The emergence of bifurcation bias from unbalanced families: Examining HR practices in the family firm using circumplex theory

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ABSTRACT

Family firm human resource (HR) research focuses largely on examining differences in HR practices between family and nonfamily firms or between family and nonfamily employees within family firms. Few studies, however, attempt to explain why these differences emerge. We offer insight into the source of heterogeneous HR practices by investigating attributes of the owning family. We integrate a primary family science perspective, circumplex theory, to describe how an unbalanced family structure leads to unbalanced HR systems in the family firm. An unbalanced HR system is depicted as a form of bifurcation bias, or the asymmetric treatment of family and nonfamily employees via the family firm’s HR practices. By integrating and extending circumplex theory into the family firm, insight is offered into how the structure of the family system influences the structure of the family business HR system, thus impacting firm outcomes. Implications for both scholars and practitioners are offered.

1. Introduction

Depending on the precise definition employed, estimates suggest that family businesses comprise 90% or more of all firms (The Economist, 2015), employ 50% of the workforce, and create 75% of new jobs worldwide (Gersick, Davis, Hampton, & Lansberg, 1997). A common stereotype of the family firm is of a small mom-and-pop shop staffed by family members, but a recent analysis by the Boston Consulting Group finds that over 50% of the largest companies in India, 40% of the largest companies in Germany and France, and 33% of the largest firms in the U.S. can be reasonably defined as family firms (The Economist, 2015). Logically then, many employees working in family businesses are not family members, and the survival and growth of these firms is often dependent on the successful integration of nonfamily employees (Dyer, 1989; Stewart & Hitt, 2012). This suggests the need for implementing professional human resource (HR) management practices (Dekker, Lybaert, Steijvers, Depaire, & Mercken, 2012), including those related to staffing, training and development, and compensation. However, family firms have a reputation for exhibiting favoritism toward family members (Lee, 2006a; Lubatkin, Schulze, Ling, & Dino, 2005), which potentially manifests itself in their HR selection and pay practices (Chua, Chrisman, & Sharma, 2003; Karra, Tracey, & Phillips, 2006; Schulze, Lubatkin, & Dino, 2003a, 2003b; Schulze, Lubatkin, Dino, & Buchholtz, 2001). This phenomenon is termed bifurcation bias and is defined as the unbalanced treatment of family and nonfamily members within a family firm (Verbeke & Kano, 2012).

Extant research investigates bifurcation bias through the lens of well-established organizational theories such as transaction cost economics and agency theory (e.g., Chua, Chrisman, & Bergiel, 2009; Verbeke & Kano, 2012). While fully acknowledging the importance of these and other relevant organizational theories in family firm research, we suggest that a more explicit focus on the

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family system itself may be necessary to increase our understanding of the bifurcation bias within family firms. Accordingly, we apply and integrate a prominent family systems theory, the Circumplex Model of Marital and Family Systems (Olson, Spremkle, & Russell, 1979; hereafter referred to as circumplex theory), into the context of HR practices within family firms to address our research question, ‘what are the attributes of the owning family that create unbalanced HR practices between family and nonfamily employees in the family firm?’ Our overarching argument is that the structure of the family system influences the structure and effectiveness of the family business system. Specifically, we suggest the family firm’s HR system could be a direct reflection of the family's internal system; a lack of balance in the family may lead to a lack of balance in the firm, which might ultimately impact performance. Addressing our research question through the lens of circumplex theory answers scholarly calls for family firm research to examine the family system thereby effecting a more comprehensive understanding of the family business system (Aldrich & Cliff, 2003; Dyer, 2006; James, Jennings, & Breitkreuz, 2012; Olson et al., 2003; Rogoff & Heck, 2003). Additionally, our approach responds to calls for research to advance the understanding of family firm HR practices (Astrachan & Kolenko, 1994; Sharma, 2004; Tsao, Chen, Lin, & Hyde, 2009).

Our manuscript is organized as follows. First, we review the literature on HR practices within family firms. Next, we provide an overview of circumplex theory followed by an overview of its previous application to family firm research. We then integrate these two discussions by presenting conceptual arguments for why bifurcation bias may exist in the family firm’s HR practices. To elaborate, we use circumplex theory to describe how the internal structure of the owning family influences the structure of the family firm's HR practices (i.e., bifurcated or not bifurcated). We conclude the paper by discussing theoretical contributions, future research opportunities, and practical implications.

2. Literature review

2.1. Examining human resource practices in the family firm

The general organizational studies literature has long recognized the importance of professionalized HR practices. In particular, strategic HR research has focused on a set of HR practices that contribute to effective organizational functioning (Huselid, 1995; Kehoe & Wright, 2005; Wright, Gardner, Moynihan, & Allen, 2005). Often termed “high-performance human resource practices” (Kehoe & Wright, 2013) or “high-performance work practices” (Combs, Liu, & Ketchen, 2006), these HR practices are exemplified by formalized, structured, and selective recruiting and hiring practices, formalized performance appraisal processes, extensive training, formal employee participation mechanisms, merit-based promotion, and high/incentive-based compensation (Kehoe & Wright, 2013). There is relatively strong empirical evidence that such mutually reinforcing HR practices lead to greater organizational commitment, higher levels of productive work behaviors, lower levels of turnover intentions and absenteeism, and better firm performance (Combs et al., 2006; Huselid, 1995; Kehoe & Wright, 2013; Wright et al., 2005).

However, such HR practices appear to be less common in some firms than others. For example, although there is evidence that small firms and the employees within them may also benefit from high-performance HR practices (Allen, Erickson, & Collins, 2013; Sheehan, 2014), Cardon and Stevens (2004) review a number of studies that suggest that HR practices in regard to recruiting, hiring, compensation, training, and performance management are likely to be less formalized and more ad hoc in smaller firms. This is perhaps due to perceptions among leaders of such firms that HR problems are not among the most critical issues facing their small companies (Tocher & Rutherford, 2009) and/or because, depending on various internal and external contingencies facing small firms, such formalized practices might not be a good “fit” (Chadwick, Way, Kerr, & Thacker, 2012).

Similarly, in the family firm literature, there are only a small number of studies focusing on HR practices in general or high performance HR practices in particular. A family firm is defined as “a business governed and/or managed with the intention to shape and pursue the vision of the business held by a dominant coalition controlled by members of the same family or a small number of families in a manner that is potentially sustainable across generations of the family or families” (Chua, Chrisman, & Sharma, 1999: 25). In simpler terms, a family firm is a business that is family-owned, family-managed, and has transgenerational intent. Although a number of conceptual or empirical papers examine CEO/executive succession issues (e.g., Barnett, Long, & Marler, 2012; Fiegener, Brown, Prince, & File, 1996; Mazola, Marchisio, & Astrachan, 2008) and executive or board compensation issues (e.g., Ensley, Pearson, & Sardeshmukh, 2007; Gómez-Mejía, Larraiza-Kintana, & Makri, 2003; Michiels, Voordeckers, Lybaert, & Steijvers, 2012; Munoz-Bullon & Sanchez-Bueno, 2014) in family firms, there are relatively few studies on HR practices related to recruiting and hiring, performance appraisal, and employee training and development.

Lansberg (1983) was among the first to consider such HR issues in family firms, pointing out that the unique intersection of family and business systems created countervailing pressures on decision-makers related to selection, compensation, appraisal, and training of employees. Subsequent conceptual analyses of the formalization and/or professionalization of HR practices in family firms have largely taken an agency perspective (Chua et al., 2009; Lubatkin et al., 2005; Schulze et al., 2003a, 2003b), generally suggesting that family firms will favor family over nonfamily employees and that family firms will often be less likely than comparable nonfamily firms to formalize or professionalize their HR practices.

Although relatively few in number, some empirical studies in the family firm literature examine multiple “high performance,” “formal,” or “professionalized” HR practices in family versus nonfamily firms (Aldrich & Langton, 1997; Bloom, Sadun, & Van Reenen, 2015; De Kok, Uhlman, & Thurik, 2006; Reid & Adams, 2001), with relatively consistent results. For example, Aldrich and Langton (1997) find that the number of family employees is negatively associated with formal job design and formalized recruiting methods. Similarly, Reid and Adams (2001) compare 133 small family firms with 86 similarly sized nonfamily firms in Northern Ireland and concluded that nonfamily firms were more likely to have formalized/professionalized appraisal systems, compensation
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