ARTICLE IN PRESS

Journal of Business Research xxx (xxxx) xxx–xxx

Contents lists available at ScienceDirect

Journal of Business Research

journal homepage: www.elsevier.com/locate/jbusres

Family firm human resource practices: Investigating the effects of professionalization and bifurcation bias on performance

Kristen Madison[a,*], Joshua J. Daspit[a], Kyle Turner[b], Franz W. Kellermanns[c,d]

[a] Mississippi State University, College of Business, P.O. Box 9581, MS 39762, United States
[b] University of South Carolina Upstate, College of Business and Economics, 160 East St. John Street, Spartanburg, SC 29306, United States
[c] Department of Management, University of North Carolina-Charlotte, 9201 University City Blvd, Charlotte, NC 28223-0001, United States
[d] Center for Family Enterprises, WHU, Otto Beisheim School of Management, Germany

ARTICLE INFO

Keywords:
Bifurcation bias
Family firm performance
Professionalization
Human resource practices
Organizational justice
Nonfamily employees

ABSTRACT

Although human resource (HR) professionalization can increase family firm performance through the reduction of moral hazard and adverse selection agency problems, it may introduce a unique agency problem into the family firm: the perception of organizational injustice. As such, our research suggests that the success of HR professionalization is contingent upon how family and nonfamily employees are treated within the firm. Specifically, when bifurcation bias—the asymmetric treatment of family and nonfamily employees—exists, the financial benefits of HR professionalization diminish due to a perceived inequity of treatment within the family firm. Primary survey data collected from CEOs of 123 family firms support the positive relationship between HR professionalization and financial performance. Results further demonstrate that bifurcated monitoring of family and nonfamily employees restricts the professionalization-performance relationship, while equal monitoring strengthens the relationship. The findings illuminate HR professionalization and bifurcation bias as unique sources of heterogeneity in family firms.

1. Introduction

Within the family firm literature, professionalization represents an increasingly intriguing phenomenon for scholarly inquiry (Stewart & Hitt, 2012). As organizations increase in size, new employees and managers are needed to support and grow the organization. For family firms, this often means the addition and integration of nonfamily employees (Klein & Bell, 2007; Stewart & Hitt, 2012). In essence, opening the firm to nonfamily employees implies an intentional, structural move toward professionalizing the organization by hiring managers from beyond the bounds of family membership (Dyer, 1989). This practice represents the traditional conceptualization of family firm professionalization, formally defined as “hiring full-time, nonfamily employees, particularly with the delegation of managerial authority” (Stewart & Hitt, 2012: 59). Recent scholarship, however, concludes that this definition of professionalization is oversimplified, has yielded inconsistent empirical results, and fails to fully identify other viable means of professionalization (Dekker, Lybaert, Steijvers, & Depaire, 2015; Dekker, Lybaert, Steijvers, Depaire, & Mercken, 2012; Gimeno & Parada, 2014). For example, while family firms may professionalize by hiring nonfamily managers, such firms may also professionalize by incorporating formalized human resource (HR) practices into the firm (Dekker et al., 2012; Dekker et al., 2015; Stewart & Hitt, 2012).

The rationale for HR professionalization is rooted in agency theory, which theorizes that managers will pursue self-interested goals, rather than the owner's goals, if their behavior is not monitored (Jensen & Meckling, 1976). Within family firms, however, owners and managers are often part of the same family. This role overlap implies the goals of these individuals are assumed to be inherently aligned; therefore, monitoring family manager behavior is often deemed unnecessary (Chrisman, Chua, & Litz, 2004; Fama & Jensen, 1983; Jensen & Meckling, 1976). A notable extension of agency theory, however, recognizes that family businesses are not immune to agency problems (see Madison, Holt, Kellermanns, & Ranft, 2016 for a review). Specifically, Chrisman, Chua, Kellermanns, and Chang (2007) demonstrate that family firm performance increases when family managers are monitored, suggesting that family managers' behaviors within the family firm may also be a product of self-interest despite being part of the family.

The study by Chrisman et al. (2007) emphasizes the family firm benefits of monitoring family managers. An implicit assumption based

* Corresponding author.
E-mail addresses: kincy.madison@msstate.edu (K. Madison), josh.daspit@msstate.edu (J.J. Daspit), kturner@uscupstate.edu (K. Turner), kellermanns@uncc.edu (F.W. Kellermanns).

http://dx.doi.org/10.1016/j.jbusres.2017.06.021
Received 31 July 2016; Received in revised form 15 June 2017; Accepted 22 June 2017
0148-2963/ Published by Elsevier Inc.

on agency theory is that nonfamily managers also require monitoring due to a perceived goal misalignment. Thus, we integratively suggest the existing findings might actually imply that family firm performance is enhanced when *both* family and nonfamily are monitored simultaneously. The finding by Chrisman et al. (2007), in our interpretation, perhaps reveals the importance of equal monitoring treatment—or the absence of bifurcation bias—between family and nonfamily employees. Bifurcation bias is the asymmetric treatment of family and nonfamily employees within a family firm that often manifests through the firm's formalized HR practices (Verbeke & Kano, 2012). We argue that when family firms monitor both family and nonfamily employees to the same extent, a strategic choice is made to treat employees equally regardless of family status. This strategic choice signifies an absence of bifurcation bias, and in turn, might address the organizational justice agency problems stemming from the employment, integration, and treatment of both family and nonfamily in the family firm (e.g., Baldridge & Schulze, 1999).

Our study integrates these research topics by investigating professionalization, with a particular focus on the adoption of formalized HR practices and the presence of bifurcation bias in the monitoring activities of the family firm. We build on the findings of Chrisman et al. (2007), Dekker et al. (2015), and Gimeno and Parada (2014) by offering additional insight into the effects of HR professionalization on family firm performance, noting that family firms have heterogeneous approaches for professionalizing and monitoring. Specifically, our research is guided by the question, 'Is HR professionalization always beneficial for the family firm?' Once a family firm embarks on HR professionalization, firm performance increases are expected (Chrisman et al., 2007; Dekker et al., 2015). While we concur that the presence of these professionalization activities is beneficial for firm performance, we further suggest that how monitoring practices are implemented, in either an equal or bifurcated manner, alters the positive effects of HR professionalization on performance. Additionally, we extend recent conceptual research addressing the nature of bifurcation bias within the family firm context. Daspit, Madison, Barnett, and Long (2017) adopt a family science perspective to theorize about the family-related characteristics that lead to the emergence of bifurcation bias in the family firm. Rather than offering additional theorizing about how and why bifurcation bias emerges, our research instead empirically investigates the existence of bifurcation bias and its related impact on family firm performance. Together, these research endeavors provide a more comprehensive account of bifurcation bias in the family firm.

Our research intends to make several contributions. First, we validate and extend the research of Dekker et al. (2012, 2015). Specifically, we expand the narrow definition of professionalization in extant literature by extending their HR dimension of professionalization to highlight it at a source of heterogeneity that helps explain variance in family firm performance. Considering that family firms are uniquely vulnerable to the issues, challenges, and costs of professionalization, focused research identifying and assessing the different dimensions of professionalization provides valuable insights and contributions to the family firm literature (Debicki, Matherne, Kellermanns, & Chrisman, 2009). Second, this approach contributes to the HR management literature by moving beyond the traditional focus of examining the influence of HR practices on individual-level outcomes (e.g., Alfes, Truss, Soane, & Gatenby, 2013; Herrbach, Mignonac, Vandenberghe, & Negrini, 2009) to a strategic focus of how such firm-level practices affect firm-level outcomes (e.g., Akhtar, Ding, & Ge, 2008; Schmelter, Mauer, Börsch, & Brettel, 2010; Tsao, Chen, Lin, & Hyde, 2009). Additionally, investigations of HR practices, and especially their impact on firm performance, are a neglected area in the family firm literature (Astrachan & Kolenko, 1994; Carlson, Upton, & Seaman, 2006), and this research helps fill that void. Third, our research considers both family and nonfamily members of the firm, rather than the traditional focus on the family. Although many scholars suggest the fault line between family and nonfamily exists, the present study broadens the scope of current professionalization research to address both types of employees rather than generalizing the family member effects to the entire employee population. In doing so, we provide insight into the debate on whether organizational practices should be equal or different across groups of employees within the firm (Krausert, 2014) by examining the extent to which bifurcation bias in monitoring impacts organizational justice perceptions, thereby altering the performance benefits associated with professionalization. To our knowledge, this is the first empirical investigation of bifurcation bias, which not only validates its existence, but offers further insight into the heterogeneity across family firms.

2. Theoretical framework and hypotheses development

2.1. HR professionalization and family firm performance

Researchers note that family firms may experience performance benefits from professionalizing, or establishing business practices that make the family firm look and function more like a nonfamily firm (Stewart & Hitt, 2012). Across family and nonfamily contexts, organizations choose to implement a variety of formalized policies and procedures to align goals of individuals with those of the organization. In both cases, professionalization is often a product of the firm's growth and size (de Kok, Uhlaner, & Thurik, 2006) but also depends on the extent to which agency costs and opportunism are realized given goal divergence within the firm.

Extant family firm research often equates professionalization with the hiring of nonfamily managers (Dekker et al., 2015; Klein & Bell, 2007; Stewart & Hitt, 2012). However, recent scholarship introduces a multidimensional perspective that includes the addition of more formalized systems, such as financial control systems, governance systems, and human resource control systems to broaden the previous conceptualization of professionalization as the hiring of nonfamily managers in family firms (Dekker et al., 2012, 2015; Gimeno & Parada, 2014). Essentially, extant research suggests that family firms vary in their level of professionalization, and by considering and integrating other dimensions of professionalization, further insight is gained into understanding the heterogeneity across family firms. As such, we focus specifically on HR professionalization given that HR practices are often neglected in family firm literature and the potential benefit that adopting such practices is likely to have on family firm performance (Dekker et al., 2015). To be comprehensive in our approach, we utilize the traditional definition of family firm professionalization (i.e., the hiring of nonfamily managers) and also consider compensation incentive systems and performance appraisal systems. This approach allows for a robust conceptualization of HR professionalization[1] through the domains of selection, compensation, and performance evaluation.

In the selection domain, the hiring of nonfamily managers is an HR practice that alleviates the adverse selection agency problem, which refers to the agent's lack of skill or ability in the employment relationship (Eisenhardt, 1989; Fama, 1980). Family firms are particularly vulnerable to adverse selection due to the inherent desire to hire family members regardless of whether they are the most qualified or skilled for the position (Karra, Tracey, & Phillips, 2006; Schulze, Lubatkin, & Dino, 2003; Schulze, Lubatkin, Dino, & Buchholtz, 2001); however, by instead opening the applicant pool to nonfamily, the

[1] Compensation incentive systems and performance appraisal systems are derived from Dekker et al.'s (2015) professionalization dimension of human resource control systems. Three items of Dekker et al.'s (2015) human resource control systems professionalization dimension were not included: formal recruitment systems, formal training systems, and formal scheduled staff meetings. We equate formal recruitment systems with the presence of nonfamily managers. Formal training systems and formal meetings may not be widely utilized professionalization activities in family firms because they can be less effective than informal methods due to the idiosyncratic nature of family firms (Stewart & Hitt, 2012).