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Professional HRM Practices in Family Owned-Managed Enterprises*

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This study examines determinants of professional human resource management (HRM) practices within a sample of approximately 700 small to medium-sized firms. Predictions from the agency theory and the resource-based view of organizations lead to alternate hypotheses regarding the direct and indirect negative effects of family ownership and management on the usage of professional HRM practices. Results support predictions for both direct and indirect effects. These indirect effects occur through intermediary variables that reflect organizational complexity, such as firm size, (the presence of a) formal business plan, and HRM specialization. The findings lend partial support to both theories.

Introduction

Human resource management (HRM) has been defined as the "process of attracting, developing and maintaining a talented and energetic workforce to support organizational mission, objec-

tives, and strategies" (Schermerhorn 2001, p. 2400). Effective HRM practices are becoming increasingly important in the modern knowledge-based economy, as companies face the double challenge of the need for more highly trained

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employees and the shortage of qualified labor. These challenges, coupled with the third trend toward smaller firms in general, reinforce the need for effective HRM practices in the small firm (Audretsch and Thurik 2001).

Empirical research confirms that in general, smaller firms make less use of professional HRM practices than larger firms. For example, smaller firms make less use of formalized recruitment practices, provide less training to their employees, and are less likely to use formalized performance appraisals. Despite the size effect, research suggests that far from being homogeneous, small firms vary widely in the professional HRM practices in use (De Kok and Uhlaner 2001).

Variation in family ownership and management may help to explain the differences in HRM practices among small and medium-sized enterprises (SMEs). Dyer (2003) and Schulze, Lubatkin, and Dino (2003) all point out that the family is a neglected variable in organizational research. Nevertheless, a research stream is emerging that generally confirms a negative relationship between family firm governance and the use of professional HRM practices (Fiegener et al. 1996; Cyr, Johnson, and Welbourne 2000). In this paper, we pursue this research stream further by deriving and testing a model to explain whether and why family-owned and managed firms¹ tend to use fewer professional HRM practices than other SMEs. In developing the propositions of the model, we compare and contrast predictions and explanations based on agency theory with those based on the resource-based view. We argue that the direct effect of family ownership and management on the types of HRM practices found in SMEs is consistent with agency theory whereas indirect

effects, via various organization characteristics variables associated with greater organizational complexity and resource richness, may support a resource-based view of the firm. The organization characteristics chosen for the present study include firm size, formal business planning, HRM specialization, and export strategy. In addition, we control for other organization characteristics such as firm age, sector, unionization, and franchising. Before presenting the methodology and results of an empirical study of approximately 700 SMEs, we will review aspects of the literature that provide conceptual support for the proposed model and hypotheses.

Professional HRM Practices

One of the lingering questions in HRM research is whether or not there is a single set of policies or practices that represents a universally superior approach to managing people. Theories on best practices or high commitment theories suggest that universally, certain HRM practices, either separately or in combination with others, are associated with improved organizational performance. They maintain that well-paid, well-motivated workers, working in an atmosphere of mutuality and trust, generate higher productivity gains and lower unit costs (Boxall 1996; Pfeffer 1994). These HRM practices have therefore been labeled as "best practices," "high performance practices," or "high commitment workplace systems." Some empirical research supports this view. For instance, Huselid (1995) reports from a sample of 968 firms that those using comprehensive employee recruitment and selection procedures, extensive employee involvement and training, and formal performance appraisal appro-

¹The terms "family-owned and managed firms" and "family firms" are used as synonyms in this paper.

aches linked to incentives are likely to have lower employee turnover, higher productivity, and enhanced corporate financial performance.

Others, however, argue that a contingency approach is more likely to generate superior performance, with empirical research also supporting this perspective (Cappelli and Crocker-Hefter 1996; Meyer, Tsui, and Hinings 1993; Lawler and Jenkins 1992). Research to date, though informative, does not unequivocally support either a best practices or a contingency view. Additional sampling is required to represent size, sector, and governance structures more fully. In addition, these need to be tested for the full range of HRM practices.

Because of the limitations of the research to date, we have decided to avoid using such labels as "best practice" and "high performance" for a defined set of HRM practices because doing so seems premature (especially in the context of SMEs). Using the term "formal" with reference to such HRM practices (De Kok and Uhlaner 2001; Heneman and Berkley 1999; Aldrich and Langton 1997) is also problematic. The term "formal" takes on multiple meanings in the literature, for example, whether a practice is written, standardized, and/or defined by the employer. Certain HRM practices (for example, performance pay, or referrals by employees) may be considered appropriate by experts but not necessarily formal, according to one or more of these definitions.

The term that seems to be most suitable for our study is "professional" HRM practices (Gnan and Songini 2003; Matlay 1999). The HRM practices chosen for our study are derived primarily from experts in the field of HRM, whether or not the practice has been empirically validated against performance indicators within SMEs. Such practices typically conform to legal requirements and professional standards established in a number of western economies (and listed in such standard-

setting bodies as the Society for Human Resource Management in the United States). We have therefore decided to use this term for our present study.

Family Ownership and Management and Professional HRM Practices: Empirical and Theoretical Perspectives

Past research confirms a negative relationship between family ownership and management and professional HRM practices and expertise. For instance, Aldrich and Langton (1997) find a negative relationship between the number of family members who work in a firm and formal HRM practices. Fiegenger et al. (1996) confirm a negative relationship for promotion decisions. Though non-family firms emphasize outside work experience and university training in promotion decisions, family firms rarely do so. Research by Reid and Adams (2001) confirms this pattern. In a study of Irish SMEs ranging in size from 20 to 100 employees, they find that family businesses are less likely to have professional HRM practices, including the use of references, appraisal systems, a peer appraisal process, training assessment, or merit-based pay.

Past researchers have drawn upon a wide variety of theories to explain the differences in professionalism of management and/or HRM practices between firms, and specifically between family and nonfamily-owned firms. In this study, we will focus on two theories in particular: the agency theory and the resource-based view.

Agency Theory and the Family Firm

Agency theory examines the relationship between principals and agents, often representing owner(s) and manager(s) of an organization. Recently, agency theory is being used to study

family firms: whenever the owner and manager are part of the same family, coordination between the two (for example, through contracts and monitoring) should be more efficient and thus, less expensive (Steier 2003). If the owner and manager are one and the same, monitoring is not even necessary, saving even more on agency costs.

At a lower hierarchical level (managers versus employees), agency theory may also be useful for the study of HRM practices (Randoy and Goel 2003; Heneman, Tansky, and Camp 2000). For employees who belong to the same family as the owner and managers, the same logic as that mentioned previously suggests that less professional HRM practices are required to align the interests of managers and employees. This may also hold for employees who are not related to the owner and/or managers, to the extent that family-owned enterprises are able to create an organizational culture where all employees feel they belong to the same family (Pollak 1985).

However, it is not always the case that employees are loyal towards the family and/or perform well. In the case of a relative not performing well, other family owner/managers may be more reluctant to take action than against a nonperforming nonrelative for fear of damaging family relations, even if it is bad for the business. Schulze, Lubatkin, and Dino (2003) refer to this latter phenomenon as an *altruism* problem: a situation where the owner/manager, by attempting to help other family members, unintentionally and/or indirectly encourages them to shirk their duties. Nevertheless, such altruism, although leading to negative performance, does not necessarily change the impact of family firm governance on the types of monitoring devices used (Gomez-Mejia, Nunez-Nickel, and Gutierrez 2001).

Following these arguments, we suggest that family firms have less of a need to monitor agents in the firm, espe-

cially when they are from the same family. Even if their performance is appraised, the basis for rewarding family employees is less likely to be related solely on their performance, and thus makes a professional compensation system also unnecessary. At least in smaller firms, recruitment is also simplified to the extent that family members are chosen over nonfamily members. Since the family owner-manager's expectations and goals influence the choice of HRM policy, it is thus seen as less likely that (especially smaller) family firms will choose professional HRM policies.

The Family Firm and the Resource-Based View

An alternative explanation for the relationship between family ownership and management and professional HRM practices is grounded in the resource-based view of the firm. The resource-based view is based on the assumption that differences in physical, organizational, and human resources between firms cause a fundamental heterogeneity in their productive potential (Priem and Butler 2001). It is one of the main theoretical perspectives of HRM research, and is recently also used to understand the relationship between family ownership and management and other organizational characteristics (Sirmon and Hitt 2003).

Reid and Adams (2001) found that many family firms use less professional HRM practices, and explain this by suggesting that such firms have more limited organizational capabilities. In this paper, we further develop their explanation, and argue that the resource-based view can be used to suggest an indirect effect of family ownership and management on professional HRM practices. Especially among SMEs, family ownership and management may be negatively associated with professional HRM practices because of resource limitations of family firms. These limitations follow from their com-

paratively smaller size and reduced complexity. In our study, variables which reflect this reduced complexity (in addition to firm size) include a (less) specialized HRM department or staff, less formal planning, and lack of an export strategy. In the following discussion, we will discuss the rationale for our argument.

First of all, family firms are often smaller than nonfamily firms (Gromie, Stephenson, and Monthieth 1995; Daily and Dollinger 1993). They are also less complex than nonfamily firms in that they are less specialized, less likely to have an HRM department (Reid and Adams 2001), and less likely to use formal accounting and planning practices than nonfamily firms² (Jorissen et al. 2002).

Second, the resource-based view supports a relationship between firm size and organizational complexity on the one hand, and professional HRM practices on the other. The remainder of this section provides a brief overview of literature on this subject, where specialization, formal planning, and export strategy will be used as specific indicators of organizational complexity.

Firm Size and Professional HRM Practices. The link between firm size and professional HRM practices is well established (De Kok 2003). Firm size is often used as a general indicator for the lack of specific resources, for example, financial, organizational, and/or human resources. For example, most professional HRM practices require considerable development costs (Klaas, McClendon, and Gaaney 2000). This results in a cost advantage for larger firms, which is strengthened by the limited supply of financial resources of many small firms. Others argue that it is the lack of specific knowledge (par-

ticularly the recognition of the importance of HRM issues) that leads to less use of professional HRM practices in small businesses (Golhar and Deshpande 1997; Hendry et al. 1991). In other words, it is not the small number of employees that explains the lack of professional HRM practices, but the lack of specific organizational and human resources.

Organizational Complexity and Professional HRM Practices. Company growth theories (Gnan and Songini 2003; Chandler and McEvoy 2000) point towards the positive correlations between firm size, complexity, and professional HRM practices. As firms increase in size and complexity, they typically develop more layers of management and more formalized and/or systematized procedures and policies in order to process information more effectively within the organization. There are various explanations for this finding. For example, larger companies have a greater demand for human resources, and (thus, we assume) therefore, a greater demand for specific HRM practices such as recruitment, selection, and performance appraisal. This stimulates more professional development of these practices.

Specialization is typically associated with greater firm size (Wagar 1998; Jackson, Schuler, and Rivero 1989). Employees in smaller firms often have to perform a greater variety of tasks than do employees in larger firms, and specialists are less likely to be found in smaller firms. For example, firm size is positively related to HRM specialization (that is, the presence of a specific HRM department and/or manager) (Cyr, Johnson, and Welbourne 2000; Heneman and Berkley 1999). Damanpour (1996) provides an explanation for

²Even when controlling for size and other factors.

why specialization (or more generally, structural complexity) is consistent with the resource-based view. "In complex organizations, coalitions of specialists in differentiated subunits increase the depth of the knowledge base, which in turn, increases the development of new ideas" (Damanpour 1996, p. 695). In other words, greater specialization is associated with greater knowledge resources. This assumption is indirectly confirmed by research by Damanpour (1996) using a meta-analysis from over 20 published studies showing a positive relationship between specialization and innovation.

Some research using the resource-based view sees strategic planning as a type of organizational capability (Michalisin, Smith, and Kline 1997). Research specifically linking formal business planning and/or strategic planning to professional HRM practices is quite limited. However, in light of the previous discussion, it is logical to infer that firms with the organizational capabilities and resources to develop formal plans are also more likely to have the resources to develop professional HRM practices. Furthermore, the availability of a business plan can be interpreted as a characteristic of organizations with a relatively long planning horizon. These firms will be more aware of the need to use professional HRM practices to build a competent employee base, implying a relatively high perceived value of HRM practices by the chief executive officer (CEO). In addition, the presence of a formalized plan may reflect overall formalization levels in the organization.

Recent research on exporting links the existence of an export strategy with greater resource availability. The presence of an export strategy within an SME may indicate an organization's ability to handle greater complexity and environmental uncertainty, which require access to more resources. For instance, Julien and Ramangalahy (2003) conclude that

SMEs' limited capacity to acquire information and use sources is a major factor in explaining their low level of involvement and performance in export markets. The exporting performance of SMEs is determined in part by their ability to acquire and manage foreign market information.

Model and Hypotheses

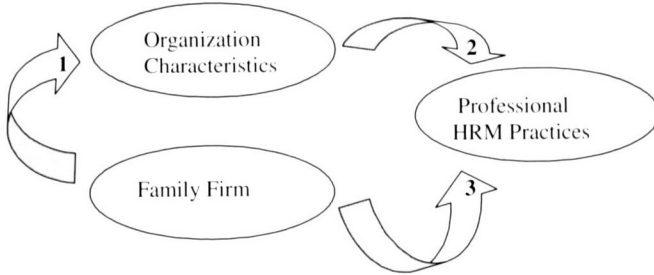
In this section, we present the model and hypotheses to be tested in our research. The main characteristic of this model is that it distinguishes between a direct and indirect effect of family ownership and management on professional HRM practices. (See Figure 1).

H1 predicts an indirect (negative) relationship between family ownership and management (referred to as the family firm variable in the model) and professional HRM practices via certain organization characteristics associated with greater complexity and/or richer organizational resources (arrows 1 and 2 in Figure 1). The assumptions for this hypothesis draw upon the resource-based model and research on organization complexity and uncertainty to suggest that family firms may use fewer professional HRM practices because they have fewer resources (typically being smaller) and therefore, are less complex. We state H1 as follows:

H1: Family firms apply less professional HRM practices because of differences in certain organization characteristics associated with organizational complexity and/or resource availability.

To test H1, we include a limited number of variables to represent these organization characteristics, including firm size, the presence of formal business plans, HRM specialization either by department or individual manager, and export strategy.

Figure 1
Proposed Model: Influences on Professional Human Resource Management (HRM) Practices



H2 predicts that at least part of the differences in the extent to which professional HRM practices are used by family and nonfamily firms cannot be attributed to differences in organization complexity or resource availability but rather to a direct effect of the family firm variable consistent with agency theory predictions (arrow 3 in Figure 1). We state H2 as follows:

H2: Family firms, even when controlling for certain organization characteristics associated with complexity and/or resource availability, are likely to have less professional HRM practices than similar nonfamily firms.

Method

This section discusses the collection of the necessary data, and the variables used in the analyses.

Sample and Data Collection

Data was collected by means of a written questionnaire sent to Dutch small and medium-sized enterprises. The questionnaire was developed by the University of Southern Queensland, Australia (Wiesner and McDonald 2001). A first version of the questionnaire was submitted to a sample of 70 Australian SMEs,

31 of which responded. The results of this pilot were used to modify the questionnaire. Subsequently, it was submitted to several senior Australian academics in HRM for their comments. The revised questionnaire was then translated and further revised by Dutch HRM researchers and practitioners.

A stratified sample plan was drawn, distinguishing six sectors (manufacturing, construction, trade and repairs, catering, transport and communication, services) and three size classes (20–49 employees, 50–99 employees and 100–199 employees). Not all respondents fell within the originally defined sample classes. One hundred enterprises have either less than twenty or more than 200 employees. To avoid the loss of these observations, we decided to apply the small business administration definition of SMEs (Flanagan and Deshpande 1996), and to include all enterprises with 1–500 employees in our analysis.

Four thousand questionnaires were sent, addressed to the CEOs. Seven hundred thirty-six (736) questionnaires were received, 52 percent of which were answered by the CEO and 33 percent by an employee directly answering to the CEO, resulting in an 18 percent response rate. To check for sample selection bias

by size and sector, we compare the response rates for the eighteen strata. There does not appear to be a serious sample selection bias by either size or sector. Whether selection is biased by the respondent's attitude towards HRM cannot be determined.⁵

Description and Construction of Variables

The professional HRM practices scale was developed from a subset of questionnaire items on recruitment practices, selection methods and procedures, compensation, training and development, and appraisal. Each of these items was measured on a three-point scale (1 = no; 2 = for some vacancies/jobs; 3 = for all vacancies/jobs). A list of all items can be found in the Appendix. The selected items all represent practices that are considered to be in accordance with professional standards and/or published as "best practices" for approaching that particular area based on judgments by a multinational group of experts from Australia and the Netherlands. The professional HRM practices scale was created in three steps. First, a separate factor analysis was carried out using Principal Components Analysis and a Varimax rotated solution to identify relevant items for each of the five categories of HRM practices (recruitment, selection, compensation, training and development, and appraisal). Second, the items selected for inclusion for each category were averaged to construct a separate subscale. To determine the reliability of these subscales, Cronbach's alpha reliability coefficients were calculated for the selected items. Finally, the professional HRM practices scale was calculated as an unweighted average of the underlying subscales.

Indicators of organizational complexity (and resource availability) include

firm size, *HRM specialization*, *formal business plan*, and *export strategy*. *Firm size* was measured as the log (number of employees), including employees with temporary contracts, with no correction for part-time work. To measure the *HRM specialization* variable, respondents were asked two questions: whether or not an HRM department was present; and whether or not an HRM manager was present in the firm. These questions were then used to construct a dichotomous variable "HRM specialization" where 0 = neither HRM department nor HRM manager is present; 1 = either an HRM department or HRM manager is present (or both). To measure the *formal business plan* variable, respondents were asked whether or not a formal business plan or strategic plan exists (0 = no; 1 = yes). To measure *export strategy*, respondents were asked whether or not the firm exports (0 = no; 1 = yes).

The variable *family firm* was constructed as follows: a company received a score of 1 when it answered in the affirmative to both of the following questions: (1) members of one family own this business, and (2) members of one family manage this business. No distinction was made between firms with single owner-managers and those in which two or more family members own and/or manage the firm. It received a score of 0 otherwise. Finally, certain control variables were measured, including *firm age*; sector (*service sector*, *trade sector*, and *manufacturing sector*); franchising (0 = no; 1 = yes); and the percentage of employees belonging to a union (referred to as *unionization* in the following discussion).

Data Analysis

For H1, two protocols were used to test for mediating effects of the resource availability indicators; one proposed by

⁵The details of sampling can be found in De Kok, Uhlener, and Thurik (2003).

James and Brett (1984) and the second by Baron and Kenny (1986). According to Baron and Kenny (1986), one can test for the mediating effect of variable m (resource availability), by first examining the relationship between proposed antecedent x (family firm) and consequence y (professional HRM practices), and then investigating the extent to which this relationship diminishes (or even vanishes) if mediating variable, m is included in the model. The first step is to use bivariate tests to check for the significance of the relationships between x and y , x and m , and m and y . Second (given significant bivariate relationships), the models $y = f(x)$ and $y = f(m, x)$ must be estimated. To support the inference that m completely mediates the effect of x on y , the effect of x on y should be significant in the model $y = f(x)$ but not in the model $y = f(m, x)$.

Based on the same starting premise of significant bivariate relationships between x and y , x and m , and m and y , James and Brett (1984) compared the models $y = f(m)$ and $y = f(m, x)$. If the added effect of x (tested by the significance of the R -squared change when x is added to the first model) is not significant, m can be seen as completely mediating the relationship between x and y . Conversely, a significant result provides support for a direct effect.

In this study, we combine the two protocols by estimating three separate models: $y = f(x)$, $y = f(m)$ and $y = f(x, m)$. We assume the presence of a mediating effect when the following requirements are met: (1) significant effect of m on y in the model $y = f(m)$; (2) a significant effect of x on y in the model $y = f(x)$; and (3) a nonsignificant effect of x on y in the model $y = f(m, x)$. Likewise, we assume the presence of a direct effect in

the case of a significant effect of x on y in the model $y = f(x)$ in combination with a significant added effect of x on y in the model $y = f(m, x)$.

A limitation of the just-described protocols is that the relationship between the family firm and the indicators of resource availability are established by looking at bivariate correlations. Because we hypothesize that the family firm variable is related to indicators of resource availability other than firm size, we elaborate on the protocol as follows: we control for firm size bias by estimating logistic regressions where the other indicators of resource availability (HRM specialization, formal business planning, and export strategy) are related to the family firm variable as well as firm size.

Results

Scale Formation for Professional HRM Practices

The average scores, percentiles, and reliabilities of the professional HRM practice subscales are presented in Table 1.

For four of the five subscales (all but appraisal), Cronbach's alpha exceeds 0.60 (Table 1). According to criteria proposed by Nunnally (1978),¹ the reliabilities for these subscales are acceptable for an explorative study. The reliabilities of these subscales are comparable with those reported by Huselid (1995) and Delery and Doty (1996). With a Cronbach's alpha of 0.43, the reliability of the appraisal subscale is unsatisfactory. Given the importance of this subscale, we nevertheless decided to include it in our study.

Because of missing data, none of the subscales can be calculated for all firms. This introduces the risk of a selection bias. To determine whether such a bias may occur, we examined for each sub-

¹For early stages of basic research, Nunnally (1978) suggested that a Cronbach's alpha between 0.5 and 0.6 would be sufficient.

Table 1
Scores and Reliability Statistics on Subscales of
Professional HRM Practices^a

	Recruitment	Selection	Compensation	Training and Development	Appraisal
Score					
Mean	1.6	2.0	1.8	1.7	2.0
10 percent percentile	1.3	1.5	1.3	1.0	1.3
90 percent percentile	2.0	2.8	2.2	2.3	2.7
Reliability					
Cronbach's alpha	0.62	0.69	0.64	0.81	0.43
Valid Observations	533	619	621	669	598

^aAll subscales are defined on the interval [1,3].

scale and whether the respondents to that subscale differ significantly in their average scores on a number of variables compared to the nonrespondents.⁵ No significant differences in firm size were found between respondents and nonrespondents. What does matter is the position of the respondent within the organization. For CEOs, the response rate is significantly lower than for other respondents.⁶ This holds for all subscales, with the exception of the recruitment subscale. A possible explanation for this finding is that the CEO takes less time to fill in the complete questionnaire.

The professional HRM practices scale is calculated as an unweighted average of the underlying subscales. The result-

ing overall HRM scale is defined for 519 enterprises (Cronbach's alpha equals 0.78).

Descriptive and Bivariate Statistics

Table 3 reports the means, standard deviations, and correlation coefficients between the major variables in this study. The relationships between each of the organization characteristics variables and professional HRM practices are all expected to be positive. Reviewing the bivariate correlation statistics presented in Table 2 provides support for the relationship between professional HRM practices and all four organization characteristics variables, including firm size ($r = 0.41$; $p < .01$), HRM specialization

⁵These control variables are size, sector, current working position of the respondent, location of the firm, current tenure of the respondent, whether the respondent is (part) owner, whether the company is owned by a family, whether the enterprise is member of a franchise organization, if a business plan is available, and the respondent's gender.

⁶The response rate is also lower if the respondent has a long tenure with the firm, or is (part) owner of the firm. Because ownership, tenure, and being CEO are strongly related with each other, these differences in response rate are interpreted as confirmations of the CEO-effect.

Table 2
Pearson Correlation between All Variables for the Total Sample

	1	2	3	4	5	6	7	8	9	10	11	12
1. Family Firm ^a	1											
2. Firm Size (log employees)	-0.27**	1										
3. Formal Business Plan (0 = no; 1 = yes) ^a	-0.24**	0.25**	1									
4. Franchise (0 = no; 1 = yes) ^a	0.05	-0.01	-0.00	1								
5. Unionization (%)	-0.03	0.13**	0.07	-0.10**	1							
6. HRM Specialization	-0.29**	0.41**	0.22**	-0.06	0.05	1						
7. Professional HRM Practices	-0.40**	0.41**	0.35**	0.03	0.03	0.43**	1					
8. Firm Age (Log [firm age])	0.06	0.11**	-0.03	-0.20**	0.17**	-0.01	-0.03	1				
9. Export Strategy ^a	-0.08*	0.10**	0.06	-0.11**	0.09*	0.12**	0.19**	0.06	1			
10. Trade Sector ^a	-0.00	0.00	-0.03	0.17**	-0.16**	-0.03	-0.04	0.05	0.09*	1		
11. Manufacturing Sector ^a	0.01	0.08*	0.04	-0.12**	0.29**	-0.03	0.06	0.07	0.25**	-0.28**	1	
12. Service Sector ^a	0.00	-0.11**	-0.02	0.03	-0.19**	0.00	-0.06	-0.13**	-0.32**	-0.33**	-0.62**	1
Mean	0.45	4.16	0.66	0.07	1.52	0.54	1.82	3.37	0.27	0.13	0.35	0.42
S.D. 0.50	0.79	0.47	0.25	1.33	0.50	0.30	1.00	0.44	0.33	0.48	0.49	0.695
N	695	700	685	671	670	696	519	682	693	695	695	695

^aDummy variable. The relation between two nominal variables is measured by the Phi coefficient. For dummy variables, the Phi coefficient is identical to Pearson's correlation. Fisher's exact test was used to test for dependency between two dummy variables.

* $p < .05$ -level (2-tailed).

** $p < .01$ -level (2-tailed).

Table 3
Results of Logistic Regression to Examine the Relationship
between Family Ownership and Three Indicators of
Organizational Complexity

Variable	Organizational Characteristic ^d		
	HRM Specialization	Formal Business Plan	Export Strategy
Family Firm	-0.78**	-0.75**	-0.32
Firm Size	1.26**	0.65**	0.22
Firm Age	-0.11	-0.11	0.06
Trade Sector	-0.02	-0.21	-0.22
Service Sector	0.34	-0.09	-1.77**
Other Sector	0.62*	-0.12	-0.49
Goodness of Fit Measures			
% Predicted Correctly ^a	70 (54)	71 (67)	72 (73)
R ² (Nagelkerke)	0.29	0.14	0.17
χ^2 Test for Model Parsimony ^b	7.79 (0.099)	2.2 (0.70)	71 (0.00)
χ^2 Test for Model fit ^c	161 (0.00)	68 (0.00)	81 (0.00)
Valid Observations	669	660	668

^aThe reference value (the share of firms with HRM specialization/formal business plan/export strategy) is reported within parentheses.

^bTest for the joint hypothesis that the parameters for age, trade, service and other sectors are equal to zero. Probability value within parentheses.

^cTest for the hypothesis that all included parameters (except constant) are equal to zero. Probability value within parentheses.

^dThe significance of the parameters is based upon both Wald statistics and Likelihood Ratio test statistics. Both test statistics lead to the same conclusions. A constant term has been estimated, but is not included in the table.

*Significant at 5% level.

**Significant at 1% level.

($r = 0.43$; $p < .01$), formal business plan ($r = 0.35$; $p < .01$), and export strategy ($r = 0.19$; $p < .01$).

The bivariate correlations between family firm and three of the four organization characteristics variables are fairly strong, statistically speaking, and negative (with firm size, $r = -0.27$, $p < .01$; with HRM specialization, $r = -0.29$, $p < .01$; with formal business plan, $r = -0.24$,

$p < .01$). The correlation between the family firm variable and export strategy is somewhat weaker than for the other three relationships though still statistically significant at the 0.05 level ($r = -0.08$; $p < .05$).

To control for firm size bias, we estimate three logistic regressions, relating three indicators of resource availability (HRM specialization, formal business

plan, and export strategy) to family firm as well as firm size. In addition, we have included sector dummies as control variables (Table 3). The results provide partial support for H1: even after controlling for firm size, organizational complexity (as indicated by HRM specialization and formal business plan) tends to be lower for family firms as compared to nonfamily firms. Only for export strategy do we find that the relationship with the family firm variable is no longer significant, once we control for firm size.

Finally, we note that the bivariate relationship between family firm and professional HRM practices is significant and negative ($r = -0.40$; $p < .01$).

The logistic regressions show the significance and sign of the relationships between the family firm variable (x), resource availability indicators (m), and professional HRM practices (y). We can now test for the mediating effect of resource availability in the relationship between family firm and professional HRM practices. The estimation results of the regression models for $y = f(m, c)$, $y = f(x, c)$ and $y = f(m, x, c)$ are presented as models 1, 2, and 3 in Table 4, where c represents additional control variables in the equation. In addition, the last column in Table 4 reports the change in R^2 for two separate analyses (either when a block is entered first—without the control variables; or last in the all-variable regression model).

In a regression that only includes family firm as the independent variable, the estimated parameter equals -0.23 ($p < .01$), and this family firm effect explains approximately 15 percent of the variation in professional HRM practices.

Which part of this total family firm effect is mediated by firm size and indicators of organizational complexity? This can be determined by looking at the third model reported in Table 4. In this full model, the estimated family firm parameter is -0.14 ($p < .01$). The contri-

bution to the R^2 when family firm is entered last in the equation, though reduced in magnitude, is still statistically significant ($\Delta R^2 = 0.05$; $p < .01$). We therefore accept H2, and conclude that a direct effect of the family firm variable on professional HRM practices does exist.

In addition, we also accept H1, concerning the presence of an indirect effect of the family firm variable on professional HRM practices with indicators of firm size and organizational complexity serving as intervening variables. This conclusion follows from the findings that, first of all, family firm is related to each of these indicators; second, that these indicators have a significant effect on professional HRM practices (in the first as well as in the third model in Table 4); and finally, that the estimated family firm parameter decreases (from -0.23 to -0.14) when the effects of the organizational complexity indicators are added into the linear regression model.

Discussion

Our results support both hypotheses set forth; namely that firms with family ownership and/or management are less likely to use professional HRM practices, and that this may be due both to direct and indirect effects of the independent variable. The direct effect can be explained by agency theory and the indirect effect by the resource-based view. In the discussion, we examine these premises more closely and discuss alternative theories that could also explain our results.

Direct Effect

One explanation for the direct effect is offered by agency theory, according to which the family firm effect is due in part to a decreased (perceived or actual) need for monitoring of the management by the owner and of the employees by the management. However, organization control

Table 4

Results of Ordinary Least Squares Regression Analyses on Professional HRM Practices^b

Explanatory Variables	Model 1 Controls and Organization Characteristics		Model 2 Controls and Family Firm		Model 3 All Variables		ΔR^2 ^a
	B-Value	t-Value	B-Value	t-Value	B-Value	t-Value	
Organization Characteristics							
Firm Size (Log)	0.09	5.16**			0.07	4.40**	0.30**/0.20**
Formal Business Plan	0.14	5.51**			0.13	5.21**	
Export Strategy	0.09	3.26**			0.08	3.06**	
HRM Specialization	0.16	6.11**			0.13	5.28**	
Family Firm					-0.14	-6.01**	0.15**/0.05** 0.01/0.01
Controls			-0.23	-9.05**			
Firm Age (log)	-0.01	-0.58	0.00	0.19	0.00	0.14	
Unionization (%)	0.01	-1.51	0.00	-0.30	-0.01	-1.62	
Manufacturing Sector	0.05	1.67	0.04	1.03	0.05	1.62	
Service Sector	0.01	0.26	-0.02	-0.70	0.00	0.15	
Franchise	0.09	1.65	-0.23	-9.05	0.09	1.82	
Constant	1.25	15.86**	1.91	35.72**	1.38	17.46**	
R-Square	0.31		0.16		0.36		
Adjusted R-Square	0.30		0.15		0.35		
F-Statistic	22.86**		14.56**		25.78**		

^aChange in R^2 when adding this variable first/last to the model (including all variables, that is, organization characteristics, family firm, controls).

^bB-values refer to the unstandardized coefficients of the explanatory variables.

* $p < .01$ -level.

** $p < .001$ -level.

$p < .05$.

theory and institutional theory might also support a direct effect. Organizational control theory points out that clan and social control systems are more effective than the bureaucratic and administrative systems when strategy, decision-making, and power in the organization are managed by few people who share common values and coordinate themselves by informal relationships (Gnan and Songini 2003). It could be that in family firms, the social interactions among family members allow the use of informal and cultural mechanisms that substitute or complement the formal administrative systems.

Institutional theory may also help to explain the direct effect. Whereas agency theory focuses on the relationships between two specific stakeholders of an organization, institutional theory typically examines additional stakeholders. Institutional theorists view organizations as entities that gain legitimacy and stakeholder acceptance by conforming to their stakeholders' expectations. Examples of stakeholders are governmental institutions, professional organizations, and certifying bodies (Paauwe 1998).

Williamson (2000) uses institutional theory to develop a strategic model of small business recruitment. In particular, he introduces the notion of *employer legitimacy*, defined as "a generalized perception or assumption held by job applicants that an organization is a desirable, proper or appropriate employer given the system of norms, values, beliefs and definitions that exist within an industry" (Williamson 2000, p. 28). Williamson (2000) posits that to the extent that an organization's recruitment procedures and other human resource policies are viewed as proper and appropriate by potential job applicants, the organization will be seen as a legitimate employer. That is, small firms copy the HRM practices of larger firms to gain employer legitimacy. But within this context, one might argue that the family firm has less

need of legitimacy to the extent that it attracts family and friends to work for the firm. In addition, employer legitimacy in the family firm may derive less from the professional manner in which a firm handles its HRM policies than from ways in which family ties are managed.

In addition, family ownership is associated with a desire to remain independent and keep full control over the organization (Bacon et al. 1996; Blais and Toulouse 1990). Case studies suggest that employers often associate professional HRM practices with a loss of control over (and flexibility of) the employee relations (Koch and De Kok 1999). This would provide an additional explanation for a direct negative effect of family ownership and management on professional HRM practices.

Indirect Effect

More than half of the family firm effect is explained by firm size and indicators of organization complexity. This is in line with the resource-based view of organizations. In particular, it is posited that these variables are likely to reflect greater resource availability and/or organization capabilities within the firm, making it easier for the firm to develop professional expertise in HRM practices as well.

Alternatively, these findings can be explained by the company growth theory, which suggests that as a company gets larger, the management task becomes more complex and requires a more professional approach. Rather than not being able to use professional HRM practices (due to a lack of resources), this argument suggests that professional HRM practices are less relevant to family firms.

Conclusions

The primary purpose of this study is to examine and explain differences in professional HRM practices between

family and nonfamily-owned and managed firms. To this end, we have developed a model concerning direct and indirect effects of family firm characteristics on the use of professional HRM practices.

We find that, based on our sample and model, family firms are less likely to use professional HRM practices than their counterparts. This family firm effect occurs not only indirectly (since family businesses tend to be smaller, and/or less complex than nonfamily businesses, where complexity stimulates the application of professional HRM practices), but also directly. The direct effects are consistent with predictions consistent with agency theory, which predicts less monitoring in the family firm. On the other hand, the results cannot rule out other interpretations offered by organization control theory and/or institutional theory. Furthermore, the indirect family firm effect is consistent with predictions based on the resource-based view although once again, alternative interpretations of the findings cannot be ruled out.

Lacking performance data, we have not examined whether it is actually better or worse for family firms to rely upon less professional HRM practices. Our results suggest that future research into the relations between professional HRM practices and performance for small firms should include family ownership and/or management as a contingency variable.

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Appendix

Subscales of Formal HRM Practices

This appendix provides additional information on the HRM subscales used in this study. The HRM subscales are defined by a selection of available items in the questionnaire. Each of these items is measured on a three-point scale (no, for some vacancies/jobs, for all vacancies/jobs). The following table presents the selected items that are used to define the subscales. An elaborate discussion of the subscales, including a discussion of the correspondence with the results of factor analysis on all items, can be found in De Kok, Uhlaner, and Thurik (2003).

Items Included in Subscales

Subscale	Item
Recruitment	Recruitment and selection office Temporary employment agencies Magazines Internet Referrals by employees References from other sources Open house
Selection	Use of written job descriptions Job analysis Psychological tests Interview panels
Compensation	Performance pay (Partly) based on job evaluation Competitive wages Wages based on acquired skills Group incentive programs Individual incentive programs Profit sharing Annual bonus Additional financial benefits, other than pensions (for example, insurance and savings arrangements)
Training and development	Training provided to employees Formal training budget available Recent introduction of formal training programs Recent intensification of existing training programs Formal in-house training by internal staff Formal in-house training by external staff External training Management and development training
Appraisal	Rating scales Management by objectives Appraisal conducted by line manager