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Human resource practices and organizational human capital in the family firm: The effect of generational stage

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A B S T R A C T

Organizational human capital (OHC) is considered a source of sustainable competitive advantage. However, research has scarcely analyzed what drives its development in family firms. We analyze the effect of formal human resource (HR) practices for family and non-family employees—namely, skill-enhancing practices (entry requirements and training programs) and motivational practices (internal promotion systems and compensation and incentive plans)—on family firms' OHC. Further, generational stage is one important source of heterogeneity among family firms. We contribute to the literature on heterogeneity among family firms by testing the moderating role of generational stage in the relationship between HR practices and OHC. We analyze 707 unlisted Spanish family firms and conclude that both family and non-family employees' skill- and motivation-enhancing practices have a positive effect on their OHC. Our results also show that the positive influence of motivational HR practices for family employees on OHC is more intense as generations advance.

1. Introduction

Many authors have expressed that organizational human capital (OHC) is a key source of sustainable competitive advantage for businesses (Pennings, Lee, & Van Witteloostuijn, 1998), including family firms (Habbershon & Williams, 1999; Sirmon & Hitt, 2003). Thus, scholars have been interested in analyzing the factors that affect OHC, especially in family firms (Chrisman, Kellermanns, Chan, & Liano, 2010).

A particularly unique aspect of family firms is the coexistence of family and non-family employees. In this context, family (e.g., ensuring income and security for all family members and maintaining the family's social status) and economic (e.g., merit) criteria coexist in the management of human resources. The family firm literature has suggested that this duality of criteria has both advantages (e.g., the transmission of tacit knowledge between generations) and disadvantages (e.g., difficulty in attracting and retaining high-skilled employees) for the development of OHC within family firms (Habbershon & Williams, 1999; Sirmon & Hitt, 2003).

Human resource (HR) practices are criteria and methods to manage employees in a firm (Barnett & Kellermanns, 2006; Jiang, Lepak, Hu, & Baer, 2012). These formal practices emphasize economic criteria (e.g., merit) in the management of human resources. The implementation of these practices influences OHC through the acquisition and development of employee skills (Huselid, 1995; Jiang et al., 2012). Since OHC decline is a frequent cause of family firm failure (Kidwell, Eddleston, & Kellermanns, 2017), analyzing the effects of HR practices on OHC is becoming particularly relevant in the family business field. The literature on family firms has usually focused on comparing family firms' implementation of HR practices with that of non-family firms (De Kok, Uhlaner, & Thurik, 2006; Reid & Adams, 2001). However, little is known about differences in HR practices among family firms and their influence on OHC. This scarce literature has directly linked HR practices to firm performance (Carlson, Upton, & Seaman, 2006; León-Guerrero, McCann, & Haley, 1998). Specifically, these studies have shown that the implementation of HR practices that favor the regulation of labor relations with economic criteria improves family firm success. Our paper responds to calls to analyze the influence of HR practices, particularly skill- and motivation-enhancing practices on family firms' OHC (Astrachan & Kolenko, 1994; Daspit, Madison, Barnett, & Long, 2017; Tsao, Chen, Lin, & Hyde, 2009).

Recent studies have suggested that heterogeneity among family firms might be even greater than the heterogeneity between family and non-family firms (Chua, Chrisman, Steier, & Rau, 2012). One of the most important sources of heterogeneity among family firms is generational stage (Gomez-Mejia, Cruz, Berrone, & De Castro, 2011). Generational stage reduces the strength of family ties, which may affect the importance that family members place on family and economic objectives (Sciascia, Mazzola, & Kellermanns, 2014). As generation advances, family employees' identification and commitment tends to weaken (Le

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Breton-Miller & Miller, 2013), which may affect family employees' motivation. We test the moderation effect of generational stage in the relationship between HR practices, skill- and motivation-enhancing practices, and OHC in family firms. Filling this gap contributes to the literature on the causes and consequences of family firm heterogeneity based on generational stage (Chrisman, Sharma, & Taggar, 2007).

This article is structured as follows. The following section develops our hypotheses. Hypotheses 1 and 2 refer to the influence of skill- and motivation-enhancing HR practices for family and non-family employees on OHC. Hypotheses 3 and 4 analyze the moderation effect of generational stage in the relationship between these HR practices and OHC. The third section describes the empirical research, and the fourth section reports the results. The fifth section discusses these results and presents our principal conclusions.

2. Theoretical background and hypotheses

2.1. Organizational human capital

Human capital theory (Schultz, 1971) emphasizes that human capital is a central driver of competitive advantages over competitors, especially high-quality and organization-specific human capital (Jiang et al., 2012; Wright, McMahan, & McWilliams, 1994). Human capital refers to the knowledge, skills, and abilities embodied in people (Coff, 2002), and it has been measured at both the individual and collective level. Individual human capital is measured as employees' education, training, and experience (Becker, 1964), whereas collective human capital has been measured at the top management team level as executive experience (Combs & Ketchen, 1999) or at the organizational level as the knowledge, skills, and capabilities of organizational members (Cabello-Medina, López-Cabrales, & Valle-Cabrera, 2011; Crook, Todd, Combs, Woehr, & Ketchen, 2011; Yang & Lin, 2009). We focus on human capital at the organizational level. Since OHC aggregates the knowledge, skills and capabilities of a firm's employees (Pennings et al., 1998; Subramaniam & Youndt, 2005; Youndt & Snell, 2004), it cannot be easily imitated.

The uniqueness of family business human capital comes from the integration of family and economic relationships (Habbershon & Williams, 1999; Sirmon & Hitt, 2003). Labor relationships are based not only on strictly economic criteria (i.e., merit) but also on family criteria (ensuring income and security for all family members and equal treatment whatever their individual contributions). This relationship duality increases complexity in labor relationships and creates a unique context for OHC development (both negative and positive) in family firms compared to non-family firms (Cabrera-Suárez, De Saá-Pérez, & García-Almeida, 2001; Sirmon & Hitt, 2003). Some family practices, such as the selection of management team members from a restricted family labor pool and managerial entrenchment derived from family control, can limit the quality of human capital at the top of the firm (Gomez-Mejia, Núñez-Nickel, & Gutiérrez, 2001; Levie & Lerner, 2009). This restricted human capital in the management team may spawn a cascade effect in the firm's lower levels that prejudices the quality of OHC in the family firm (Bloom & Van Reenen, 2007) since non-family employees may have limited career opportunities as preference is given to family members (Schulze, Lubatkin, & Dino, 2002).

However, the literature has shown that family firms also have advantages in terms of developing OHC. Skills and tacit knowledge that may be difficult to acquire in other firms are naturally transmitted from parents to their children (Cabrera-Suárez et al., 2001; Gedajlovic & Carney, 2010). Successors may grow up listening to management strategies, in turn acquiring deep and broad knowledge of the specific ways to "get things done" in the firm. Inside the firm, the common language that family members share facilitates knowledge transfer (Patel & Fiet, 2011). Moreover, since family members are the actual or psychological firm owners, they may be encouraged to develop specific human capital because they do not fear potential expropriation (Chirico, 2008; Milgrom & Roberts, 1992). These circumstances help family firms develop valuable human capital for the organization.

Despite its importance, our knowledge about the factors that might lead to the development of OHC in the specific context of the family firm is scarce. Scholars have shown that utilizing HR practices is crucial for developing valuable organizational skills that may lead to competitive advantage over competitors (Wright et al., 1994; Wright, McCormick, Sherman, & McMahan, 1999). However, research dealing directly with HR practices in family-owned firms is scarce and fragmented (Cruz, Firfiray, & Gomez-Mejia, 2011). Our study fills this gap by exploring how the implementation of HR practices affects OHC within family firms.

2.2. Implementation of HR practices and human capital

HR practices are criteria and methods to manage employees in a firm (Jiang et al., 2012). The human capital perspective suggests that HR practices affect OHC by influencing the knowledge, skills, and abilities of employees (Cabello-Medina et al., 2011; Yang & Lin, 2009; Youndt & Snell, 2004). In this article, we focus on HR practices that enable family firms to establish merit as economic criteria to manage human resources that conflict with family criteria based on loyalty and equity (Kidwell et al., 2017).

HR practices are rarely used in isolation because they involve a combination of practices in a bundle that ultimately shapes interactions among employees (Cruz et al., 2011; Jiang et al., 2012). HR practices can be grouped into three dimensions: skill-enhancing HR practices, motivation-enhancing HR practices, and opportunity-enhancing HR practices (Cruz et al., 2011; Jiang et al., 2012). We focus on the first and second dimensions because previous research has shown that they are most relevant in the development of human capital in organizations (Jiang et al., 2012). Skill-enhancing practices include recruitment and training practices. One of the most obvious ways firms may enhance OHC is through the individuals they hire (Lepak & Snell, 1999). Thus, recruitment practices help identify workers with specific skills who enhance OHC. In addition to recruitment, organizations invest in OHC through the internal development of their employees' human capital. Indeed, previous studies have shown that training practices enhance OHC (Minbaeva, Pedersen, Bjorkman, Fey, & Park, 2003). Motivation-enhancing practices include compensation plans, incentives, and promotion. Competitive internal and external compensation plans are crucial to retaining and developing OHC (Roos, Fernstrom, & Pike, 2004; Terpstra & Honoree, 2003). Incentives motivate employee behavior and drive employees' to develop the knowledge, skills, and capabilities the firm needs. Similarly, the development of promotion plans within the company enhances OHC (Cabello-Medina et al., 2011).

The scarce literature on HR practices in the family firm has mainly focused on comparing HR practices in family and non-family firms (De Kok et al., 2006; Reid & Adams, 2001). Research has argued that family firms might lean toward less complex and informal practices compared to non-family firms. In terms of recruitment practices, family firms tend to avoid clear criteria in order to employ family members (Aldrich & Langton, 1997; Cruz, Justo, & De Castro, 2012). Research has also pointed out that family businesses implement fewer training activities than non-family firms (Kotey & Folker, 2007; Matlay, 2002). Related to remuneration and incentive practices, research has shown that pay level and incentives are lower in family firms than in non-family firms (Bassanini, Breda, Caroli, & Rebérioux, 2013; Carrasco-Hernandez & Sánchez-Marín, 2007). Further, Fiegener, Brown, Prince, and File (1996) found that non-family firms tend to base promotion decisions on experience and formal education to a higher extent than family firms.

Research on HR practices within the family firm is also scarce and has looked into differences between family and non-family employees (Cruz et al., 2011). Perry, Ring, Matherne, and Markova (2015) showed