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Sanjay Goel

*University of Minnesota Duluth*

Lin Xiu

*University of Minnesota Duluth*

Sheila Hanson

*University of North Dakota*

Raymond J. Jones III.

*Stephen F. Austin University*

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## HR Flexibility in Family Firms: Integrating Family Functioning and Family Business Leadership

Sanjay Goel<sup>a</sup>, Lin Xiu <sup>a</sup>, Sheila Hanson<sup>b</sup>, and Raymond J. Jones III<sup>c</sup>

<sup>a</sup>Labovitz School of Business and Economics, University of Minnesota Duluth, Duluth, Minnesota, USA; <sup>b</sup>School of Entrepreneurship and Management, Nistler College of Business and Public Administration, University of North Dakota, Grand Forks, North Dakota, USA; <sup>c</sup>Nelson Rusche College of Business, Stephen F. Austin State University, Nacogdoches, Texas, USA

### ABSTRACT

We developed a conceptual model that links central constructs of family functioning to HR flexibility and subsequent HR outcomes in family businesses. We proposed that family functioning was associated with two fundamental leadership decisions (i.e. family-business integration and family involvement) in family businesses. We posited that family business leaders have immense discretion to make these critical decisions that establish the degree to which the family firms would exhibit HR flexibility. We distinguished the three dimensions of HR flexibility – skill, behavioral, and HR practices flexibility and proposed that skill and behavioral HR flexibility generally lead to positive HR outcomes whereas the effects of HR practice flexibility on HR outcomes would be moderated by whether the employee is a family or non-family employee.

### KEYWORDS

HR flexibility; family business; family functioning; circumplex model

### Introduction

Human resource (HR) decisions are an important part of running a business. In family businesses, these decisions are made from the dual perspective of satisfying family and business goals. While a few studies provide evidence that family businesses with professional HR practices outperform others (e.g., Astrachan & Kolenko, 1994), some have argued that “family” inhibits the effectiveness of professional HR practices (Madison, Daspit, Turner, & Kellermanns, 2018), and even adoption of more professional HR practices (De Kok, Uhlaner, & Thurik, 2006). We sought to contribute to this debate by integrating contributions of family science and HR outcomes of adopting HR flexibility in family businesses.

In family science, the Circumplex Model (Olson, 2000), an influential theoretical framework explaining variations in family functioning, presents three key concepts defining family interactions: flexibility, cohesion, and communication. Based on a conceptual clustering of elements describing family dynamics, the model suggests that “balanced levels of cohesion and flexibility are most conducive to healthy family functioning. Conversely, unbalanced levels of cohesion and flexibility (very low or very high levels) are associated with problematic family functioning” (Olson, 2011, p. 65).

Researchers apply aspects of family functioning, based on the Circumplex Model, to family businesses to examine heterogeneity between family firms including the impact on

attitudes in second generation family business (Lee, 2006), family climate (Björnberg & Nicholson, 2007), bifurcation bias (Daspit, Madison, Barnett, & Long, 2018), variation in family business leadership (Michael-Tsabari & Lavee, 2012), influence of family functioning on innovation (Penney & Combs, 2013) and hiring decisions (Vozikis, Weaver, & Liguori, 2013). While these cases provide useful foundations linking family science to family business research, there remains a paucity of literature connecting these disciplines related to HRM issues. Researchers punctuate the need for family as a variable (Dyer, 2003) and the inclusion of insights from family science in family business theory-building (James, Jennings, & Breitkreuz, 2012; Penney & Combs, 2013; Sharma, Chrisman, & Gersick, 2012). Specifically, we utilized the Circumplex Model to better understand how family functioning influences family firm leadership decisions related to HR decisions and HR flexibility. While Daspit et al. (2018) introduced the Circumplex Model to the HR field, our paper uniquely focused on the flexibility component of the overall Circumplex Model, in particular, illuminating that aspect of the model within the context of HR. Further, our novel conceptual model also included the contribution of family business leadership decisions as an antecedent.

HR flexibility, an important aspect of organizational flexibility, allows organizations to adapt employees’ knowledge, skills, and behaviors to dynamic and non-transient changes in the external environment. Rooted

in a broader stream of research on High-Performance Work Systems (HPWS) (Boxall, 1996; Boxall & Macky, 2009; Cascio & Graham, 2016; Wright, Gardner, & Moynihan, 2003), HR flexibility has been proposed as a mediator between HPWS and firm competitiveness (Beltrán-Martín, Roca-Puig, Escrig-Tena, & Boullusar, 2008; Evans & Davis, 2015). Organizations with higher HR flexibility tend to have the greater dynamic capability to exploit opportunities and to achieve and maintain a competitive advantage in diverse and changing environments (Bhattacharya, Gibson, & Doty, 2005; Wright & Snell, 1998). Recent studies showed that HR flexibility has a positive impact on financial firm performance and customer service effectiveness (Beltrán-Martín et al., 2008; Bhattacharya et al., 2005; Ketkar & Sett, 2009; Ngo & Loi, 2008). However, these studies neither focused on family businesses nor accounted for individual (employee) level outcomes. In contrast, the family business literature suggested that family business behavior differed significantly from non-family businesses. A family's vision and intention for transgenerational sustainability distinguishes family from non-family firms (e.g., Zellweger, Kellermanns, Chrisman, & Chua, 2012). Family owners intending to pass control of a firm to the next generation typically emphasize balancing short- and long-term outcomes (e.g., Miller, Le Breton-Miller, & Lester, 2011). These considerations may lead to variations in HR flexibility in family businesses.

In this paper, we developed a model that integrated the Circumplex Model, family business, and strategic human resource management (HRM) literature to link family decisions to family business outcomes (Figure 1). In our model, we first developed arguments that link family functioning from the functional typologies of the Circumplex model to the leadership decisions of the current family business leader. We then proposed that Circumplex Model constructs and leadership behavior impact HR flexibility. Founder- vs. next-generation-led businesses were captured as a moderator, to account for the entrepreneurial versus familial rationalities that may exist between these two kinds of businesses (Miller et al., 2011). We posited

that HR flexibility in family businesses would lead employees to perceive higher organizational support, resulting in increased job satisfaction, organizational commitment, work engagement, job performance, and decreased turnover intention. However, such effects are moderated by employee status as a family or non-family employee. Our model has significant implications for family businesses and HR scholars as well as for practice. We recognized that the strategic human resource management theory (Marler, 2012; Wright & Snell, 1998) posits that organization's HRM practices and outcomes are influenced by many other elements, such as organization's external environment (e.g., economic globalization, labor market, laws, and regulations) and internal environment (e.g., technology, business strategy). HR flexibility may also be influenced by these factors, which are the implicit controls in our model.

### Family science and family business

Steeped in systems theory from family science, the Circumplex Model provided a means to evaluate family functioning and provided a taxonomy of family dynamics (Olson, 2000). Families are collections of autonomous individuals, and also operate as systems, units of interlocking relationships (Bowen & Kerr, 1988). Individual family members operated within the larger context of the family system, impacting the thoughts, feelings, and behavior of both the family unit and the individuals within it (Bowen & Kerr, 1988).

The Circumplex Model mapped families on three basic dimensions to evaluate family functioning: cohesion, flexibility, and communication (Olson, 2000). Cohesion was defined as emotional bonding between and among family members (Olson, 2000). Flexibility involved the amount of change in family leadership, role relationships, and relationship rules. Family flexibility described how systems balanced stability and change. Communication was a mechanism facilitating movement of the primary dimensions, cohesion and flexibility, along a continuum from balanced to unbalanced functioning (Olson, 2000).

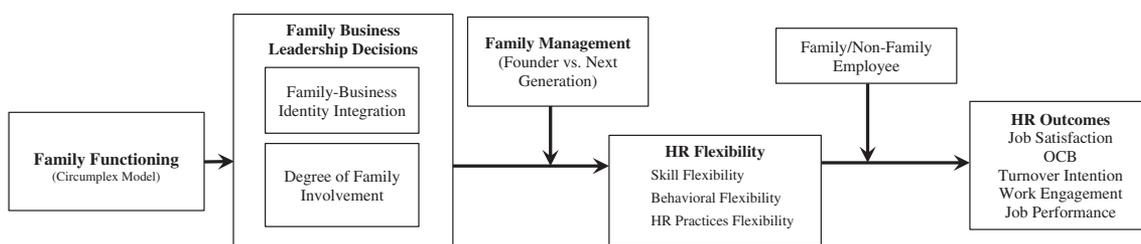


Figure 1. Conceptual model.

Family systems need balanced levels of both stability and change; the ability to change when appropriate may distinguish more functional (i.e., balanced) families from less functional (i.e., unbalanced) ones (Olson, 2011). Balanced family types have moderate levels of cohesion and flexibility, while unbalanced types have unbalanced (very high or very low) scores on either or both cohesion and flexibility. The Family Adaptability and Cohesion Evaluation Scale (FACES) IV was developed (Olson, 2008) and validated (Olson, 2011) to measure the cohesion and flexibility dimensions. Extreme levels of cohesion are labeled *enmeshed* (high unbalanced) and *disengaged* (low unbalanced), while the extreme levels of flexibility are *chaotic* (high unbalanced) and *rigid* (low unbalanced). Enmeshed family systems are characterized by extreme emotional closeness, reactive emotions, high loyalty demands, high dependence on others, little privacy, and family-centered decision-making, while disengaged family systems are characterized by extreme separateness, lack of family loyalty, little involvement with family members, lack of sharing feelings, and independent decision-making (Olson, 2011). Flexibility is described by Olson (2000) using qualifiers along a continuum described as rigid (very low), structured (low to moderate), flexible (moderate to high), and chaotic (very high), where the more balanced levels of flexibility in the middle of the continuum contributed to better family functioning. Along the flexibility dimension, chaotic family systems are characterized by erratic leadership, unsuccessful parental control, impulsive decisions, lack of role clarity, and frequent rule changes, while rigid family systems are described by authoritarian leadership, highly controlling parents, limited negotiations, strictly defined roles, traditional gender roles, and unchanging rules (Olson, Russell, & Sprenkle, 1989).

### Family business leadership decisions

The foundational framework is the three-circle model of a family business that distinguishes a family business from a non-family business (Tagiuri & Davis, 1996). Unlike a non-family business, a family business system comprises of three subsystems – family, business, and ownership subsystems. Family employees work in the intersection of two systems, the family and the firm (Tagiuri & Davis, 1996). Family business leaders make two crucial decisions in their leadership role that affect the degree of HR flexibility: the degree of integration of family and business identity (Sundaramurthy & Kreiner, 2008), and the degree of family involvement in the family business. We proposed that these decisions made by the family business leader imprinted the “operating identity” of the family business.

### Decision about the degree of integration of family and business identity

In family businesses, leaders’ decisions have immense consequence in establishing the operating identity of family businesses. The agency of family leaders is considered the driver of the overlap. In family businesses, family leadership and succession are pre-ordained, based on family-determined rules, or cultural norms (e.g., primogeniture). This agency allows family leaders significant discretion in how they manage the interaction and intersection of the family and business subsystems (e.g., Suess, 2014; Sundaramurthy & Kreiner, 2008).

Identity provides role cues (Lee, Park, & Koo, 2015), and individuals act based on the dominant identity they bring to a context. Identity provides a set of roles and tasks necessary to live or enact that identity. For instance, if an individual adopts a parent identity, the individual would perform tasks consistent with that identity, and in turn, enact that identity. Failure to perform these tasks may lead to feelings of incompetence and failure relative to the identity brought to the context.

Both “family” and “business” identity have embedded role cues due to the different goals of each system (Carlock & Ward, 2001; Greenhaus & Beutell, 1985). Examples of role cues of family identity are nurturing and development, protection, caring, support, love, and generalized reciprocity. When a family identity is adopted in any context, these role cues are triggered, and actions are taken consistent with enacting these role cues (Bagger, Li, & Gutek, 2008). On the other hand, role cues of business or work identity are discipline, rationality, objectivity, *quid pro quo*, equity, making and keeping promises (transactional), and performance, resulting in conflicting action imperatives (Cooke & Rousseau, 1984; Curimbaba, 2002).

In a family business, varying degrees of overlap exist between the integration of family and business identities, ranging from no integration (completely separate or “segmented”), to full overlap (or “integrated”) identities (Sundaramurthy & Kreiner, 2008). The family decides whether to keep identities segmented or integrated, and the degree of integration – typically, the decision is made by a family leader or dominant coalition of the family business. If deciding to integrate, three scenarios are possible:

#### Complete overlap of family over the business (or “business is family” scenario)

In this context, the family identity dominates the business identity. There is complete transference and adoption of family values in the business, and the business is run like a family.

### **Complete overlap of business over the family (or “family is business” scenario)**

In this context, the business identity dominates the family identity. There is complete transference and adoption of business values in the family, and the family is run based on business values.

### **The mid-range level of overlap**

This refers to partial integration of family and business identities, with no one identity dominating the other. In this case, the boundaries between the two identities are differentially permeable with some elements exclusive to family or business domain or shared among both domains (Sundaramurthy & Kreiner, 2008). For instance, a leader of one family business may decide that the “support and develop everyone” element of family identity should also be adopted in the business identity as an aspect of HR, and the “discipline and keeping promises” element of business identity should be adopted in the family identity. Another family business leader may decide otherwise – “support and develop” then may remain in the family side, and business may be run on “you are rewarded for what you deliver,” and “discipline and keeping promises” may remain in the business side, and the family may instead adopt “indulge and feel free to be who you are.”

### **Degree to which the family is involved in management**

The family business leader ultimately makes another critical decision – the degree of family involvement in the family business. At one extreme, some leaders do not involve any family members in the business, especially members of younger generations, as one possible way to reduce conflict among family members. At the other extreme are family leaders who try to develop more family members as family business employees by codifying appropriate training, preparation, and socialization into the family business at different stages. This decision is crucial to understanding HR flexibility in family businesses. Increasing family involvement in the business at different levels is likely to be associated with differing levels of HR flexibility in skills, behavior, and HR practices.

We acknowledge that decisions about the degree of family business integration and family involvement are not orthogonal; they may be correlated. For example, if the family leader makes an effort to integrate family and business identity, more family members may naturally gravitate toward the family business.

### **Linking family functioning to family business leadership decisions**

#### **Linking family system functioning to family-business integration**

Family leaders’ decisions relating to the degree of integration between family and business identities may be a direct result of the relationships between family members and the overall functioning of the family system. Therefore, we focus on the family system as a unit, based on dimensions of the Circumplex Model, to better understand the integration between the family and business. When family cohesion is *balanced*, the family is emotionally close, connected, and loyal while functioning with appropriate levels of emotional separation. In this type of family system, a reasonable decision balances the level of integration of the family and business, where family business leaders maintain clearer boundaries between the two. On the other hand, when there is too little cohesion (family members are disengaged with no loyalty) or too much cohesion (family members become enmeshed and unable to function individually), there is an *imbalance in the* family business. Similarly, when family flexibility is *balanced*, the family adapts more easily and makes reasonable decisions related to the level of integration if new situations present themselves. On the other hand, at either extreme of flexibility, the family may be a) too rigid to change or adapt to new situations or b) too chaotic, constantly making changes based on new information. *Imbalance* in cohesion and/or flexibility will influence decision-making by the family business leader; such patterns may lead to unbalanced outcomes. In these cases, decisions to integrate likely fall into one of two extreme scenarios, where “*family is business*” or “*business is family*.” These integration decisions are likely influenced by other aspects of family functioning (e.g., family members’ ability to change roles, leadership, loyalty, interdependence, and adapt to other necessary changes) within the family system. Therefore, we proposed:

*P1. Varying levels of family functioning will influence the family business leader’s decision relating to the level of family-business integration. More specifically;*

*P1a. When family functioning is imbalanced, then the family business leader chooses either too much or too little family-business integration.*

*P1b. When family functioning is balanced, then the family business leader chooses optimal levels of family-business integration, with neither family nor business dominating the family business.*

### **Linking family system functioning to the degree of family involvement**

Similarly, decisions related to the degree of family involvement in the business may stem from the nature of the relationships within family systems. Again, levels of cohesion and flexibility in family systems likely influence the value placed on involving family members in businesses. There may be stark differences between employing no family members, employing family by certain rules, or freely employing them (Whiteside & Brown, 1991), influencing the nature of interactions between family business leadership and family businesses employees (family or non-family). In highly cohesive families, parents may devote much time to discussing future expectations and plans with children (Olson et al., 1989). This communication may help motivate children to fulfill the parental desire of prolonging the life of the business, by eventually running the business. This overtly manifested desire, coupled with a high degree of parental loyalty, may enhance the children's commitment to the family business. Additionally, greater cohesion nurtures increased loyalty to the family. A high degree of loyalty decreases the likelihood of leaving a family business (Tagiuri & Davis, 1996).

Flexibility in family systems may also play a role in the degree of family involvement. When flexibility is balanced, leadership is shared and discipline is democratic, enabling a naturally developing process for family involvement. On the other hand, where there is little flexibility, leadership may be authoritarian where leadership roles are not shared with other family members. Under this scenario, the family leader may not want to surrender control and may have no interest in involving family members in the business. Alternatively, leaders may involve the family to an extent that all family members feel entitled to work and define roles in the family business. Therefore, we proposed:

*P2. Varying levels of family functioning will influence the degree to which family is involved in the business. More specifically;*

*P2a. When family functioning is imbalanced, the family business leader chooses either too much or too little family involvement.*

*P2b. When family functioning is balanced, the family business leader chooses optimal levels of family involvement.*

### **Family business leadership decisions and HR flexibility**

Propositions about the impact of family business leadership decisions on HR flexibility involve two fundamental family business leadership decisions: family–business

integration and the degree of family involvement. HR flexibility refers to an organization's "flexibility in HR systems and processes to help organizations to adapt to a complex and dynamic environment" (Ketkar & Sett, 2009). HR flexibility has three distinct and interrelated dimensions: skill flexibility, behavioral flexibility, and HR practice flexibility (Wright & Snell, 1998), and is regarded as a determinant of an organization's capacity to respond to changes in the external environments (Way et al., 2015).

### **Linking family-business integration to HR flexibility**

Family and business identities integrate in three scenarios: complete overlap of family over the business ("business is family" scenario), complete overlap of business over the family ("family is business" scenario), and mid-range overlap ("balanced" scenario) (Goel & Labaki, 2010). The specific integration is of values, philosophy, and goals of family and business systems.

#### **Complete overlap of family over the business ("business is family" scenario)**

In the "business is family" scenario, family firms tend to have a higher level of HR flexibility on all three dimensions: skill, behavior, and HR practice flexibility (Way et al., 2015). Family business leaders, to behave consistently in their family roles, pay extensive attention to developing family members' skills, and reciprocally, the family employees are more willing to respond to development opportunities with flexibility in employment (e.g., transferring between departments, working longer hours, etc.). Such family firms are likely to adopt more flexible approaches of HRM, such as informal performance appraisals or selection processes, to allow business leaders to base decisions (e.g., promotion, payroll, etc.) on social interactions within family relationships.

In fact, in the "business is family" scenario, although family businesses' skill and behavioral flexibility may be enhanced by family employees' willingness to adapt to organizational needs, HR practice flexibility could be detrimental because family goals overshadow or dominate other goals. Further, HR practice flexibility will likely be utilized to please and placate family members. This set of values may cause an imbalance in some functions (e.g., all family members prefer work in marketing, ignoring production) because the family business prioritizes family happiness *instead of* balancing business needs responsibly and using HR practice flexibility to serve the needs of both family and business.

### **Complete overlap of business over the family (“family is business” scenario)**

In this situation, the family business is more likely to pursue professionalism in HRM practices and downplay the need for HR practice flexibility. This approach does not necessarily mean their HRM practices are less flexible, but rather these firms operate like firms that are not family-owned. In other words, intra-family processes (e.g., conflict, cohesion, and communication) are less likely to influence operations of the business, including HRM practices. In the “family is business” scenario, HR flexibility is used to achieve business objectives but not, for instance, to teach and coach family members, allowing them to find their interest and place in the business. Teaching and coaching may be considered an avoidable cost from the business perspective.

### **The mid-range level of overlap**

The mid-range level of integration (the “balanced” scenario in Labaki, Michael-Tsabari, & Zachary, 2013) between family and business employs an ideal balance of HR flexibility, meeting both family and business objectives. Moreover, the overall development of family members is valued primarily within the family context. Principles important for a well-functioning business domain, such as operational discipline and emphasis on performance, remain in the business context through constant boundary management (Sundaramurthy & Kreiner, 2008). In this scenario, family members may be more socialized in the business and may identify with the family business, regardless of whether they work for the family business or not. Neither forced to join nor discouraged from joining the business, family members focus on developing skills more closely aligned with their interests and hone them in a more natural and evolutionary fashion. With balanced integration, the business is viewed as an important family possession, rather than a source of resources to selfishly fulfill family members’ own goals. As a result, family members display the appropriate level of skills and behavioral flexibility. In this context, with family members more appropriately engaged with the family business, HR practice flexibility is expected to emerge, as both family and non-family employees are developed, trained, and socialized to serve the broader needs of the business, rather than to adopt a narrow, departmental, or functional orientation. It is in this context that “family-based brand identity” (Craig, Dibrell, & Davis, 2008) and reciprocal altruism within the family relationships (Eddleston, Kellermanns, & Sarathy, 2008) likely lead to higher performance in family businesses. Thus, we proposed:

*P3 The degree to which the family business leader decides to integrate the family and business identities influences the degree of HR flexibility, such that higher integration between family and business leads to higher degree of HR flexibility.*

### **Linking degree of family involvement to HR flexibility**

According to the resource-based view, the family is a source of valuable, rare, inimitable, and non-substitutable resources exerting competitive advantages to yield higher firm performance (Habbershon & Williams, 1999; Sirmon, Hitt, & Ireland, 2007; also see Stewart & Hitt, 2012 for a review). Empirical research showed that family involvement negatively affected non-family employees’ perception of fairness in family firms, which indicated that the family unit’s influence on HR practices and procedures played an important role in this relationship (Barnett & Kellermanns, 2006). Higher levels of family involvement may lead to higher levels of interaction between the family and business; correspondingly, design and implementation of the HRM practices in the organization may be more considerate of the family and family members. Family firms may need more flexible HR practices to coordinate such considerations and the fairness perceptions of non-family employees.

When family members work in the organization, there are *direct* and *indirect* arguments for adopting HR flexibility. Family members are expected to be more directly knowledgeable about a family firm’s’ multi-faceted goals. Because of their ownership stake in the business and membership, they may have a higher willingness/motivation to conceptualize new ways to achieve family business goals. For the same reason, family members may also need, expect, and usurp more flexibility, as they think holistically about business needs and performing whatever tasks are needed to achieve family business goals. Family leaders may also design flexibility as a training and development tool for family members, ensuring that family members work on a wide variety of tasks for the family business.

As more family members join the family business, HR flexibility may permeate the organization to include non-family employees as well, leaving minimal differences in the execution of HR flexibility between family and non-family employees for equity considerations. Implementing HR flexibility for select employees (family members) and not for others may lead to the loss of competent, qualified employees, due to perceived lack of procedural justice and equity (heightened difference between the haves/have-nots). Therefore, we proposed:

*P4. The degree to which the family is involved in management is positively associated with the level of HR flexibility, such that a higher degree of family involvement leads to higher levels of HR flexibility throughout the organization.*

### **Moderating effect of generation in charge – founder or later generations**

Research has found significant differences between founder-led firms and later-generation led firms (e.g., Miller et al., 2011). Relationships between family leadership decisions and HR flexibility may change depending on the generation in charge. Family businesses are typically founded by an entrepreneur, who grows the firm based on his or her vision and competencies. But this “founder centrality” is reduced as the firm moves to the second generation and has multiple family shareholders and potentially more family employees (Gersick, Davis, McCollom-Hampton, & Lansberg, 1997). As a result, the generation moderator provides a measure of the degree to which family leadership decisions would have an influence on HR flexibility.

The founder generation is more likely entrepreneurial than later generations (Miller et al., 2011). Founders build their organization from the ground up, which requires wearing multiple hats based on business demands. At founding, organizations need to be flexible in strategy and operations as a means of survival (Castrogiovanni, 1996; Liao, Kickul, & Ma, 2009). When starting a business, founders may rely on informal systems using family members rather than applying formal HR practices or formal organizational structures and systems (Hatun & Pettigrew, 2004). Seeing the value in HR flexibility, founders may prefer employees who flexibly pursue broader organizational goals rather than focusing on narrowly defined task responsibilities. Therefore, firms led by first-generation founders enhance links between family leadership and HR flexibility.

On the other hand, when subsequent generations take charge, family business leaders may face the need to balance the diverse interests of a larger number of family shareholders with the interests and imperatives of business growth and sustainability. Due to increasing complexity of ownership as well as increasing scale of operations, the firm also begins to use more formal processes and structure in subsequent generations (Carney, 2005; Kelly, Athanassiou, & Crittenden, 2000), while at the same time facing “the shadow of the founder” (Davis & Harveston, 1999). Therefore, HR policies and procedures regarding HR may need to be adapted to the increasing complexity and to exhibit

equity and fairness to all stakeholders. In turn, these developments can reduce the direct strength of family leadership and HR flexibility. Therefore, we proposed:

P5. The relationship between family business leader decisions and HR flexibility will be moderated by generation in charge, such that the effect of leader decisions on HR flexibility will be stronger in founder-led family businesses than later-generation-led family businesses.

P5a. The relationship between family-business integration and HR flexibility will be moderated by the generation in charge, such that the effect of a given level of family-business integration on HR flexibility will be stronger in founder-led family businesses than later-generation-led family businesses.

P5b. The relationship between degree of family involvement and HR flexibility will be moderated by the generation in charge, such that the effect of a given level of family involvement on HR flexibility will be stronger in founder-led family businesses than in later-generation-led family businesses.

### **HR flexibility and HR outcomes in family businesses**

In the proposed model, we asserted that skill and behavioral flexibility in family businesses led to higher employee-perceived organizational support, which resulted in increased employees’ job satisfaction, greater organizational commitment, higher work engagement and job performance, and decreased turnover intention. HR practices flexibility would also lead to positive HR outcomes; however, these effects may differ between family employees and non-family employees.

As noted above, HR flexibility consists of two aspects – employees with diverse skills and behavioral competencies and a system of HR practices best-utilizing talent responsive to changes in a dynamic environment (Wright & Snell, 1998). Organizations design and implement training and development programs to enhance the organizations’ skill and behavioral flexibility by improving employees’ competencies. Such initiatives lead to positive HR outcomes such as employees’ perception of higher organizational support, and higher job satisfaction and organizational commitment. Thus, we proposed:

*P6. Skill and behavioral HR flexibility lead to positive HR outcomes such as increased employees’ job satisfaction, greater organizational commitment, higher work engagement and job performance, and decreased turnover intention.*

HR outcomes of “perceived organizational support” and subsequent employees’ job performance are

influenced by HR flexibility practices on two dimensions – resource and coordination flexibility (Wright & Snell, 1998). If HR flexibility is granted differentially to different employee groups, then the issue of “fairness” in HR practices also arises. Remarkably, family involvement does not necessarily lead to higher or lower fairness in HR practices. However, family businesses provide a context where family and non-family employees may be sharply differentiated and the development and implementation of HR practices may lead to fairness concerns of nepotism, free riding, and adverse selection (Barnett & Kellermanns, 2006; Cropanzano, Byrne, Bobocel, & Rupp, 2001).

Interactions between the family and the business, however, may be a double-edged sword. On one hand, interactions help businesses build resources and capabilities unique to the family businesses. As discussed above, family businesses rely on flexible HR practices to coordinate resources to achieve desired goals. On the other hand, flexible in HR practices may lead to abuses of family members’ power, resulting in negative HR outcomes including lower organizational commitment and job performance (Lubatkin & Schulze, 2005; Schulze, Lubatkin, Dino, & Buchholtz, 2001).

Although nepotism is generally viewed as problematic, Jaskiewicz, Uhlenbruck, Balkin, and Reay (2013) have argued that some family firms may benefit from nepotism, found in two types: “entitled nepotism” and “reciprocal nepotism.” Entitled nepotism refers to “hiring that is based on family ties without consideration of family conditions” (Jaskiewicz et al., 2013, p. 4). For example, in primogeniture where, as a rule, the oldest son is awarded the most important positions (e.g., future successor) in the family business, such successors feel entitled for positions and are less likely to develop reciprocal relationships with either family members or non-family employees in the organization. Entitled nepotism could be harmful for firm performance in family businesses (Bloom & Van Reenen, 2007; Schulze, Lubatkin, & Dino, 2003). On the other hand, family businesses can substantially benefit from “reciprocal nepotism,” which cultivates reciprocal relationships among family members in organizations’ selection decisions. Reciprocal nepotism exemplifies functional HR flexibility in family firms. Reciprocal nepotism resulting from family interdependence, a history of interactions between family members, and cultural norms, leads to generalized social exchange relationships among family members. These interactions may provide a long-term benefit to family firms due to the organization’s increased ability to manage and transfer tacit and idiosyncratic knowledge developed within the firm.

The positive effects of HR flexibility are more likely to emerge in the “balanced” scenario of family-business integration than in the “family over business” or “business over family” scenarios because, in the former, both family and business conditions are considered, reconciled and integrated. Therefore, we proposed:

*P7. In family businesses, HR practice flexibility leads to beneficial HR outcomes.*

### **HR flexibility and HR outcomes among family and non-family employees**

In a family business, family members contribute several attributes related to attitude and motivation, beyond human capital. These contributions include “extraordinary commitment,” “long-term orientation,” and “alignment between the human capital pool and the strategic goals of the firm” (Gutiérrez-Broncano, Rubio-Andrés, & Jiménez-Estévez, 2014). These attributes, together with family members’ human and financial capital, are referred to as family capital (Danes, Stafford, Haynes, & Amarapurkar, 2009). The family capital possessed by family employees distinguishes them from non-family members, resulting in increased commitment to the organization (Danes et al., 2009; Dyer, 2003). In reciprocation, family employees expect a high level of HR practice flexibility, allowing business leaders to utilize and benefit from family members’ family capital, especially in “business is family” and “balanced” scenarios. Because HR flexibility is part of the family employees’ *expectation* for working in their family’s businesses, family businesses *not* offering HR flexibility may face resistance from family members and experience reduced job satisfaction and increased turnover among family employees. HR flexibility may serve as a “hygiene factor” in family employees’ job satisfaction and commitment to the family business. In other words, offering HR flexibility to family employees meets their expectations but may not be enough to motivate them.

Non-family employees may react to HR flexibility differently. Because non-family employees may feel *less* entitled to HR flexibility, professionally designed and implemented HR practice flexibility will have a greater positive impact on non-family employees. When they work in businesses that adopt flexibility in HR practices, non-family employees may feel empowered and trusted by the family leaders. For instance, HR flexibility is reflected in training programs where employees learn a variety of skills useful in inter-related but different jobs (Way et al., 2015). Such practices help non-family employees develop their career and enhance

non-family employees' motivation and commitment to family businesses. Over time, as non-family employees experience more accommodation via HR practices flexibility, they may develop psychological ownership of the business and loyalty to the family, further motivating them and resulting in more positive HR outcomes (Van Dyne & Pierce, 2004). The arguments above suggest an asymmetric effect of a unit increase or decrease in HR flexibility on family and non-family employees. Family members react more negatively to a unit decrease in HR flexibility than they react positively to a unit increase in HR flexibility. Non-family employees react more positively to a unit increase in HR flexibility than they react negatively to a unit decrease in HR flexibility. Therefore, we proposed:

*P8a. The effects of HR practice flexibility on HR outcomes are moderated by whether the employee is a family or non-family employee, such that there are greater positive HR outcomes when the employees experiencing HR practice flexibility are non-family employees than when they are family employees.*

*P8b. The effects of HR practice flexibility on HR outcomes are moderated by whether the employee is a family or non-family employee, such that there are greater negative HR outcomes when the employees not experiencing HR practice flexibility are family employees than when they are non-family employees.*

## Discussion and conclusion

In this paper, we develop a conceptual model of HR flexibility in family firms. Overall, our model suggests that family science, represented by the Circumplex Model and family leadership, is directly implicated in decisions about organization and systems design. Therefore, a deeper knowledge about the family enriches the study of HRM practices in family business including contextualizing HPWS – for example, the mechanisms through which HPWS impacts the firm performance in a variety of family businesses facing distinct internal dynamics and external structural considerations, akin to what Harney and Dundon (2006) found in their study of Irish SMEs.

The measurement of the relationships in the proposed framework can be approached using different empirical methods, including content analysis, surveys, and interviews. For instance, content analysis of family constitutions can help generate data on the decisions regarding the family business integration and the degree of family involvement in the business. Surveys and interviews can be used to triangulate where family constitutions are available and substitute where they are not. Surveys with valid scales can also be used to collect

data on many constructs in the model, such as family functioning constructs (Olson, 2008, 2011), HR flexibility (Way et al., 2015), and HR outcomes (e.g., Kehoe & Wright, 2013).

## Theoretical implications

Future research could address the HR flexibility construct. More than two decades of research on family business has shown that family influence changes business behavior. Drawing insights from family science, future research may illuminate “flexibility,” investigating whether or not family influence leads to new dimensions of flexibility. This new, deeper conception of flexibility, could allow the reconceptualization of HR flexibility for family businesses. For example, HR researchers may consider the impact of the social capital of family employees on the organizations' skill and behavioral flexibility, and how these two distinct dimensions of HR flexibility interact with HR practice flexibility to help the family business attain higher organizational flexibility in competitive and dynamic environments. We provide a list of research questions linking family business and HR flexibility (Table 1) and linking HR flexibility to HRM in family businesses more generally (Table 2).

The impact of family history on the adoption of HR flexibility warrants future investigation, specifically, the effect of significant family dysfunction, trauma, untimely deaths, and deviant behaviors on HR flexibility. These events likely shape the family's assumptions about human nature, leading to negative attitudes about incorporating HR flexibility. This effect could be mediated via the impact of family leader's' attitudes and behavior.

Further, family's self-identity (i.e., how the family sees itself) may have an effect on the adoption of HR flexibility. Identity theory posits that people and organizations prioritize and enact their identities – i.e., they act in accordance with how they see themselves (Whetten & Godfrey, 1998). The more valued the relationships, the more important the role identity associated with those relationships, and the more likely the person will prioritize it highly to affirm the identity (Burke & Reitzes, 1991). Families could, for example, identify themselves as explorers, exploiters, doers, managers, stewards, developers, innovators, survivors, fighters, etc. Exploring the link between identity and HR flexibility, future research could explore the relationship between family's self-identity and HR flexibility by investigating causal direction: does the family's self-identity lead to increased HR flexibility, or does HR

**Table 1.** Examples of potential future research on HR flexibility in family businesses.

Family Business System	Specific Focus	Possible Research Questions
Family Subsystem	Family Science	What are the relationships between family flexibility (i.e., adaptability) and HR flexibility? Does family flexibility impact HR flexibility? If so, does cohesion (i.e., emotional aspects of families) moderate or mediate that relationship? Which family typologies are most likely to impact HR flexibility? Can the development or application of existing clinical interventions be used to improve family flexibility impact HR flexibility as well?
	Family History	How does family history affect the adoption of HR flexibility? In particular, the effect of significant family dysfunction, trauma, untimely deaths, and deviant behaviors on HR flexibility could be investigated.
	Family Identity Family Constitution Strategy	How does the family or family leader's identity influence the decision to pursue HR flexibility and vice versa? How does the adoption of family constitutions affect the HR flexibility for family employees?
Business Subsystem	Strategy	How does a family business' long-term business and corporate level strategy affect the decision on HR flexibility? What are the effects of the business-level strategies (i.e., cost-leadership vs. differentiation) on the family businesses' decision to pursue HR flexibility?
	Firm Size	How does firm size impact HR flexibility in family businesses? How would the leader's' capacity to deal with flexibility change when the family businesses grow larger?
	Firm Age	When family firms age, would they be able to preserve HR flexibility? Meanwhile, as firms age and more generations join the family business, would business leaders be more or less likely to adopt HR practices with flexibility?
Ownership Subsystem	Ownership Governance	How does the ownership structure and composition of family business affect HR flexibility? How do family businesses with multiple-family ownerships deal with HR flexibility? How does the addition of non-family owners affect HR flexibility? How does the number of family owners impact family businesses' HR flexibility (including families that insist on limiting the number of family owners)? Finally, how does the ownership subsystem (i.e., the degree of family ownership, distinguishing between 100% family-owned and partially family-owned firms) impact HR flexibility? How do external board members and board diversity affect the adoption of HR flexibility in family businesses? How would business-family leadership division impact HR flexibility?
Family Business System	HRM	What are the mechanisms through which HPWS impacts the firm performance in a variety of family businesses facing distinct internal dynamics and external structural considerations?

**Table 2.** Examples of potential future research on HR flexibility in human resource management.

HRM	Specific Focus	Possible Research Questions
HR Flexibility & HRM Practices		What types of employees (personality, quality, attitudes, etc.) would fit into organizations that promote HR flexibility?
		What HR recruitment and selection procedures should organizations adopt to select these employees? Can the development or application of existing clinical interventions be used to improve the family flexibility impact on HR flexibility?
		What training and development programs can be designed and implemented to enhance the effectiveness of HR flexibility in family businesses?
HRM Flexibility & HRM Professionalism		How is HR flexibility related to HR professionalism? How does family capital possessed by family employees relate to skill and behavioral flexibility? How do these two dimensions of HR flexibility interact with HR practice flexibility to help family business attain greater organizational flexibility in their competitive and dynamic environment?
HRM Flexibility & Employees' Perception of Fairness		How is HRM flexibility related to employees' perception of fairness in the organization? How do relationships differ for different groups of employees in general, and specifically between family and non-family employees? What are the mechanisms through which HRM flexibility might influence employees' perceptions of fairness? What are the moderators on the relationship between organizations' HRM flexibility and employees' perception of fairness? Would more effective communication regarding the impact of HRM flexibility help heighten employees' perception of organizational support and work motivation, and would it address employees' concerns on procedural and outcome injustice?

flexibility lead to the formation of self-identity, or is it a reciprocal process unfolding temporally?

Future research could investigate the impact of HR flexibility on employees' perception of fairness in family businesses. Our arguments suggest that HR flexibility relates to the employees' perception of fairness which may differ between family and non-family employees. A future avenue could explore mechanisms through which HR flexibility impacts employees' perception of fairness, and examine factors moderating this

relationship. For example, open discussions about the value of family capital and transparent decision-making processes may address employees' concerns about procedural and outcome injustice.

In the area of governance, future research could focus on the relationship between the composition of board members and the business' HR flexibility. One question could be, "How do external board members and board diversity affect the adoption of HR flexibility in family businesses?" It is likely that having more non-

family board members and more external board members may lead to the adoption of more formal HR procedures and rules to meet the needs of different constituents, improve transparency, and increase the ease of monitoring and conducting oversight.

Furthermore, many family companies adopt a formal family constitution to guide the governance and functioning of family affairs relative to family businesses. Family constitutions may codify leadership decisions as to the integration of family and business identity and the degree of family involvement, and accordingly, guide policies that impact HR flexibility in a formal way.

### Implications for practice

First, a careful design of HR flexibility to fit family idiosyncrasies is needed to avoid superficial HR flexibility that may lead to perceptions of inequity among family and non-family employees. Second, to implement or enhance HR flexibility, the leader's conceptualization of the role of family in the business and a review of leadership behavior is required. Merely imposing HR flexibility via off-the-shelf prescriptions, without a clear understanding of the family's role in the business, may be ineffective. Finally, to enhance the effect of HR flexibility on both family and non-family employees, family businesses need to reconcile and integrate HR flexibility and HR professionalism. For example, compensation plans separating rewards for owning firm shares and bearing business risks from those for managing the business may help clarify remuneration for both family and non-family employees, and give business owners flexibility to reward family employees for their unique contribution to the business.

Overall, we believe our proposed conceptual model is a "baseline model" to develop deeper knowledge about HRM issues in family business via cross-sectional and longitudinal studies. We also believe that HR constructs can benefit from incorporating more specific contextual variables from the family domain via well-developed inductive studies. For instance, studies with contrast theoretical sampling may use this baseline model as a starting point to reveal that high-performing family businesses have access to new dimensions of HR flexibility, as well as other HR characteristics, that other family businesses neglect or do not use. This discovery may lead scholars closer to understanding idiosyncratic and family-embedded resources as a source of competitive advantage in family businesses.

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No potential conflict of interest was reported by the authors.

### Notes on contributors

**Sanjay Goel** is an Associate Professor of Strategic Management and Entrepreneurship at University of Minnesota Duluth. He can be contacted at [sgoel@d.umn.edu](mailto:sgoel@d.umn.edu)

**Lin Xiu** is an Associate Professor of Human Resource Management at the University of Minnesota Duluth. Lin received her Ph.D. from the University of Toronto. She can be contacted at [lxiu@d.umn.edu](mailto:lxiu@d.umn.edu)

**Sheila Hanson** is an Assistant Professor of Entrepreneurship in the College of Business and Public Administration at the University of North Dakota. She can be contacted at [sheila.hanson@business.und.edu](mailto:sheila.hanson@business.und.edu)

**Raymond J. Jones, III** is an Assistant Professor of Entrepreneurship and Strategy in the Nelson Rusche College of Business at the Stephen F. Austin State University. He can be contacted at [Raymond.Jones@sfasu.edu](mailto:Raymond.Jones@sfasu.edu)

### ORCID

Lin Xiu  <http://orcid.org/0000-0002-4242-8916>

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