (Chua, Chrisman, & Bergiel, 2009; Stewart & Hitt, 2012). Thus, we use the importance attached to FCNE goals as a base for distinguishing among family businesses in their use of formal HRM practices since these FCNE goals might provide an explanation as to why certain family SMEs adopt less formal HRM practices than others. After all, family firm owner-managers may take particularistic decisions that deviate from rational, profit-maximizing behaviour when pursuing these family goals (Chrisman et al., 2012). Thus, despite the fact that formal HRM practices are known to have positive effects on firm performance and growth for all SMEs, some family firms still are reluctant to formalize. For example, families that wish to preserve a strong family orientation in their firm by

having many family members as employees or owners, may find their hands tied when HRM practices are too formal (Aldrich & Langton, 1997). Formal HRM practices might also thwart the pursuance of the FCNE goal of keeping the business in the family by hiring family members rather than unrelated applicants (Bellow, 2003; Jaskiewicz et al., 2013). When the controlling family has the discretion to select idiosyncratic strategies – such as favouring family managers to be hired even when nonfamily managers are more talented – the pursuit of FCNE goals increases the probability that such idiosyncratic strategies are followed instead of formal procedures (Carney, 2005; Chrisman et al., 2014). This way, the pursuance of FCNE goals might result in family business behaviour affecting nonfamily stakeholders too (Williams Jr, Pieper, Kellermanns, & Astrachan, 2018), seemingly in a less favourable way. Therefore, we expect family firms that place high emphasis on the achievement of FCNE goals, to adopt less formal HRM practices. Put formally,

***H1:** Private family SMEs that place more emphasis on FCNE goals have less formal HRM practices.*

The Moderating Effect of Family Governance Practices

In this section, we introduce family governance practices (FGPs) as a potential moderator to the negative relation between FCNE goals and the adoption of formal HR practices. FGPs represent the mechanisms that intent to facilitate the relationship between the family and the business (Aronoff et al., 2011; Kelin E Gersick, 1997; Neubauer & Lank, 2016). More specifically, these family governance structures stimulate social interaction, thereby helping to create a shared vision between the family members (Berent-Braun & Uhlaner, 2012; Mustakallio, Autio, & Zahra, 2002). Family governance structures also enhance the likelihood that the family will form common rules to govern the behaviour of family members with respect to the firm (Berent-Braun & Uhlaner, 2012).

The two most commonly used family governance structures are the family forum and the family constitution. A family forum (also family council or family meeting) provides a platform that promotes communication among the family members. This forum provides family members with the opportunity to express their different expectations and opinions, through which conflicts can be discussed and

resolved even before they affect the business (Brenes, Madrigal, & Requena, 2011; Poza, 2013). The family constitution (also referred to as family charter or family code of conduct) consists of a document which clarifies rules and regulations regarding the relation of the family to the firm, such as, for example, working in the business (Neubauer & Lank, 2016). This family constitution can therefore facilitate the development of formal HR practices in the business as it documents rules and principles the family has agreed on concerning selection, compensation and evaluation of family members. FGPs therefore provide an excellent opportunity to weaken the negative effects of FCNE goals (such as, for example, parental altruism or preferential treatment for family employees), by enhancing the communication and creating a shared vision among them. Thus, family governance mechanisms may facilitate the development of formal HR practices in the business as it documents rules and principles the family has agreed on concerning selection, compensation, training and evaluation of *family* members.

The reflection process among family members regarding their relationship to the business, and the required procedures and agreements hereon, might assist the family in clarifying not only HRM practices towards family but also towards *nonfamily* employees. The investment in FGPs may thus be seen as an attempt to balance a healthy family system with a healthy business system (Montemerlo and Ward, 2011). After all, as a result of high FCNE goals, members of the business family may be inclined to give special considerations to family members based on family affiliation or position, which will eventually cause conflict (Van der Heyden, Blondel, & Carlock, 2005). Indeed, as posited by Van der Heyden et al. (2005; p. 16): “leaving the firm in the hands of underperforming family management causes lower business performance and lower individual satisfaction for business managers and equity holders alike.” Feelings of fairness among family members are cultivated when decision-making on hiring and promotion is based on competences and merits for family and nonfamily members alike. In that sense, actions such as formal HRM practices, which enable the family firm to attract and retain qualified staff, might be seen as beneficial for the family because it is beneficial for the business success and survivability and thereby being considered as a “fair process practice” (Van der Heyden et al., 2005). Elaborating on this, the risk of *not* attracting or *not* retaining the right talent to the business, and hence threatening the business survivability, forms a threat to business family members’ identification with and future membership of the family business and hence the business family. That is why family

members may feel and understand the need to embrace both the business and family goals. It is exactly this debate on which philosophy to give priority to, the family and or business needs, that is held during a family council or while drawing up a family constitution (Montemerlo and Ward, 2011).

Since FGPs provide a platform on which current and emerging conflicts can be discussed before they affect the firm (Brenes et al., 2011; K.E. Gersick, Davis, Hampton, & Lansberg, 1997; Poza, 2013), they are likely to influence the behavioural outcomes of the pursuance of FCNE goals. This way, FGP can facilitate the discussion that, next to pursuing FNCE goals, there is also a need for formal HRM practices for family as well as nonfamily employees in order to keep the business healthy. As such, FGP can assist in developing a culture of fairness in the selection, training, compensation and evaluation processes that govern all careers in the firm – including family as well as nonfamily members.

In conclusion, family governance can facilitate the discussion over HRM issues. Therefore, whether FCNE goals indeed lead to a lower level of formal HR practices may depend on the establishment of family governance mechanisms in the firm. After all, these family governance practices can prevent that family firms base their HR decisions mainly on the pursuance of FCNE goals. Without any family governance structures that enable communication and social interaction between family members on what is best for the family firm, targeting the family and the business system's health, formal HR practices may be unlikely to be implemented in firms with a strong focus on FCNE goals.

Put formally:

***H2:** The effect of FNCE goals on HR professionalization is less negative when family governance mechanisms are present in the firm*

Method

Sample and Data Collection

The empirical data we used to assess the effect of FCNE goals on the use of formal HR practices belongs to a wider survey exploring family business professionalization within the group of Belgian SMEs. As a manner of pre-test, the questionnaire was first sent to five family business owners and three of our colleagues. This pre-test resulted in some reformulations and other small adaptations. The

database was gathered by means of an electronic questionnaire, which was emailed to a convenience sample of 6,861 SMEs with at least 10 employees in order to exclude micro-organizations. In 2014, we emailed the questionnaire to all chief executive officers of the selected firms. After two waves of emails, we received a total of 644 completed questionnaires, corresponding to a response rate of 9.80%. Given the length of the survey and the sensitivity of the questions, together with the secretive nature of family businesses in general (Neubauer & Lank, 2016), this can be considered as a satisfactory response rate. It is also in line with previous research that targets CEOs of privately-held firms (e.g., Bammens, Voordeckers, & Van Gils, 2008; Cruz, Gomez-Mejia, & Becerra, 2010; Michiels, Voordeckers, Lybaert, & Steijvers, 2015).

Next, we classified a firm as being a *family* firm when they met one of the following requirements: (1) the family owns the majority of the 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 & Cowling, 1998). This resulted in a final response group of 561 family firms. After removing cases with missing values, our analyses are based on a final sample of 293 privately-held family firms.

To assess potential non-response bias, we tested for possible differences between early and late respondents, as late respondents are found to be more similar to non-respondents (Oppenheim, 2000). T-tests on the key variables in this study 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 in the groups of early and late respondents. Based on this, we expect the chance of biased responses to be very small (Kanuk & Berenson, 1975). In order to ease the remaining concerns about the use of survey data, we tried to mitigate the risk of common method bias in the design of the questionnaire with procedural remedies such as: assuring that there were no right or wrong answers, and assuring anonymity and confidentiality. Additionally, there is a possibility that the respondents did not answer truthfully (Graham & Harvey, 2001), but we do not expect that the CEOs would take the time to fill in this extensive questionnaire if it was their intent to be untruthful.

Measures

Dependent Variable – Formal HRM Practices. In line with previous research (de Kok et al., 2006; Dekker et al., 2015; Flamholtz & Randle, 2007; Kim & Gao, 2010; Lai, Saridakis, & Johnstone, 2017; Madison, Daspit, Turner, & Kellermanns, 2017; Reid & Adams, 2001; Rutherford, Buller, & McMullen, 2003; Steijvers et al., 2017), we asked the family firm CEO about the presence or absence of four different HR professionalization features, related to the domain of *selection, compensation, performance evaluation* and *training*. An overview of the items can be viewed in Table 1. Next, we constructed an overall average index ranging from 0 to 1, similar to previous research (e.g., Lai et al., 2016; MacDuffie, 1995; Wright, Gardner, & Moynihan, 2003; Youndt, Snell, Dean Jr, & Lepak, 1996). A higher score represents a higher level of HR professionalization. In our sample the mean for our formal HRM index is .34, meaning that, on average, the family SMEs use slightly more than one third of the formal HRM practices. For an index, as opposed to a scale, we assume that the different items grasp the level of an underlying construct, and are not caused by the underlying construct. Therefore, we do not expect our formal HRM items to have high intercorrelations (Delery, 1998).

Independent Variable – Family-Centered Noneconomic (FCNE) Goals. The scale used for operationalizing the family-centered noneconomic goals consists of three items measured on a 5-point Likert scale (1 = strongly disagree; 5 = strongly agree). The items for this scale were adopted from previous studies (Astrachan & Jaskiewicz, 2008; Breton-Miller et al., 2004; Chrisman et al., 2012; Gomez-Mejia et al., 2007; P. Westhead & C. Howorth, 2007; Zellweger & Astrachan, 2008; Zellweger & Nason, 2008) and aim to represent the benefits that family members might desire and for which they could use their influence. The items included: (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 were extensively used in previous research investigating family-centered noneconomic goals, we calculated the Cronbach ‘s alpha and did a confirmatory factor analysis (CFA) to examine the underlying properties of this scale for non-economic goals. Although, similar to Chrisman et al. (2012), this three-item measure yields a fully saturated model where fit indices cannot

be generated, each item has significant loadings onto the construct. Along with a Cronbach's alpha of .75 (identical to the Cronbach's alpha in the study of Chrisman et al., 2012), these results suggest that the construct validity of this scale is sufficient for our statistical tests. We used standardized factor scores in the regression analyses.

Insert Table 1 about here

Moderating Variable – Family Governance Practices (FGP). We included a dummy variable FGP to measure the use of family governance practices. Similar to Michiels et al. (2015), it equals one when the family firm has installed a family forum and/or charter, and zero otherwise.

Control Variables. Consistent with prior research, we included several firm characteristics that might influence the use of formal HRM practices. Although this paper only focuses on SMEs, we controlled for *firm size* since it may influence the level of formal HRM practices (Kim & Gao, 2010; Lai et al., 2016). For example, larger firms are more complex and might need more formal HRM practices (Barrett & Mayson, 2007). We measured *Firm Size* as the number of full time employees. Because the distribution of this variable was positively skewed, we transformed it using a natural logarithm for the statistical analyses.

Firm age might impact the use of formal HRM practices as well. Previous studies found a significant negative effect of firm age on the use of formal HR practices (Nguyen & Bryant, 2004) and on variable pay practices (Kim & Gao, 2010; Newman & Sheikh, 2014). Because of multicollinearity issues, we rather chose for another related control variable, *Generational Stage*, used in other studies on formal HR practices in family firms (e.g. Pittino et al., 2016), which equals one for firms in which ownership is concentrated in the first generation, and zero in later generations.

In line with the findings of Miller and colleagues (2011) that lone founders might give priority to more business logic and embrace more family logic if surrounded by other family members in the business, we explicitly control for *Single Owner* in addition to generational stage.

The development of HRM in SME's might also be influenced by a CEO's human capital (Mayson & Barrett, 2006). More specifically, CEO's with a higher education level are found to be more capable and willing to adopt formal HRM practices (Hannon & Atherton, 1998; Newman & Sheikh, 2014). We included the dummy variable, *CEO Education*, which equals one when the CEO has obtained a higher education degree, and zero otherwise.

As implementing formal HRM practices requests a number of financial resources that might be lacking in some SMEs, we so control for *Firm Performance*, which measured the return on assets in 2013 (one year time lag) (Chittoor & Das, 2007).

Nonfamily involvement in the management team was found to increase the use of formal HRM practices in previous research (Aldrich & Langton, 1997). Therefore, we included the dummy variable *Nonfamily Involvement in TMT*, which equals one for firms in which there is at least one nonfamily manger, and zero otherwise.

As previous research indicated that corporate governance can play a role in the adoption of HR practices in family firms (Neckebrouck, Schulze, & Zellweger, 2018) we also control for the presence of *Nonfamily Members in the Active Board of Directors*. In addition, we did an explicit robustness test to check for the substituting effect of having an *Active Board of Directors*, being defined as having several board meetings on a yearly basis.

Finally, following previous studies (Kim & Gao, 2010; Michiels, 2017; Newman & Sheikh, 2014), we control for the industry in which a firm is active by adding a dummy variable *Industry*, which equals one when a firm operates in the manufacturing industry, and zero otherwise.

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 employs 32 people and is active in the manufacturing industry in about

54% of the cases. Slightly less than half (49%) of the family firms in the sample reached a second or higher generation as family-owned firm. In 28% of our sampled family firms a single business owner is involved in the business without any other involved relative in the business ownership. In 30% of our sample, there are nonfamily managers included the top management team and in 29% a nonfamily member is having a seat in the active board of directors. The CEOs of these firms have obtained a university degree in about 69% of the cases. Furthermore, 19% of the sample firms have installed family governance practices and installed about one third (34%) of the formal HRM practices. Lastly, the average sample firm pursues FCNE goals to a moderate extent (i.e. 3.42 on a 5-point Likert scale).

The dependent variable (*Formal HRM*) is significantly negatively correlated with FCNE goals, and significantly positively correlated with FGP, firm size and firm performance, nonfamily involvement in top management and in the board. The highest absolute correlation between the explanatory variables is .31 (in absolute value), which is well below the .80 threshold above which multicollinearity problems could arise (Gujarati & Porter, 2003). Also, the variance inflation factor (VIF) values indicate no multicollinearity problems as the largest VIF of 1.35 is considerably less than the threshold of 10 (Gujarati & Porter, 2003).

Insert Table 2 about here

The Impact of FCNE Goals on Formal HRM

In order to investigate the factors that influence the level of formalization of the HRM function in a family firm, we use hierarchical models, as displayed in Table 3. Model 1 (step 1) shows the effect of the control variables only. Firm size, generational stage, nonfamily involvement in the top management team and in the active board have a significant positive effect on the level of formal HRM practices applied in a family firm, whereas education of the CEO has a negative significant effect. Firm performance, single owners, and industry are not significantly related to formal HRM practices.

Model 2-step2 captures the impact of family goals on the level of formal HRM practices in a family firm, while controlling for firm and CEO characteristics and for sector. The results show that

family goals have a significant negative effect on the level of formal HRM practices, supporting our Hypothesis 1.

Insert Table 3 about here

The Moderating Effect of FGP

The variable *FGP* (family governance practices) enters in the third model in Table 3 (step 3). The results indicate the use of family governance practices has a significant direct effect on the level of formalization of the HRM function. This result is in line with the results reported in Table 2 (significant positive correlation between FGP and HRM formalization).

However, as argued in Hypothesis 2, FGP are also expected to indirectly affect the relation between FCNE goals and HRM formalization since the use of FGP assists in decreasing the negative effect of family goals, thereby facilitating the formalization of the HRM function. In order to capture this potential moderating effect, the fourth model introduces a moderating variable *FCNE Goals * FGP* (step 4). The coefficient of the interaction variable is significantly positive. This finding supports Hypothesis 2, which indicates that FGP are a mechanism that facilitates the formalization of the HRM function by making family members aware of the potential detrimental effects associated with family goals. Figure 2 graphically presents the moderating effect.

Our sample size (n=293), number of independent and control variables (11), and the detected level of explained variance in our hierarchical regression models (adjusted R² between .15 and .20) reveals that our post-hoc power estimation is satisfactory for deducing significance levels at even .01 (Hopkins & Ferguson, 2014). The incremental increase in R² for FGP (3.6%) and for our moderator variable FCNE Goals * FGP (about 1%) is rather small. Nonetheless, the standardized regression coefficient for our moderator variable FCNE Goals * FGP ($\beta=.12$) (based on model Step 4 in Table 3) is of a comparable magnitude as the standardized regression coefficient of the other professionalization variables in the model (NonFamily in TMT, $\beta=.13$ and NonFamily in Board, $\beta=.15$), all indicating small effect sizes. Hence, we may conclude that our focus on FGP in moderation with FCNE goals in

understanding the level of formal HRM practices in family businesses where the pursuit of FCNE goals is high, is legitimate.

Insert Figure 2 about here

Robustness Test

As one could argue that the use of *family* governance practices might actually have the same effect as having an active board of directors (*corporate* governance), we performed a robustness test. Although we already included the variable *Nonfamily in Board of Directors* (which equals one when the firm has an external party in the active board of directors) in our models as a control variable, we re-estimated the final model, replacing the variable *FGP* by *Board of Directors* (which equals one when the firm has an active board of directors) in the interaction term in order to rule out the reasoning that the effect we find is not a *family* governance effect per se, but rather an overall professionalization effect. Results are reported in Table 4. Here, the interaction variable (FCNE Goals * ActiveBoD) shows no significant effect, as opposed to the original interaction variable (FCNE Goals*FGP). This analysis thereby indicates that formal corporate governance mechanisms do *not* have the same effect on the formalization of the HRM function in family firms than the use of family governance practices.

In other words, this robustness test reveals that *corporate* governance practices (having an active board of directors) is not an adequate tool to attenuate the negative effect of the pursuit of FCNE goals on embracing formal HRM practices. In order to embrace more formal HRM practices, while pursuing FCNE goals, *family* governance tools, such as a family council or constitution, are thus needed in family-owned SMEs. With this test, we do not claim to undermine the bidirectional relation between family governance tools and business professionalization (Suess, 2014), but we do point to the unique additional effect that family governance has on embracing formal HR practices while pursuing FCNE goals.

Insert Table 4 about here

Discussion and Conclusions

This study focuses on the impact of FCNE goals on the formalization of the HRM function in private family firms. By doing this, we aim at filling two gaps in the literature. On the one hand, very little is known about the antecedents of formalized HRM structures in family firms. Stated differently, so far, we have very little knowledge on why certain family firms show higher levels of formalization with regard to their HRM function than others. On the other hand, many studies make implicit assumptions on the influence of family-centered noneconomic goals without empirically testing them. In an attempt to fill these gaps, we empirically investigate the effect of the pursuit of FCNE goals on adopting formal HRM practices. In order to open this black box of FCNE goals as antecedent of formal HRM practices in family firms, we studied whether family governance practices can moderate the behaviour of the controlling business family pursuing FCNE goals in terms of embracing more easily HRM formalization when having FGP.

The results of our empirical analyses on a sample of 293 Belgian privately held family firms support the argument that pursuit of FCNE goals leads to less formalized HRM practices. Additionally, the use of family governance practices weakens this relationship. This finding suggests that family governance can prevent that family firms base their HR decisions mainly on the achievement of their FCNE goals. This also suggests that family governance practices may not only be beneficial to family members, as often indicated in previous research, but also to nonfamily members. After all, attracting, hiring and retaining qualified nonfamily employees is one of the greatest challenges family businesses face (Chrisman, Chua, & Litz, 2003). As indicated by our results, family governance practices can thus assist in preventing the potential detrimental HRM effects associated with the pursuance of FCNE goals, such as favouring an unskilled family member over a skilled, but unrelated, applicant. The stronger formalisation of the HRM practices, despite the pursuit of FCNE goals, could result in more motivated nonfamily employees and managers (Daspit et al., 2017).

This desire for a fair process urges family members involved in the family governance to balance the business needs (such as potential to attract and maintain qualified nonfamily employees) with the family needs (such as the pursuit of family control and family employment). The process of

reflecting and discussing on the family values and shared vision and how these values can be transferred to the business (which typically takes place in family governance practices), might bring the need to the surface for more formal HRM practices also toward nonfamily employees. The consistent treatment of family members and nonfamily members alike might be a necessary way to bring these espoused values into practice in the business and hence contribute to the social identity of the involved family decision makers, reasoning from a procedural justice perspective (Rupp, Shapiro, Folger, Skarlicki, & Shao, 2017). It is this common vision and the desire to continue to take part in the business family group that makes family members ready to invest in the business needs beyond the family needs (Uhlaner et al., 2015). Hence family governance practices seem to be an important driving mechanism in attenuating the dominance of FCNE goals in HRM decisions.

By providing more transparency by formal HRM practices, it is likely that family firms pursuing FCNE goals *and* having FGP are better equipped to avoid the winner's curse, in which "neither the economic nor noneconomic goals of family owners are fully achieved" (Chrisman et al., 2014, p1). Hence, FGP might help to overcome the reluctance to give up full family control and to be able to attract talented and fully motivated nonfamily employees-managers at a market price, especially in the context of family-owned SMEs.

Thus, FGPs are not only beneficial for cultivating family harmony and a shared vision, as previously highlighted in family business literature (e.g. Berent-Braun and Uhlaner, 2012; Sundaramurthy, 2008), but can also be beneficial for nonfamily stakeholders such as nonfamily employees by yielding more formal HRM practices while pursuing FCNE goals. This way, our study adds a new element to the debate on how FGPs can contribute to the business system, since extant research on the impact of FGPs is scarce (Prigge & Thiele, 2019).

This study has several limitations that should be mentioned, and that in the same time 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 not ideal. Future research using multiple respondents, over a period of time could provide more robust insights into the relation between FCNE goals, FGP and the adoption of formal HRM practices. Second, data from a more detailed survey could build further on the findings of this study. Future research might then, for example, incorporate more explicitly the mechanism by

which FGP yields formal and beneficial employee practices for nonfamily employees and managers in family firms. For example, we suggest to take into account characteristics of the chairperson of the family forum, or the process of drawing up a family constitution. Qualitative research might be useful in this context, since it is very relevant in examining and understanding processes, while at the same time answering “why” and “how” questions which are difficult to answer via quantitative research methods (Reay, 2014). This way, scholars could significantly improve our knowledge on the process through which FGP influences the relation between FCNE goals and HR formalization.

Practical Implications

Our results might support family firms in the delicate balancing act between fulfilling family needs and business needs. Our results indicate that family governance practices might be an important driving mechanism in this balancing act when it comes to making trade-off decisions like e.g. sticking to family employment or hiring the most talented person using formal selection HRM practices. Up till now, investing in family governance practices is mainly done and studied for the benefits of a healthier family system by preventing or resolving family conflicts by setting a unified family vision on the business. Our results suggest that investing in these family governance practices might equally benefit nonfamily stakeholders of the family business, i.e. nonfamily employees with more transparent and formal HRM practices and hence giving family firms more power in the war for talent.

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Figure 1

Research Framework

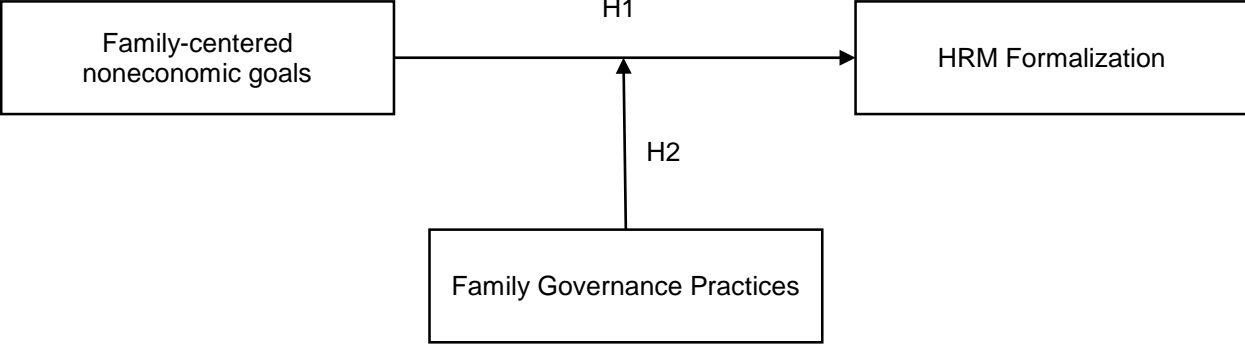


Table 1
Scales and items

Measure	Item Description	
Formal HRM Practices	<i>The company has written procedures regarding the selection of new personnel</i>	← SELECTION
	<i>The company uses periodic performance evaluations for its managers and its employees</i>	← EVALUATION
	<i>The company provides formal internal training or external training programmes for its employees</i>	← TRAINING
	<i>The company uses pay for performance, for example via a bonuses</i>	← COMPENSATION
Family-centered Noneconomic Goals	<i>Family harmony is an important goal in making business decisions</i>	
	<i>The social status (reputation) of my family is an important factor in making business decisions</i>	
	<i>We strive for family members feeling connected to the business</i>	

Table 2
Descriptive statistics and correlations for all variables

Variables	Mean	S.D.	1	2	3	4	5	6	7	8	9	10
1. Formal HRM	.34	.33	1.00									
2. FCNE Goals	3.42	.94	-.15**	1.00								
3. FGP	.19	.40	.20**	.24**	1.00							
4. Firm Size	32.27	31.36	.29**	-.06	.08	1.00						
5. Firm Performance	3.82	.95	.12*	.00	.05	.12*	1.00					
6. Generation	.51	.50	.07	-.10†	-.09†	-.09†	.04	1.00				
7. Single Owner	.28	.45	-.08	-.02	-.06	-.00	.02	.012	1.00			
8. Education	.69	.46	-.05	-.01	.13*	.12*	-.09	-.09	-.05	1.00		
9. Nonfamily TMT	.30	.46	.28**	-.10†	.12*	.31**	.05	-.03	.07	.01	1.00	
10. Nonfamily Board	.29	.46	.27**	-.07	.14**	.15**	.11†	-.15**	-.07	.06	.27**	1.00
11. Industry	.54	.50	-.02	-.08	-.00	.05	-.15**	.01	-.04	.02	.08	-.01

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

Table 3
Hierarchical regression analyses

	Step 1 <i>Controls</i>	Step 2 <i>Controls + FCNE</i>	Step 3 <i>Controls + FCNE + FGP</i>	Step 4 <i>Controls + Interaction</i>
FCNE Goals		-.0415* (.0217)	-.0618** (.0213)	-.0756** (.0229)
FGP			.1672** (.0480)	.1301** (.0493)
FCNE Goals x FGP				.1192* (.0579)
CONTROLS				
Firm size ^a	.1085** (.0274)	.1072** (.0275)	.1069** (.0271)	.1056** (.0269)
Firm Performance	.0183 (.0189)	.0186 (.0186)	.0151 (.0178)	.0119 (.0177)
Generation	.0681 [†] (.0363)	.0602 [†] (.0359)	.0626 [†] (.0356)	.0621 [†] (.0355)
Single Owner	-.0575 (.0403)	-.0588 (.0399)	-.0488 (.0393)	-.0511 (.0391)
Education	-.0705 [†] (.0403)	-.0709 [†] (.0401)	-.0904* (.0394)	-.0889* (.0392)
Nonfamily in TMT	.1162** (.0437)	.1094** (.0438)	.0923* (.0426)	.0937* (.0424)
Nonfamily in Board	.1235** (.0433)	.1188** (.0429)	.1062* (.0427)	.1056** (.0425)
Industry	-.0073 (.0367)	-.0134 (.0366)	-.0155 (.0353)	-.0192 (.0351)
<i>Model F</i>	9.46**	8.88**	10.93**	10.17**
<i>Adjusted R²</i>	.1506	.1592	.1936	.2001
<i>ΔR²(ΔF-test)</i>		.0113 [†]	.0361**	.0091*

Notes. $N = 293$; [†] $p < .10$, * $p < .05$, ** $p < .01$; two-tailed test; heteroscedasticity-robust standard errors in parentheses; ^a natural logarithm; FCNE goals stands for 'family-centered non-economic goals'; FGP stands for 'family governance practices'

Table 4
Robustness test

	Model
FCNE Goals	-.0592* (.0265)
Active Board of Directors	.0942* (.0425)
FCNE Goals x Active Board of Directors	.0381 (0.0446)
<i>CONTROLS</i>	
Firm size ^a	.1078** (.0276)
Firm Performance	.0215 (.0184)
Generation	.0486 (.0361)
Single Owner	-.0498 (.0413)
Education	-.0739 [†] (.0405)
Nonfamily in TMT	.1271** (.0434)
Industry	-.0142 (.0364)
<i>Model F</i>	7.76**
<i>Adjusted R²</i>	

Notes. $N = 293$; [†] $p < .10$, * $p < .05$, ** $p < .01$; two-tailed test; robust standard errors in parentheses; ^a natural logarithm; FCNE goals stands for 'family-centered non-economic goals'; FGP stands for 'family governance practices'

Figure 2
Family governance × FCNE goals (centered) on formal HRM practices

