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SOCIOEMOTIONAL WEALTH AND HUMAN RESOURCE POLICIES: EFFECTS ON FAMILY FIRM PERFORMANCE

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Abstract

Purpose: This study analyses whether human resource management (HRM), through the use of four sets of high-performance work policies (HPWPs) (i.e., selection, training, motivation, and opportunity policies), mediates the relationship between socioemotional wealth (SEW)—defined as a unique set of nonfinancial family goals—and firm financial performance when family firms face a high-risk context.

Design/methodology/approach: Hypotheses were statistically tested using a structural equation modelling methodology with a cross-sectional sample of 196 medium-sized and private family firms in a high-risk context in Spain.

Findings: The results indicate that the relationship between SEW and financial performance in family firms is fully mediated by the use of HPWPs, especially by training and motivation HR policies. The importance given to preserving SEW influences the use of four sets of HPWPs when family firms show clear evidence of being confronted by a financial decline (i.e., a high-risk context). However, to improve their financial results to avoid the firm's failure and thus the loss of their SEW, only those HR policies that focus on training and motivation made a significant and positive contribution to the firm financial performance.

Originality: This study contributes to the literature on family firms and HRM by adopting an alternative theoretical framework to understand how the importance of nonfinancial family goals may affect employee structures and management policies, thereby improving financial performance in family firms.

Keywords*:* family firms, human resource management, socioemotional wealth, financial performance.

1. INTRODUCTION

Family firms are a type of organization whose ownership and/or management is dominated by members of the same family—or by a small number of families—potentially sustainable across generations (Chua *et al.*, 1999). Studies of family firms have grown considerably in this century, mainly motivated by the critical role that this type of firm plays in the world economy (Sharma, 2004; Sharma *et al.*, 2014). Encouraged by this relevant role,

some scholars have analysed whether and how the presence of the family in management and ownership affects business performance (e.g., Wagner *et al.*, 2015). However, the evidence has been inconclusive. Some scholars have suggested that there is no significant evidence to directly support the effect of family ownership on firm performance (e.g., Tsao *et al.*, 2009). Other scholars have found negative effects when family members control firms (e.g., Pérez-Gónzalez, 2006). Alternatively, strong evidence suggests a positive association between family firms and better business results (e.g., Anderson and Reeb, 2003; Lee, 2006; Sciascia and Mazzola, 2008; Wagner *et al.*, 2015). Based on this evidence, researchers are encouraged to study why, how, and in what specific direction family variables affect business performance (Basco, 2014).

This article sheds light on these issues by using the socioemotional wealth (SEW) approach to explain the influence of a family's nonfinancial goals on firm financial performance (e.g., Debicki *et al.*, 2017; Gómez-Mejía *et al.*, 2011). SEW is defined as a unique set of nonfinancial family goals closely linked to the firm and associated explicitly with the affective needs of the owning family (e.g., Berrone *et al.*, 2012; Gómez-Mejía *et al.*, 2007). Under this approach, some scholars have assumed that the importance of preserving SEW affects firm performance directly (Debicki *et al.*, 2017). However, the SEW approach is mainly oriented to explaining decision-making in family firms (Dawson and Mussolino, 2014; Gómez-Mejía *et al.*, 2007). Hence, several scholars argue that performance in family firms is influenced by their strategic choices, which in turn are affected by the preservation of their SEW (Le Breton-Miller and Miller, 2013; e.g., Chrisman and Patel, 2012; Gómez-Mejía *et al.*, 2011; Memili *et al.*, 2013).

According to these considerations, we focus on strategic decisions that involve implementing high-performance work policies (HPWPs) in family firms. We focus on these policies because they are considered a well-known coordinated bundle of economically oriented human resource (HR) policies that may help improve family firm performance (Bello-Pintado and Garcés-Galdeano, 2019; Dekker *et al.*, 2015; Posthuma *et al.*, 2013). Despite this relevance, there is scant empirical evidence about how HPWPs mediate the relationship between family influence, in terms of SEW preservation, and firm financial performance (Hernández-Perlines *et al.*, 2021).

Because the SEW framework is fundamental to understanding why some family firms adopt HPWPs (Gómez-Mejía *et al.*, 2011; Sánchez-Marín *et al.*, 2019), we also focus on

explaining the relationship between SEW preservation, HPWPs and financial performance when family firms face a high-risk context. According to the SEW approach, family business owners face the dilemma of making strategic decisions weighing the anticipated losses and gains in both financial and SEW terms, called the owning family's mixed gamble (Gómez-Mejía *et al.*, 2018). Numerous studies find that family business decision-makers may prefer to protect family SEW, making decisions at the expense of financial rewards (e.g., Chrisman and Patel, 2012; Gómez-Mejía *et al.*, 2007; Jaskiewicz, Block, Miller, *et al.*, 2017; Memili *et al.*, 2013; Miller *et al.*, 2013). Hence, avoiding potential losses to SEW is more critical than obtaining financial gains for the owning family. However, this logic might change if family firms face an economic situation where results are worse than expected to the extent that it could endanger the business' sustainability, the owning family's financial status, and, ultimately, its SEW (Alonso-Dos-Santos and Llanos-Contreras, 2019; Chrisman and Patel, 2012; Gómez-Mejía *et al.*, 2011). Here, business owners will give strong consideration to the risk context the firm is facing.

In line with the above, researchers using the SEW approach distinguish performance hazards as one of the main types of risk (e.g., Gómez-Mejía *et al.*, 2007, 2018). Performance hazards focus on the likelihood that firms fail either by organizational failure or the possibility of below-target performance (Gómez-Mejía *et al.*, 2007). In a high-risk context, where firms may have a higher likelihood of failing, the owning family might have an incentive to make economically driven decisions to avoid failure (Alonso-Dos-Santos and Llanos-Contreras, 2019; Gómez-Mejía *et al.*, 2007, 2018; Llanos-Contreras *et al.*, 2020; Patel and Chrisman, 2014). Thus, the expectation is that family firms implement HPWPs in a high-risk context to achieve better business performance and, ultimately, avoid loss of SEW (Cruz et al., 2011; Gómez-Mejía et al., 2011). However, this concern remains unclear. Recent studies suggest that family firms could fully implement HPWPs, but only when they have a low commitment to SEW preservation (Hernández-Perlines *et al.*, 2021). Alternatively, some scholars argue that the use of formal HR approaches can find greater acceptance when threre is a greater risk of further economic deterioration and the owning family sees its SEW as compromised (Cruz et al., 2011; Gómez-Mejía et al., 2011), but this relationship has not yet been empirically tested.

Therefore, our study's specific purpose is to empirically test whether the importance of preserving SEW in family firms in a high-risk context positively affects the implementation

of HPWPs and whether these policies positively affect firm financial performance. In other words, this study analyses whether HPWPs act as mediators in the relationship between SEW preservation and financial performance when family firms face a high-risk context.

We test our hypotheses using a structural equation modelling methodology with a cross-sectional sample of 196 medium-sized private family firms. In doing so, we make four distinctive contributions to the body of research on family businesses and HRM. First, we contribute to the literature on family firms, providing more evidence about how the presence of the family affects business performance by examining the importance of preserving SEW on structures and management policies for employees that might improve financial performance. In this vein, we extend the empirical exploration of SEW and its impact on financial performance (Berrone *et al.*, 2012; Craig and Newbert, 2020; Debicki *et al.*, 2017) and the mediating role that HRM choices play in that relationship (Gómez-Mejía *et al.*, 2011). As such, we contribute to the debate on family firm heterogeneity (Chua *et al.*, 2012) and the effectiveness of HRM policies in the family business context (Hernández-Perlines *et al.*, 2021; Neckebrouck *et al.*, 2018). Second, we also contribute to the HRM literature by adopting an alternative theoretical approach to provide a better understanding of vertical fit in HRM (Kehoe, 2019). This study explains how and under what contexts family firms link their HR policies to their main family goals. Third, from a methodological point of view, we use current, multidimensional measures of both SEW and HPWPs to overcome the criticism of using proxies (i.e., family ownership and control) to represent SEW (Miller and Le Breton-Miller, 2014) and the study of HRM in family firms that are reduced to only one HR policy (Jiang, Lepak, Hu, *et al.*, 2012). Fourth, from a practical point of view, our results contribute to a better understanding of the peculiarities of family firms that may influence their HR choices and financial performance.

The article is structured as follows. First, we describe the relationship between SEW preservation and financial performance in family businesses. Then, we develop our hypotheses about the mediating role that three HPWPs may play in the relationship when family firms face high-risk conditions. Second, we describe the methodology used to test our hypotheses and the results obtained. Third, we discuss the results and their implications, the limitations of our study and potential future lines of research.

2. THEORETICAL BACKGROUND AND HYPOTHESES

2.1 SEW preservation and firm financial performance

The SEW approach is an extension of the behavioural agency model (BAM) (Martin et al. 2013; Wiseman and Gómez-Mejía, 1998), which combines elements of prospect and agency theory to argue that family firms often face a dilemma in their strategic decision-making (Gómez-Mejía *et al.*, 2018): whether to avoid losses of their current accumulated endowment[1] (i.e., risk aversion) or enhance the value of their future financial wealth (i.e., risk seeking) (Gómez-Mejía *et al.*, 2019; Jiang *et al.*, 2018). According to the SEW approach, the main reference point for decision-making in family firms is the aversion to losing the main endowment of the owning family (Gómez-Mejía *et al.*, 2007, 2011). This endowment is called SEW (Berrone *et al.*, 2012; Gómez-Mejía *et al.*, 2007) and includes various nonfinancial, social and emotional benefits that the owning family has invested in the firm (Jiang *et al.*, 2018), such as the ability to exercise family influence and to pass it to future generations, the social bonds built with stakeholders, the emotional attachment of the family members, the close and robust identification of family members with the company, and the importance of meeting family members' needs (Berrone *et al.*, 2012; Debicki *et al.*, 2016).

Under the SEW approach, family firms face a mixed gamble when making strategic decisions. Family business owners must weigh the likely gains and losses of strategic choices regarding their impact on the current SEW endowment and future financial wealth (Gómez-Mejía *et al.*, 2018). To better understand this point, family business owners will strongly consider the risk context facing family firms (Gómez-Mejía *et al.*, 2019; Minichilli *et al.*, 2014). On the one hand, when family businesses are in a low-risk context and face the dilemma of deciding between financial gain and preserving SEW, much research suggests that the owning family will prefer to protect the latter (e.g., Chrisman and Patel, 2012; Gómez-Mejía *et al.*, 2007, 2018; Jaskiewicz, Block, Miller, *et al.*, 2017). In this situation, the importance given to preserving SEW has been negatively related to some beneficial opportunities, such as joining cooperatives (Gómez-Mejía *et al.*, 2007), investing in research and development (R&D) (Gómez-Mejía *et al.*, 2014), engaging in acquisitions, mainly of unrelated firms (Gómez-Mejía *et al.*, 2018), or making social provisions for internal

[1] Accumulated endowment is understood as everything that a person believes is important to their well-being, which already is accumulated and can be accounted for (Gómez-Mejía et al., 2007).

stakeholders (Cruz *et al.*, 2014), even though this decision involves a business risk and a threat to the firm's financial well-being.

On the other hand, the decisions made by family firms are sensitive when they potentially entail high risks. When family firms have clear evidence that they face performance hazards, SEW and financial concerns are aligned. The owning family might have the incentive to make economically driven decisions to avoid firm failure and, thus, a total loss of their SEW (Alonso-Dos-Santos and Llanos-Contreras, 2019; Gómez-Mejía *et al.*, 2011, 2018, 2019; Llanos-Contreras *et al.*, 2020; Patel and Chrisman, 2014). As Gomez-Mejía and colleagues said, "this is because meeting the firm's financial obligations is a necessary condition for the family owners to enjoy any SEW and financial utility" (2018, p. 1371). Therefore, elements of SEW, such as maintenance of binding social ties within the firm, the perpetuation of the family dynasty, and the importance of meeting the family members' affective needs, require that the owning family recover the competitive capacity of the firm in the long term to survive (Gómez-Mejía *et al.*, 2019). This reasoning has been found in family firms with poor business performance and led to economically oriented decisions even if this occurs at the expense of SEW (Gómez-Mejía *et al.*, 2018), such as boosting R&D investments despite that this may imply dependence on experts from outside the family circle (Gómez-Mejía *et al.*, 2014; Patel and Chrisman, 2014), joining a cooperative although it gives power to an external party (Gómez-Mejía *et al.*, 2007), or engaging in greater diversification even though it dilutes family influence (Gómez-Mejía *et al.*, 2010).

Concerning the relationship between SEW preservation and financial performance, the mixed results found in the literature are thus due to the mediating role of multiple choices involved in that relationship and the organizational context considered. The performance implications of these choices cannot be determined in isolation because they vary depending on the organizational context (i.e., high-risk conditions) as well as other factors not mentioned here but described in the literature, such as the institutional context (e.g., Cruz et al., 2014), the level of participation and generational stage of the owning family in both ownership and management (Gómez-Mejía *et al.*, 2011), and the presence of nonfamily members in governance structures (Schulze and Kellermanns, 2015). Therefore, we argue that there is no significant direct effect of preserving SEW on financial results. Strategic choices and decision-making driven by nonfinancial goals wholly mediate this relationship (Gómez-Mejía et al., 2011).

In this vein, we focus on HRM policies designed to enhance high performance at a strategic level that might mediate the effect of SEW preservation on firm performance (Gómez-Mejía et al., 2011). In addition, we focus on family firms in high-risk contexts to clarify the expected conditions in which family firms will implement performance-oriented HRM policies. The studies that have used the SEW approach in HRM topics (Cruz *et al.*, 2011; Gómez-Mejía *et al.*, 2011) have suggested that family firms could favour the use of more informal HR policies; however, when a performance hazard jeopardizes both SEW and the firm's viability, the more formal and effective HR policies may be adopted (Tsao *et al.*, 2016). These specific arguments are developed below.

2.2 The mediating role of HPWPs

To explore the use of HPWPs in family firms, we use the HR policies distinguished in the Abilities-Motivation-Opportunities (AMO) model (e.g., Appelbaum, Bailey, Berg, & Kallenberg, 2000; Jiang, Lepak, Han, et al., 2012). In this model, formal HR policies guide programs, processes, and techniques that enhance firm performance through employees' contributions (Wright & Boswell, 2002). Enhancing firm performance implies that employees have proper knowledge, skills and abilities to discharge their responsibilities (A), that they need to be motivated (M) and have opportunities (O) to do their jobs in the interest of the organization. Following the AMO framework, HPWPs are grouped into three categories (Jiang, Lepak, Han, et al., 2012). First, *ability HR policies* are oriented to improve employees' knowledge, skills, and abilities (KSAs) by selective selection and extensive training. Second, *motivation HR policies* are oriented to influence employee motivation at work through performance appraisal and compensation-based performance. Third, *opportunity HR policies* combine job design and employee involvement to design work in ways that allow employees to apply their KSAs to contribute to the organization. The following sections argue that preserving SEW might favour adopting each set of HPWPs in family firms in high-risk conditions and how these choices might improve financial firm performance.

2.2.1 Ability HR policies under the SEW approach

Empirical evidence has shown that formal *ability HR policies* such as selective selection and extensive training are less used in family firms than in nonfamily firms (De Kok *et al.*, 2006; Matlay, 2002). In family firms, informal recruitment and selection practices are

commonly adopted to focus on a narrow group of candidates that share the family's values (Cruz *et al.*, 2011). Although some family firms could emphasize selecting people whose personal qualities fit with the organization's needs (Ezzedeen *et al.*, 2006), they are more concerned with how well a given person fits with the family's expectation, values, and culture (Gómez-Mejía *et al.*, 2011). This behaviour might be positive within the family dynamic but harmful for business because of granting privileges to select people not based on merits, which is common with less formal and more manipulable HR processes (Kidwell *et al.*, 2018; Lansberg, 1983).

Concerning training and development practices, although the owning family places a greater emphasis on long-term orientation to strengthen its identity with the norms and values of the organization (Cruz *et al.*, 2011), the principles that operate in the family generally interfere with an effective formal training policy because individual family members' needs and organizational needs are often difficult to separate (Lansberg, 1983). Thus, the return on investment regarding training could diminish due to the desire to guarantee security and benefits for family members (Debicki *et al.*, 2017).

At this point, selection and training policies are moulded by family values, contributing to their informality. However, family firms that face high risks and wish to preserve SEW could favour more formal *ability HR policies*. The use of more formal and specific job criteria to select employees could reduce nepotism and adverse selection processes that can increase the use of informal and subjective criteria (Dyer, 2006) so that the most suitable candidates are selected on clear economic criteria (Cromie *et al.*, 1995). Although training in family firms traditionally was more informal, the use of formal methods is more reactive than proactive (Matlay, 2002). Scholars have found that training in family firms increases during critical stages (Kotey and Folker, 2007).

Because selection and training policies oriented to enhance high firm performance can be adopted in family firms in high-risk situations to preserve SEW, these firms could improve their financial results, as there is evidence that these policies help family firms perform better (Astrachan and Kolenko, 1994; Carlson *et al.*, 2006; Dekker *et al.*, 2015; Kotey and Folker, 2007; León-Guerrero *et al.*, 1998; Tsao *et al.*, 2009). This relationship makes sense from human capital and resource-based perspectives. The first perspective emphasizes that human capital, composed of employees' skills, knowledge, and abilities, is a central driver of organizational performance when the return on investment in human capital exceeds labour

costs (Becker, 1962; Ployhart and Moliterno, 2011). Through selection and extensive training, firms can increase their human capital and improve performance (Cabello-Medina *et al.*, 2011; Takeuchi *et al.*, 2007). As Youndt, Subramaniam and Snell (2004) argued, employees with high levels of knowledge and skills can generate new ideas and techniques that are reflected in production equipment and processes, reducing organizational costs and increasing product reliability and customer satisfaction.

The resource-based view provides additional insights into why human capital can be a crucial asset for organizations. Human capital helps firms achieve better performance and, thus, competitive advantage if the knowledge, skills and abilities are rare, valuable, inimitable, and nonsubstitutable (Barney, 1991; Jiang et al., 2013). Firms may use *ability HR policies* to create both valuable generic and organization-specific human capital, which in turn drives high operational and financial performance (e.g., Jiang, Lepak, Hu, & Baer, 2012; Snell & Dean, 1992). As the achievement of firm competitive advantage is conditioned by developing a human capital pool with higher levels of knowledge, skills, and abilities, family firms could achieve this superior pool by ability HR policies. Although evidence suggests that these policies tend to be more structured and standardized when family businesses grow or they are large-sized firms (Chang, 2012; Kim and Gao, 2010; Kotey and Folker, 2007; Matlay, 2002), the importance of preserving family SEW may explain the likelihood of adopting HPWPs in the abilities domain in response to a high-risk situation. Thus, we propose the following hypotheses (and sub-hypotheses):

H1: The relationship between the importance given to preserving SEW and firm financial performance is fully mediated by the use of ability HR policies.

H1a: The importance given to preserving SEW has a positive effect on the use of ability HR policies.

H1b: The use of ability HR policies has a positive effect on firm financial performance.

2.2.2 Motivation HR policies under the SEW approach

Although the principles that operate in the family might incentivize less use of traditional methods to evaluate employees' performance (Cruz *et al.*, 2011; Gómez-Mejía *et al.*, 2011) and provide an ambiguous basis for compensation decisions (Lansberg, 1983), some family firms offer competitive compensation (Ezzedeen *et al.*, 2006). In fact, under the

SEW approach, preserving SEW might explain the decision to use *motivation HR policies* in family firms when they face high-risk conditions. Suppose SEW preservation is the main framework for defining the compensation policy, and the owning family is coupled with the wish to recover from poorer firm performance. In that case, family firms will use objective criteria to define wage levels and link employees' compensation to results. Although the literature suggests that the owning family could be reluctant to act against a relative who does not perform well for fear of damaging family relationships (Cruz *et al.*, 2011) and to treat family and nonfamily employees differently (Daspit *et al.*, 2018), the opposite is expected when the firm finds itself in financial difficulties.

A compensation system based on performance could encourage family employees to increase their contribution to the business because they will be economically rewarded according to their abilities and contributions and not their family status (Blanco-Mazagatos *et al.*, 2018). Furthermore, these policies will increase the contribution of nonfamily employees. They will feel incentivized to maintain or even increase their contribution to the organization if the achievement of family goals (i.e., to preserve SEW) does not harm labour relations and their efforts are fairly rewarded (Blanco-Mazagatos *et al.*, 2018).

As family firms with high levels of SEW preservation and business risk may adopt *motivation HR policies*, these policies could increase the potential to achieve better performance. As some scholars suggest, performance-based compensation and competitive pay may help family firms perform better (Chang, 2012; León-Guerrero *et al.*, 1998; Sánchez-Marín *et al.*, 2020; Tsao *et al.*, 2009). These policies help to attract and maintain valuable generic and organization-specific human capital, which in turn drives operational and financial performance (e.g., Donate et al. 2016; Jiang, Lepak, Hu, et al., 2012). Furthermore, this policy domain helps motivate employees rather than improving their abilities at work (Jiang, Lepak, Han, et al., 2012).

Even though family firms might offer formal variable pay schemes and undertake formal appraisal and feedback on a more regular basis when the firms grow (Kim and Gao, 2010), the higher importance given to preserving SEW will increase the likelihood of adopting motivation HR policies in family firms in high-risk conditions and, in turn, enhance firm financial performance. Thus, we propose the following hypotheses:

H2: The relationship between the importance given to preserving SEW and firm financial performance is fully mediated by the use of motivation HR policies.

H2a: The importance given to preserving SEW has a positive effect on the use of motivation HR policies.

H2b: The use of motivation HR policies has a positive effect on firm financial performance.

2.2.3 Opportunity HR policies under the SEW approach

Given that decision-making in family firms is usually centralized in the owning family that is unwilling to delegate power (Cruz *et al.*, 2011), family firms *use opportunity HR policies less*. The owning family could see a decline in the practice of autonomy and participation of nonfamily employees (Zientara, 2017) and their access to crucial information from the company (Cruz *et al.*, 2011). As nonfamily employees are part of the company but not the family system (e.g., Daspit *et al.*, 2018), their participation may be a threat to the family business culture if they challenge the way business is carried out (Cruz *et al.*, 2011).

However, following the preservation of SEW as the main objective of family firms, the use of opportunity *HR policies* could also find a favourable environment in high-risk conditions. Suppose the firm fails to involve its employees in organizational decision-making (through participation and empowerment) or to release their creativity (through autonomy and a supportive organizational climate). In that case, it is likely that the firm's competitiveness will decrease (Zientara, 2017). Hence, family firms might encourage the participation of all employees, allowing them to openly express their opinions, thus, reducing the ambiguity of their role and conflicts to an optimal level (Cruz *et al.*, 2011). Family firms might also maintain greater flexibility in jobs, especially for people with close ties to the owning family, such as family members who often benefit from flexible working hours to care for their children (Dawson, 2012).

Because opportunity HR policies could be encouraged in family firms with high levels of SEW preservation, especially at higher risk levels, adopting such policies could improve the financial results of these firms. Studies suggest that the flexibility of HR practices such as team-based job designs, a flexible workforce, quality improvement practices, and employee empowerment increase the likelihood of achieving better firm performance (Chang, 2012). If family firms develop these HR policies to a high degree, they provide a supportive environment that encourages the attachment and engagement of employees with organizational goals (Kehoe and Wright, 2013). Employees have professional development

opportunities to update their knowledge and improve their abilities and skills for carrying out specific company tasks (Cabello-Medina *et al.*, 2011; Donate *et al.*, 2016). Increasing valuable knowledge, skills, and abilities (i.e., human capital) and enhancing employees' motivation can drive high operational and financial performance. Therefore, given the importance of preserving SEW, the likelihood of adopting HR opportunity policies in family firms in high-risk conditions increases and, in turn, enhances a firm's financial performance. Thus, we propose the following hypotheses:

H3: The relationship between the importance given to preserving SEW and firm financial performance is fully mediated by the use of opportunity HR policies.

H3a: The importance given to preserving SEW has a positive effect on the use of opportunity HR policies.

H3b: The use of opportunity HR policies has a positive effect on firm financial performance.

3. METHODOLOGY

3.1 Sample and data collection

The total population selected for this research comes from an extensive database created by The Family Business Firms Institute in Spain (Casillas *et al.*, 2015), which used the Spanish SABI (Iberian Balance Sheets Analysis System) database. In this database, a firm was considered a family firm if the family was involved in the governance/management of the firm (i.e., at least one family member was present on the board of directors or in the management team) and if the family had a specific level of ownership (i.e., either one family member owns at least 5% of the company or several members of the same family own at least 20%).

From this database, we selected unlisted medium-sized family firms (i.e., firms with more than 50 employees but fewer than 250) in the industry and service sector. We exclude large and small-sized firms for two reasons. First, large firms have much greater access to resources than small and medium-sized firms (Sánchez-Marín *et al.*, 2019), which could distort the analysis about the use of HPWPs and their relationship with firms financial performance. Medium-sized firms often have clearly defined HR policies in contrast to small and micro-sized firms. Second, medium-sized firms tend to experience substantial trade-offs in their preferences for economic and noneconomic goals (Memili *et al.*, 2013), and they

might be more strongly influenced by the family than large companies with complex organizational structures (Kraiczy *et al.*, 2015).

In addition, we focused on those family firms in higher-risk conditions. To identify these firms, we focused on performance hazard as one of the main types of risk distinguished in the research using the SEW approach (e.g., Gómez-Mejía *et al.,* 2007), but only through the possibility of the firm's below-target performance (e.g., Gómez-Mejía *et al.,* 2007, 2018) given the most information available from the database consulted. Thus, we obtained a high-risk indicator by calculating the "referent-target achievement" proxy (Gómez-Mejía *et al.*, 2007). This proxy captures the comparison between the focal firm's average performance and the average performance of its competitors in the same years (Gómez-Mejía *et al.*, 2007, 2014). We first calculated the average performance using return on assets (ROA), estimated as the yearly net income (in thousands of Euros) divided by total assets (in thousands of Euros) for the same year. Then, we calculated an average for the three years before our study (i.e., 2013, 2014 and 2015). As the indicator of higher risk, we selected those firms that had lower average ROA than the industry-median-adjusted average ROA (Gómez-Mejía *et al.*, 2014).

The selection procedure identified a population of 1,870 medium-sized, private family firms that were in high-risk conditions. Information was obtained using two sources. First, we consulted the SABI database to obtain objective financial data and organizational characteristics (e.g., sector, firm age, firm size). And second, we developed a questionnaire to collect data on the required variables that could not be obtained from any commercial database, including the measures of SEW, HPWPs, and other organizational and individual characteristics. We gave this questionnaire to a professional research firm to conduct, from March to June 2016, a telephone survey with the HR manager or, in his or her absence, the CEO of the firm. A stratified random sample was used, using sector of economic activity and firm age as stratification variables. Of the 1,870 firms, 196 firms were fully contacted, resulting in an effective response rate of 10.48% of the total population (sample error 6.6% and 95% confidence level for $p = q = .50$) –a good response rate considering the difficulties to obtain data on privately held family firms (Madison *et al.*, 2018; Michiels, 2017).

Although the sample selection was totally random, we followed Blanco-Mazagatos *et al.* (2018) to assess potential non-response bias in our study. First, based on an independent t-test, we found no differences between family firms included in the sample and those excluded

on the grounds of either firm risk ($p > .10$) or size ($p > .10$). Second, we found no significant differences between the early and late respondents using an independent samples t-test to compare our main variables (the t-tests with cut-off points at 10%, 20%, and 30% yielded similar results). Both procedures suggested that response bias is not a problem in our study.

3.2 Measures

SEW. To measure the importance of SEW in private family firms, we use a 13-item scale based on the SEW-importance (SEWi) scale (Debicki *et al.,* 2016), the last three dimensions of the FIBER scale (i.e., binding social ties; emotional attachment; and renewal of family bonds) (Berrone *et al.*, 2012), and the scale used by Cabrera-Suárez *et al*. (2014). Although SEW is recognized by some scholars as a stock of non-financial goals in a family firm (e.g., Berrone *et al.*, 2012), we follow Debicki and colleagues' conceptualization (2016, 2017) which considers that this stock is best represented by the importance of the potential benefits it offers to family business owners (Baixauli-Soler *et al.*, 2021; Belda-Ruiz *et al.*, 2021). All items were scored on a five-point Likert-type scale ranging from "1" (not important) to "5" (very important) by the main person responsible for the HR function. They answered based on their understanding and personal experience of the importance of each item for the owning family in the last three years. Although SEW preservation is a goal characteristic of family owners, HR managers or CEOs are appropriate informants whether or not they are members of the owning family because they are knowledgeable about the firm's business strategy (e.g., Delery and Doty, 1996), and their jobs bring them into contact with the family and the firm's logic, so they understand the owning family's goals.

HPWPs. We measure the use of HPWPs adapting the two scales used by Jiang and colleagues (2017). From these scales, we chose 18-items to represent the three factors in the ability-motivation-opportunity (AMO) model of HRM (e.g., Jiang, Lepak, Han, *et al.,* 2012; Jiang *et al.*, 2017; Subramony, 2009): a*bility HR policies* (3-items for selection policy and 4-items for training policy), *motivation HR policies* (3-items for compensation-based performance policy, 3-items for formal appraisal policy, and 1-item for career planning), and *opportunity HR policies* (2-items for employee involvement policy and 2-items for job design policy). All items were scored on a five-point Likert-type scale ranging from "1" (totally disagree) to "5" (totally agree). The respondents indicated the extent to which each HR policy was offered over the previous 3 years. As HR practices for employees vary concerning job

position (Tsui *et al.*, 1997), a general assessment of the HPWPs for the whole workforce would not be appropriate (Lepak and Snell, 2002). The accuracy and reliability of the HPWPs measures are improved by focusing on a specific group of employees (Beltrán-Martín *et al.*, 2008). Therefore, respondents were asked to assess HPWPs applied to core service or full-time production employees, excluding managers or supervisors. We focus on core employees because they are very important for any firm since they are most directly involved with the firm's primary product or service (Delaney and Huselid, 1996). We focus on nonmanager employees as these have attracted little attention from researchers in family firms (Dawson, 2012).

Firm financial performance. We use ROA to measure firm financial performance. This accounting variable has been widely used in family firm research (Wagner et al., 2015) and has been preferred over other measures such as return on sales (ROS) or return on equity (ROE) (Dekker *et al.*, 2015). We calculate ROA as the yearly net income divided by average total assets for the year. Information was obtained from end-of-year financial statements in 2016 collected from the SABI database. To reduce the skewness (Hair *et al.*, 2006), we calculate the natural logarithm for ROA. Before that, we added 1 to all ROA values to avoid problems with negative values in the logarithmic transformation (Cruz *et al.*, 2014).

Control variables. We used a largely overlapping set of control variables that have been used in prior studies to safeguard the analysis against their potential effects on both the use of HPWPs and the firm's financial performance. We collected these variables into five groups: industry, firm characteristics, HR specialization, family governance characteristics, and the CEO's characteristics. The first two groups were obtained from the SABI database, while the others were obtained from the survey. We measure *Industry* with a dummy variable that allowed us to differentiate between family firms belonging to services (=2) and industry (=1) (Beltrán-Martín *et al.*, 2008). For firm characteristics, we measured *firm size* using the natural logarithm of total assets and *firm age* as the natural logarithm of the number of years since the firm was founded (Jaskiewicz, Block, Combs, *et al.*, 2017). We measure *HR specialization* with one dichotomous variable depending on whether the firm has an HR manager (=2) or not (=1) (De Kok *et al.*, 2006). Family governance characteristics include two variables (Blanco-Mazagatos *et al.*, 2018; Steijvers *et al.*, 2017): *family in management team* which was calculated by the percentage of members of the owning family in top management positions, and *family generation* which was measured with an ordinal scale

ranging from "1" (the first generation) to "4" (the fourth and later generations) to identify the family generation controlling the firm. Finally, the CEO's characteristics include two variables (Steijvers *et al.*, 2017). The *CEO family status* was measured with one dichotomous variable depending on whether the CEO is a member of the owning family (=2) or not (=1). The *CEO's education level* was operationalized through one dichotomous variable depending on whether the CEO had received university-level education (=2) or not (=1).

4. RESULTS

Table 1 shows the means and standard deviations of all the variables included in our analyses and their correlations. The demographic profile of the firms studied indicates that most of them are more than 29 years old. They have an average number of 99 employees and an asset size of €12,141,801. It also indicates that 69.4% of the sample belongs to the service sector and 30.6% to the industrial sector. The data collected from the survey shows that the percentages of family ownership and management are 96% and 70.6%, respectively, while the CEO position is held by a family member in 82% of cases. The first generation controls 38.3% of family firms in our study, 48.5% the second generation, 11.2% the third generation and 2% the fourth or later generation. 48.5% of family firms in our sample have an HR manager. These characteristics are comparable with values reported in the literature for family small and medium-sized enterprises (family SMEs) (e.g., Michiels, 2017; Sánchez-Marín *et al.*, 2019).

Insert Table 1 about here

We conducted our analyses with Structural Equation Modeling (SEM) and maximum likelihood robust (MLR) estimation using the statistical program EQS 6.2 for Windows. This analysis technique is entirely appropriate considering our proposed theoretical model to be tested. SEM is "a confirmatory approach in which the model being tested represents the hypothesized relationship among an initial variable, a mediator, and an outcome variable, and those relationships are tested simultaneously" (Schneider *et al.*, 2005, p. 1023). The logic for our use of SEM is also supported by the presumed baseline model of complete mediation (James *et al.*, 2006). In a hypothetical complete mediation, a path from the initial variable to the mediator and a path from the mediator to the outcome variable should be tested, but not

with one from the initial variable to the outcome variable (James *et al.*, 2006). In our proposed model, it is not necessary to control for the effect of the initial variable (i.e., SEW) on the outcome variable (i.e., firm financial performance) because this relationship is not expected. Consequently, an SEM approach to test a complete mediation is more suitable for our study (Aguinis *et al.*, 2017; James *et al.*, 2006).

We first performed a set of exploratory factor analyses (EFA) and confirmatory factor analyses (CFA) to test the proposed structure of SEW preservation and HPWPs scales. For the SEW preservation scale, we performed an EFA to refine and determine its dimensional character. Two factors emerged from the EFA with eigenvalues above 1 (see Table 2). We obtained these factors after several iterations and removal of items that did not pass the recommended minimum value of .50 for the factor loadings and the proportion of common variance for each item (i.e., communality) (Hair *et al.*, 2006). Based on the content of the items under each factor, the first factor was labelled *family continuity (FC)* and the second as *family enrichment (FE)*.

Insert Table 2 about here

Next, we performed a CFA with the two factors resulting from the previous EFA. We test the two factors as intercorrelated latent variables. The initial CFA only shows acceptable levels of fit[2] in CFI, IFI, and normed χ^2 values (CFI = .922, NNFI = .892, IFI = .923 RMSEA = .095 with the 90% confidence interval values of .069 and .121, and normed S-Bχ^2 = 2.769), which suggest a re-specification of the model (Binz Astrachan *et al.*, 2014; Byrne, 2006). Thus, we conducted two simultaneous processes. A systematic process of examining the loadings of each item and the proportion of variance accounted for by its related factor was followed (Hair *et al.*, 2006). As a result, we only removed item *FE1*. We also used the Lagrange Multiplier Test (LM Test) to identify misspecified parameters in the model (Byrne, 2006). The LM test indicated the need to include the covariance between error terms

[2] The recommended minimum value for five indexes obtained from a robust estimation were considered. For the comparative fit index (CFI), the Bentler-Bonett non-normed fit index (NNFI), and the Bollen's incremental fit index (IFI), values above .90 indicate appropriate fit (Hu and Bentler, 1999). For the root means square error of approximation (RMSEA), values below .06 suggest good fit, and values as high as .08 reasonable fit (Byrne, 2006; Hu and Bentler, 1999). For a normed Chi-square (χ^2) (i.e., the ratio between χ^2 and the degree of freedom), values below 3 are acceptable (Bagozzi and Yi, 1988). We operate here with Satorra-Bentler chi-square (S-Bχ^2) due to the non-normality of the variables (Byrne, 2006).

associated with two items of the *family continuity* factor (i.e., *FC2* and *FC3*). This result suggests that the unique variances of the two items overlap because these items might be worded similarly or have similar meanings (Byrne, 2006), which indicates one of them should be removed (Hair *et al.*, 2006). Due to their high and significant correlation (.515, $p < .001$), we decided to retain only *FC3*. After removing Items *FC2* and *FE1*, the CFA exhibited good fit (CFI = .988, NNFI = .980, IFI = .988 RMSEA = .046 with the 90% confidence interval values of .000 and .090, and normed S-Bχ^2 = 1.408) and the two factors identified exhibited a high and significant correlation (.767, $p < .001$). Thus, SEW can be conceptualized in terms of the two dimensions identified (family continuity and family welfare) following the conceptual definition of SEW as a multidimensional construct that includes the motivations and goals that a family derives from its controlling position in a firm (e.g., Berrone *et al.*, 2012; Debicki *et al.*, 2016; Gómez-Mejía *et al.*, 2007, 2011).

For the HPWPs scale, we first verified the unidimensional nature of each group of HR policies by estimating three single-factor EFAs. For the motivation and opportunities HR scales, one factor emerged for each group with a variance of 59.8% and 67%, respectively, and item loadings ranged from .667 to .886. Hence, the one-dimensionality of these scales is confirmed. However, our analysis did not support the one-dimensionality of the abilities HR scale. The EFA showed that the items load on two different factors (see Table 3): the first factor represents the *training HR policy,* and the second represents the *selection HR policy*.

Insert Table 3 about here

In a second step, we estimated a CFA with the four factors obtained in each single-factor EFA. An initial CFA model was estimated correlating four latent variables corresponding to each HPWP. As the fit indexes corresponding to this CFA were much too low for a well-fitting model (CFI = .896, NNFI = .876, IFI = .897 RMSEA = .082 with the 90% confidence interval values of .070 and .194, and normed S-Bχ^2 = 2.323), we re-specified the model. Given the results obtained from the LM tests, two items from motivation policies should also load onto opportunities HR policy (i.e., the firm has guaranteed fairness in compensation/rewards; the firm has clearly communicated the available career plans). As a cross-loading effect from this item is not conceptually justified, we removed them from our model. After removing these two items, the CFA exhibited good fit (CFI = .937, NNFI = .954,

IFI = .938 RMSEA = .068 with the 90% confidence interval values of .053 and .082, and a normed S-Bχ^2 = 1.898), confirming the proposed dimensionality.

Once we confirmed the proposed dimensionality for SEW and HPWPs scales, we estimated a CFA to evaluate the fit of the measurement model and the reliability and validity of the factors that constitute the model (Binz Astrachan *et al.*, 2014; Byrne, 2006). The measurement model containing all 23 items shown in Table 4 has good fit results (CFI = .951, NNFI = .942, IFI = .952 RMSEA = .050 with the 90% confidence interval values of .038 and .061, and a normed S-Bχ^2 = 1.489). We calculate the reliability of the measures using composite reliability (CR) (Bagozzi and Yi, 1988). As shown in Table 4, the values for CR exceed the cutoff criterion of .70 (Fornell and Larcker, 1981; Hair *et al.*, 2006), which indicates good reliability and internal consistency of the measures. We evaluated the validity of the measures through convergent and discriminant validity. We assessed convergent validity by examining the factor loadings computed in the CFA and the values obtained for average variance extracted (AVE). As shown in Table 4 and Table 5, all values exceed the cut-off of .50 (Hair *et al.*, 2006). All items are positively and significantly related to their underlying construct (all $p < .001$). These results support convergent validity (Bagozzi and Yi, 1988). We tested discriminant validity following the Fornell-Larcker procedure (Fornell and Larcker, 1981). As shown in Table 5, it is satisfactory since the AVE of each first-order factor is higher than the squared inter-construct correlation (Bagozzi and Yi, 1988).

Insert Table 4 and Table 5 about here

Before testing the structural model, we assessed potential common method bias. We took four steps to alleviate this concern. First, we collected our variables from two sources (Podsakoff *et al.*, 2003). We used the SABI database to obtain firm risk information and control variables (i.e., industry and firm characteristics). We used the survey to collect data about SEW and HPWPs scales and control variables (i.e., HR specialization, family governance characteristics, and CEO characteristics). Second, to reduce social desirability bias in data collected, respondents were aware that the survey was for research purposes only and that all responses would be strictly confidential (Liang *et al.*, 2014). Third, we used Harman's one-factor test to check for potential bias and a CFA as a more sophisticated test (Podsakoff *et al.*, 2003). The results of the unrotated factor analysis of all survey items

showed that no single factor was dominant (the explained variance was 39.516%), and the one-factor model for all survey items yielded a poor data fit (CFI = .526, NNFI = .479, IFI = .531 RMSEA = .151 with the 90% confidence interval values of .142 and .158, and normed S-Bχ^2 = 5.423). Both results suggest that common method bias is not a serious threat in our study.

The structural model, used to estimate the path coefficients and to assess the validity of causal structures among latent variables, shows a good fit (CFI = .917, NNFI = .906, IFI = .918 RMSEA = .062 with the 90% confidence interval values of .052 and .072, and normed S-Bχ^2 = 1.751). An overview of the results can be found in Table 6 and Figure 1.

Insert Table 6 and Figure 1 about here

In line with the hypothesized relationship, our results confirm that the importance of preserving SEW influences positively and significantly the use of abilities HR policies such as selection HR policy (B = .829, p < .001), and training HR policies (B = .711, p < .001), thus supporting H1a. In addition, results indicate that the importance of preserving SEW influences positively and significantly the use of motivation HR policies (B = .766, p < .001), and opportunities HR policies (B = .864, p < .001), supporting Hypotheses H2a and H3a. Results also show a positive and significant effect for training HR policy on firm financial performance (B = .171, p < .05). However, contrary to our expectations, a negative but not significant relationship was found for selection HR policy (B = -.166, p > .10), so H1b is only partially supported. In line with our prediction in H2b, our results support a positive and significant relationship between the use of motivation HR policies and a firm's financial performance (B = .274, p < .05). Finally, and contrary to our expectations, a negative but not significant relationship was found between the use of opportunity HR policies and firm financial performance (B = -.166, p >.10). Therefore, H3b was not supported.

In order to test the nature of the individual mediation effects hypothesized in H1, H2, and H3, we applied the Sobel test (MacKinnon *et al.*, 1995; Sobel, 1982) to assess whether each group of HPWPs carries the influence of the importance of preserving SEW to firm financial performance. As shown in Table 7, our results indicate a significant and positive mediation for training HR policy (B =.121, p =.051). But, contrary to our expectations, a negative but not significant mediation is found for selection HR policy (B = -.138, p > .10). Therefore, H1

is partially supported. In line with our prediction in H2, our results support a positive and significant mediation between the use of motivation HR policies and firm financial performance (B = .210, p < .05). Finally, a negative but not significant mediation was found between the use of opportunity HR policies and firm financial performance (B = -.143, p >.10). H3b was thus not supported.

Insert Table 7 about here

To ensure that we used a sufficient sample size for the study, we evaluated the statistical power of the sample size utilizing *G*Power* software (Faul *et al.*, 2009; Mayr *et al.*, 2007). Because we did not run a preliminary analysis before this study started, we used a post-hoc power analysis for *F*-tests. With an alpha level of .05, a sample size of 196, and a small effect size of .068 (Cohen, 1992), the achieved power for the study was .839.

Additionally, to ensure the robustness of our results, we test the same structural model using the natural logarithm of ROE (return on equity) to measure firm financial performance. We calculate this ratio by dividing the yearly net income by the average shareholder equity. Information was obtained from end-of-year financial statements in 2016 from the SABI database. This model (not reported[3]) has a good fit, and the results and significance levels for all hypotheses remain stable, although some effect sizes differ slightly.

In relation to the control variables[4], we observe that only the variable family in management team affects firm financial performance significantly and negatively (B = -.131, p < .05). For the HPWPs, only CEO's education level affects the use of selection HR policy significantly and positively (B = .224, p < .01), while industry (B = .143, p < .05), and the presence of an HR manager (B = .122, p < .10) affect the use of training HR policy significantly and positively. We also observe that only the CEO's education level affects the

[3] This model and its specific results are available upon authors' requests.

[4] We estimate five different structural models for each proposed group of control variables: industry, firm characteristics (i.e., firm size, and firm age), HR specialization, family governance characteristics (i.e., family in management team, and family generation), and CEO's characteristics (i.e., CEO's family status, and CEO's education level). These models were estimated because of the limitations of computing one structural model including all the control variables at the same time. All models have a reasonably good fit and are significantly different from the model without control variables (no reported). Although effect sizes differ slightly, the results and significance levels for all hypotheses remain stable, supporting the robustness of the initial model. All these specific results are available upon authors' requests.

use of motivation HR policy significantly and positively (B = .153, p < .05). Finally, CEO's education level (B = .120, p < .10) and CEO's family status (B = .288, p < .001) both affect the use of opportunities HR policies significantly and positively, while firm size affects it negatively (B = -.258, p < .001).

Lastly, in order to confirm that our model is indeed a full mediation model, we specify the direct effect (no mediation) of preserving SEW on firm financial performance as well as a partial mediation model to formally test the consequences of omitting the direct effect (Aguinis *et al.*, 2017). In a first step, we estimate a direct path from the second-order factor representing SEW to each factor of HPWPs and firm financial performance, with no path from HPWPs to firm financial performance. This model has a good fit (S-Bχ^2 = 434.2292 [df = 246], p < .001; CFI = .914, NNFI = .904, IFI = .916, RMSEA = .063 with the 90% confidence interval values of .053 and .072, and normed S-Bχ^2 = 1.765) and differed significantly from the full mediation model (ΔS-Bχ^2 = 8.7873[df = 3], p < .05). The results of this model showed a positive but not significant effect of preserving SEW on financial firm performance (B = .074, p > .10). Furthermore, as we hypothesized, positive and significant relationships were obtained between the importance of preserving SEW and each factor of HPWPs: selection HR policy (B = .826, p < .001), training HR policy (B = .711, p < .001), motivation HR policy (B = .767, p < .001), and opportunity HR policies (B = .864, p < .001). In a second step, we estimate a partial mediation model to calculate paths from the second-order factor representing the importance of preserving SEW to each factor of HPWPs, and from each factor of HPWPs to firm financial performance but including a direct effect from SEW to financial firm performance. The results indicate that although this model has good fit (S-Bχ^2 = 427.9042 [df = 242], p < .001; CFI = .915, NNFI = .904, IFI = .917, RMSEA = .063 with the 90% confidence interval values of .053 and .072, and normed S-Bχ^2 = 1.768), it did not differ significantly from the full mediation model (ΔS-Bχ^2 = 2.4623[df = 1], p >.10). Furthermore, a positive but not significant effect of preserving SEW on firm financial performance was found (B = .522, p > .10).

5. DISCUSSION AND CONCLUSIONS

In this study, we examine how the use of four sets of HPWPs (i.e., selection, training, motivation, and opportunity policies) mediates the relationship between the importance of preserving SEW and financial performance in family firms, particularly when they face high-

risk conditions. Based on a sample of medium-sized and private family firms in Spain, our analysis confirmed that the importance given to preserving SEW stimulates the use of HPWPs when family firms show clear evidence of being confronted by a financial decline (i.e., a high-risk situation). However, to improve financial performance with the goal of avoiding firm failure and, thus, the loss of their SEW, it was found that only those HR policies that focus on training and motivation (performance-related compensation and performance appraisal) were effective.

This work extends and complements the existing literature in both family firm and HRM fields. We contribute to the HRM literature by adopting an alternative theoretical position that offers a broader research framework for the family firm context. As HR scholars claim, more contextualized research is needed in the HRM field (e.g., Lengnick-Hall *et al.*, 2009) to understand what it means to achieve vertical fit in HRM (Kehoe, 2019). We also contribute to the family business field, supporting the idea that SEW is central to decision-making in family firms when the continuity of a family business could be threatened (e.g., Gómez-Mejía *et al.*, 2018; Llanos-Contreras *et al.*, 2020). Thus, we examine how preserving SEW can distinguish structures and management choices for employees that impact firm financial performance. We build on previous works that promote an alignment of SEW and financial concerns as drivers of economically oriented decisions in high-risk contexts (Gómez-Mejía *et al.*, 2018). Additionally, we rely on research that encourages an empirical exploration of SEW and its impact on financial performance (Berrone *et al.*, 2012; Debicki *et al.*, 2017) and the mediating role that HRM choices play in that relationship (Gómez-Mejía *et al.*, 2011).

Our results are consistent with findings from recent literature that focuses on private family SMEs (e.g., González-Cruz and Cruz-Ros, 2016) and empirical studies that explore the occurrence of strategic decisions as a contingent effect of firm risk (Gómez-Mejía *et al.*, 2018). Although preliminary literature using the SEW approach signalled that family businesses tended to overwhelmingly make decisions to satisfy socioemotional rather than economic interests under conditions of strong financial performance (Gómez-Mejía *et al.*, 2007; Miller and Le Breton-Miller, 2014), meeting the firm's financial obligations under financial duress is a necessary condition for family owners to enjoy any SEW and financial utility (Gómez-Mejía *et al.*, 2018). Family businesses do not seek to create social or economic wealth but rather a combination of the two, which characterize long-run survival (Craig and

Newbert, 2020). In other words, implementing HPWPs in the context of family firms facing high-risk conditions allows business-owning families to balance their desire to maximize their SEW as a 'family-centric purpose' with their moral obligation to provide the firm with a better scenario due to the risk context it is facing.

This view reconciles the seemingly opposed arguments that managers in family firms rarely confront strategic choices involving pure gambles (i.e., win-win or lose-lose outcomes). As Gómez-Mejía et al. (2018) noted, decision-makers in family firms face an extra level of complexity in that they are faced with a mixed gamble that entails a dilemma between strategic decisions based on the trade-off between financial and SEW considerations; such situations will often lead to win-lose or lose-win outcomes, respectively, when these outcomes are assessed in financial and socioemotional terms. However, based on our results, it appears that SEW does not have to be compromised to achieve better financial results when deciding to implement HPWPs in a high-risk context. According to our study, greater importance of SEW, higher HPWPs and higher financial performance are interrelated.

Our results are also contrary to recent findings that suggest that to implement HPWPs, family firms should have a lower commitment to SEW preservation (Hernández-Perlines *et al.*, 2021). In high-risk contexts, the influence of nonfinancial goals (i.e., SEW) on financial results is wholly mediated by strategic HRM choices in family firms. This result confirms that the effect of the family dimension on business performance is contingent on firm and family complexity. Interestingly, only HR policies that focus on extensive training and motivational dimensions play a crucial role in the relationship between SEW preservation and financial performance in high-risk contexts. Our findings extend some findings about the use of formal training policies (Matlay, 2002; Stewart and Hitt, 2012) and formal compensation in family firms (e.g., Blanco-Mazagatos *et al.*, 2018) and contradict the idea that family firms are not generous employers (Neckebrouck *et al.*, 2018). Conversely, family firms seem particularly likely to favour formal training and motivation HR policies to help a family business attain economic objectives and preserve family goals when the firm is facing high-risk situations.

Contrary to our expectations, selection and opportunity HR policies had no significant mediation effect on the relationship between SEW and firm financial performance in family businesses. Although our findings show that the importance of preserving SEW favours the use of selection and opportunity HR policies in high-risk conditions, these policies seem to be less effective for family firms in these conditions. A possible explanation of our findings, in

line with the bifurcation bias approach (e.g., Daspit et al., 2018; Verbeke and Kano, 2012), could be that the prevalence of noneconomic goals (i.e., SEW) may lead to a certain inevitable level of biased treatment from selection and opportunity HR practices offered to employees in family businesses, even when facing financial decline. Hence, the presence or absence of bifurcation bias may not be absolute but rather a matter of degree (Verbeke and Kano, 2012), and it could affect the effectiveness of these policies, which would be in line with recent findings suggesting that SEW preservation can limit small- and medium-sized family firm performance (Memili *et al.*, 2020).

Another possible explanation is that selection HR policy could specify employees' skills and knowledge needed for a job but still be given lower priority than criteria based on person-organization compatibility. Family businesses may sacrifice formal selection methods by using an informal approach where the family ties and the recommendations of relatives or friends play a fundamental role moulded by values such as friendship, goodwill, caring, and kinship (Astrachan and Kolenko, 1994; Chang, 2012; Cruz *et al.*, 2011). Although we are not able to test this hypothesis, family firms may find it a more reasonable approach because it is challenging to remedy incompatibility with the central values of the firm after selection; this may also pose risks to the family's SEW endowment (Cruz *et al.*, 2011; Gómez-Mejía *et al.*, 2011). Furthermore, implementing on-the-job training can remedy the lack of skills due to poor selection (Cruz *et al.,* 2011), which explains the greater significance of training HR policies.

Our study also makes valuable methodological contributions since we use current and multidimensional measures of both SEW and HPWPs. For SEW preservation, scholars have criticized previous research for using proxies (i.e., family ownership and control) that do not adequately represent the SEW construct (Miller and Le Breton-Miller, 2014). In previous studies, these proxies were not significant determinants of the adoption of HPWPs for either managers or nonmanager employees in family firms (Tsao *et al.*, 2016). Thus, we use a direct measure of this construct in our analysis. Concerning HPWPs, we analyse the effects of SEW on three sets of HPWPs described in the AMO model (Jiang, Lepak, Han, et al., 2012; K. Jiang et al., 2013). In recent years, this model has captured the interest of researchers in integrating HRM coherently into organizational performance (e.g., Jiang, Lepak, Hu, et al., 2012; Jiang et al., 2013; Obeidat et al., 2016). Unlike HR configurations based on a systems approach and individual HR policies in isolation (Jiang, Lepak, Han, et al., 2012), this model

recognizes the synergy between each HR policy at a lower level, since they are grouped into distinct but related categories (Obeidat *et al.*, 2016), which makes it possible to analyse specific effects that the preservation of SEW has on each group of policies and leads to a better understanding of the impact each category has on firm performance (e.g., Jiang, Lepak, Hu, et al., 2012; Subramony, 2009).

From a practical point of view, our results contribute to a better understanding of the peculiarities of family firms that may influence HRM and family firm financial performance. This paper can help practitioners understand the contextual tensions between financial and nonfinancial goals in HRM choices. As shown in our study, family firms may not prioritize only financial performance. We acknowledge that family firms often adopt nonfinancial reference points when making important decisions to face situations that threaten family SEW and firm survival (Gómez-Mejía et al., 2011). Managers in family firms should be more aware of the benefits of the family's nonfinancial goals in HRM decisions and find sustainable ways to balance economic and noneconomic objectives.

Finally, this study is not without limitations, which, in turn, may provide fruitful lines for future research. First, as some scholars note (Craig and Newbert, 2020), a uniform theory is unlikely to be universally applicable given the idiosyncratic conditions in which all family business leaders make decisions. For example, this work does not distinguish between family and nonfamily employees in the study of the effectiveness of HRM policies. Future research could use the bifurcation bias framework (e.g., Madison *et al.*, 2018; Verbeke and Kano, 2012) to explain potential asymmetric treatment in the HRM of family and nonfamily employees in family firms and the consequences in terms of firm performance using different methodological approaches, possibly taking into account employee perceptions of HR policies and including a multilevel approach. Second, considering that our analysis only focuses on family firms in high-risk conditions, we encourage future studies to explicitly assess both low- and high-risk contexts when analysing strategic-making decisions in family businesses under the SEW approach. In the end, the outlined decision dilemma regarding whether to adhere to a "family first" or a "business first" decision frame should also be considered under normal conditions, moving the analysis towards a more integrated perspective. Third, this study does not address the reverse logic of financial objectives in studying HRM policies and their effectiveness. According to some authors (Chua *et al.*, 2015; Miller and Le Breton-Miller, 2014), future research should explore the bidirectional effects of

HRM effectiveness, considering the mixture of financial and nonfinancial consequences that can be influenced by the design of HR policies. Fourth, some scholars have criticised the SEW approach (Miller and Le Breton-Miller, 2014; Schulze and Kellermanns, 2015), suggesting that SEW be explored from individual dimensions and considering the influence of intergenerational positions. Thus, a longitudinal study using SEW dimensions as a potential research path could also yield meaningful insights. Additionally, although the owning family plays a decisive role since they imprint their values and motivations in the design and implementation of HR policies (Cruz *et al.*, 2011; Kidwell *et al.*, 2018), this study does not address the role of family values in the relationship between SEW and HR policies. Future studies could consider new issues such as the attachment styles of the owning family (Hedberg and Luchak, 2018) or the values inscribed across generations (Kidwell *et al.*, 2018) to analyse how they affect the preservation of SEW and, in turn, the HR policies implemented.

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TABLES AND FIGURES

Table 1. *Descriptive statistics and correlations*

Variables	Mean	S.D.	1	2	3	4	5	6	7	8	9	10	11	12	13
1. ROA[a]	.016	.033	_												
2. Selection HR policy	4.063	.778	-.021	_											
3. Training HR policy	3.714	.986	.107	.525***	_										
4. Motivation HR policies	3.551	1.032	.144*	.606***	.477***	_									
5. Opportunity HR policies	3.690	.923	-.014	.608***	.583***	.500***	_								
6. SEW preservation	3.929	.889	.059	.352***	.276***	.351***	.338***	_							
7. Industry[b]	1.69	.462	.102	.085	.153*	.104	.104	.035	_						
8. Firm size[c]	8.671	1.304	.054	-.051	-.016	-.006	-.190**	.043	-.307***	_					
9. Firm age[d]	3.269	.497	-.027	-.008	.081	.019	-.048	.052	-.214**	.511***	_				
10. HR especialization[e]	1.48	.501	.064	.035	.098	.030	.008	-.028	.024	.193**	.073	_			
11. Family in MT[f]	.706	.316	-.022	-.003	.060	.164*	.152*	.151*	.077	-.251***	.002	-.199**	_		
12. Family generation	1.77	.726	.030	.018	.049	-.012	-.069	.073	-.027	.228**	.475***	.124*	.091	_	
13. CEO's family status[g]	1.82	.384	-.022	.046	.024	.087	.230**	.032	.124†	-.159*	.016	-.054	.308***	.055	_
14. CEO's education[h]	1.61	.488	-.032	.131†	.051	.072	-.015	-.092	-.074	.186**	.130†	.059	-.212**	.051	-.262***

Notes: n=196. Variables selection HR policy, training HR policy, motivation HR policies, opportunity HR policies, SEW preservation, and family generation derive from averaging the corresponding scale items. [a] ROA: The natural logarithm of return on assets at the end of 2016. [b] dummy variable: 2= services; 1= industry. [c] the natural logarithm of total assets at the end of 2015. [d] the natural logarithm of years. [e] dummy variable: 2= family firm has an HR manager; 1= family firm has not an HR manager. [f] MT: management team. [g] dummy variable: 2= Family CEO; 1= Non-family CEO. [h] Dummy variable: 2= CEO with a university degree; 1= CEO without a university degree.
† p<.10 * p < .05 ** p < .01 *** p < .001 (two-tailed)

Table 2. *Exploratory factor analysis for SEW*

Items	Factors	
	1	2
FC1. Maintaining the unity of the family.	.689	
FC2. Transferring the business to the next generation of the family.	.828	
FC3. Preserving the family dynasty in the business.	.903	
FC4. Preserving the family values.	.818	
FC5. Upholding the family reputation.	.798	
FE1. Treating non-family employees as part of the family.		.769
FE2. Enhancing family harmony through operating the business.		.775
FE3. Considering the owning family needs in the business decisions.		.604
FE4. Ensuring the happiness of the members of the owning family outside the business.		.745
Eigenvalue	5.347	1.030
% of variance	59.406	11.450
Cumulative variance explained		70.855

Notes: Extraction Method: Principal Component Analysis. Rotation Method: Varimax with Kaiser Normalization. Factor loadings higher than .50 are shown. Kaiser-Meyer-Olkin (KMO) measure of sampling adequacy = .890. Barlett's test of sphericity: $\chi^2 = 1180.218$ ($df = 36$, $p < .000$).

Table 3. *Exploratory factor analysis for ability HR policies*

Items	Factors	
	1	2
T1. The firm has provided continued training programs.	.864	
T2. The firm has invested considerable time and money in training	.893	
T3. The firm has implemented training programs to achieve high quality of work	.893	
T4. The firm has provided comprehensive training, not limited to skill training	.822	
S1. The firm has made a great effort to select the right person		.844
S2. The firm has selected according to general traits and abilities to complete diverse functions.		.873
S3. The firm has selected according to specialties required of the job		.854
Eigenvalue	4.347	1.307
% of variance	62.094	18.665
Cumulative variance explained		80.759

Notes: Extraction Method: Principal Component Analysis. Rotation Method: Varimax with Kaiser Normalization. Factor loadings higher than .50 are shown. Kaiser-Meyer-Olkin (KMO) measure of sampling adequacy = .854. Barlett's test of sphericity: $\chi^2 = 968.560$ ($df = 21$, $p < .000$).

Table 4. *Summary of measurement model*

Factors and items	Loadings[a]
Family continuity (SEW)	CR[b] = .915
FC1. Maintaining the unity of the family.	.740
FC3. Preserving the family dynasty in the business.	.841
FC4. Preserving the family values.	.938
FC5. Upholding the family reputation.	.890
Family enrichment (SEW)	CR = .915
FE2. Enhancing family harmony through operating the business.	.824
FE3. Considering the owning family needs in the business decisions.	.711
FE4. Ensuring the happiness of the members of the owning family outside the business.	.848
Selection HR policy (HPWP)	CR = .872
SP1. The firm has made a great effort to select the right person	.786
SP2. The firm has selected according to general traits and abilities to complete diverse functions.	.907
SP3. The firm has selected according to specialties required of the job	.804
Training HR policy (HPWP)	CR = .925
TP1. The firm has provided continued training programs.	.847
TP2. The firm has invested considerable time and money in training	.879
TP3. The firm has implemented training programs to achieve high quality of work	.897
TP4. The firm has provided comprehensive training, not limited to skill training	.852
Motivation HR policies (HPWP)	CR = .881
MP1. The firm has assessed employee's performance based on objective and quantifiable results	.827
MP2. The firm has assessed employee's performance based on multiple sources	.789
MP3. The firm has given feedback to employees based on their performance appraisals	.847
MP4. The firm has paid employees based on their performance	.742
MP6. The firm has provided incentives based on the results achieved	.652
Opportunity HR policies (HPWP)	CR = .836
OP1. The firm has encouraged employees to make suggestions improving the work	.811
OP2. The firm has asked employees to participate in work-related decisions	.686
OP3. The firm has cared about work-life balance of employees	.815
OP4. The firm has considered employee off-work situations when making schedules	.675

Notes: a. Standardized regression weights (loadings) are reported. b. Composite reliability (CR)

Table 5. *Fornell-Larcker test for discriminant validity*

Constructs	FC	FE	SP	TP	MP	OP
FC. Family continuity (SEW)	(.732)					
FE. Family enrichment (SEW)	.588	(.634)				
SP. Selection HR policy (HPWP)	.118	.136	(.696)			
TP. Training HR policy (HPWP)	.064	.106	.332	(.755)		
MP. Motivation HR policies (HPWP)	.127	.150	.447	.288	(.560)	
OP. Opportunity HR policies (HPWP)	.108	.178	.527	.445	.397	(.562)

Notes: Diagonal values between brackets are AVEs, and off-diagonal values are squared inter-construct correlations.

Table 6. *Structural model results: SEW, HPWPs, and financial firm performance*

Hypotheses paths	Standardized coefficients	Z-test statistics	Standard errors
H1a: SEW → selection HR policy	.829	8.149	.070
H1a: SEW → training HR policy	.711	8.831	.074
H2a: SEW → motivation HR policies	.766	9.408	.081
H3a: SEW → Opportunity HR policies	.864	8.999	.082
H1b: selection HR policy → financial firm performance	-.166	-1.386	.006
H1b: training HR policy → financial firm performance	.171	1.974	.003
H2b: motivation HR policies → financial firm performance	.274	2.435	.004
H3b: opportunity HR policies → financial firm performance	-.166	-1.307	.005

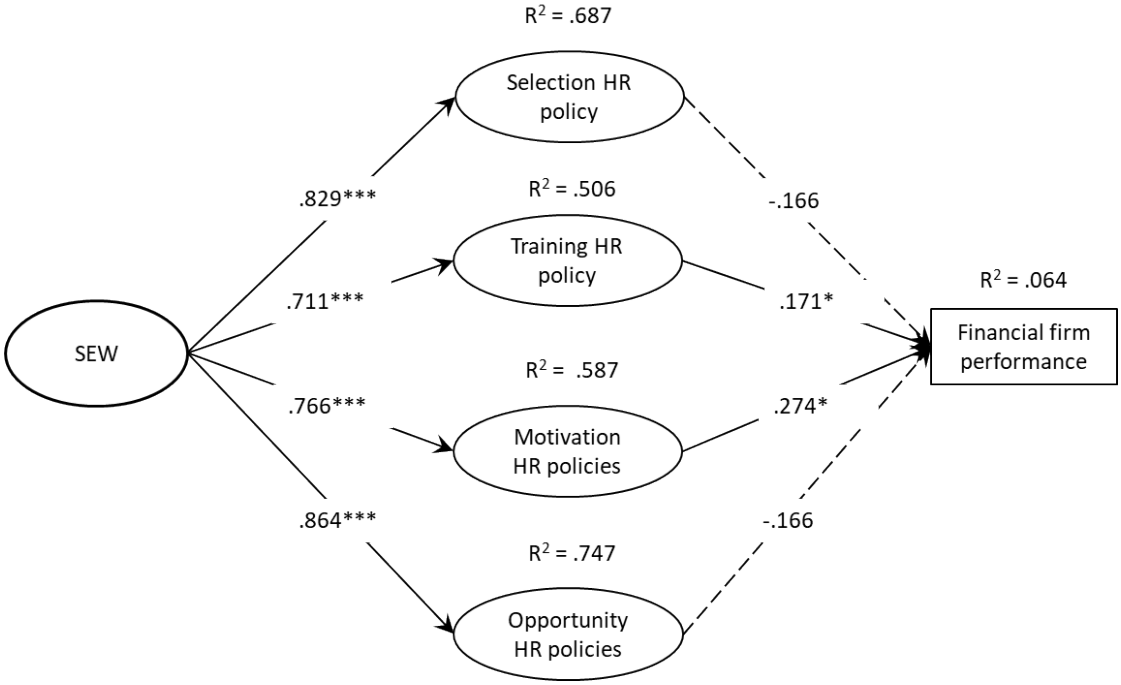
Notes: n=196. Model fit (S-Bχ2 = 425.4419 [*df* = 243], p < .001; CFI = .917, NNFI = .906, IFI = .918 RMSEA = .062 with the 90% confidence interval values of .052 and .072). Fit indexes, Z-test statistics and standard errors were estimated with maximum likelihood robust (MLR) method.

Table 7. *Results for the mediation effects: SEW, HPWPs, and financial firm performance*

Hypotheses paths	Indirect effects	Z-test Statistics	*P-values*
H1: SEW → selection HR policy → financial firm performance	-.138	-1.316	.188
H1: SEW → training HR policy → financial firm performance	.121	1.951	.051
H2: SEW → motivation HR policies → financial firm performance	.210	2.188	.027
H3: SEW → opportunity HR policies → financial firm performance	-.143	-1.189	.234

Notes: n=196. The coefficients of the indirect effects are calculated as the product of the path standardized coefficient between (a) SEW and each HPWPs and (b) each HPWPs and firm financial performance. Z-test statistics and p-values were estimated with the Sobel test (two-tailed test).

Figure 1. *Structural model results: SEW, HPWPs, and financial firm performance (ROA)*



Notes: The solid arrows represent a significant effect, and the dashed arrows a non-significant effect. * $p < .05$ ** $p < .01$ *** $p < .001$