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Family Dynamics, Human Resource Practices and the Performance of Family Firms

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ABSTRACT

This study explores the impact of formalizing human resource (HR) practices on the performance of family firms. It also examines how family involvement in ownership and management, along with the presence of family employees, moderates this relationship. Using a socioemotional wealth (SEW) perspective and structural equation modelling, data from 490 medium-sized Spanish family firms were analyzed. The findings indicate that although formalized HR practices generally enhance firm performance, the effectiveness can be undermined by high levels of family involvement, particularly in ownership, as it may prioritize family-centric goals over professional HR management. This study highlights the complex interplay between HR strategies, family dynamics and performance outcomes, emphasizing the need for strategic HR management that balances familial and organizational objectives in family businesses.

RÉSUMÉ

Cette étude explore l'impact de la formalisation des pratiques de ressources humaines (RH) sur la performance des entreprises familiales. Elle examine également comment l'implication de la famille dans la propriété et la gestion, ainsi que la présence d'employés familiaux, modèrent cette relation. Les données de 490 entreprises familiales espagnoles de taille moyenne ont été analysées dans une perspective de richesse socio-émotionnelle (SEW) et à l'aide d'un modèle d'équation structurelle. Les résultats indiquent que si les pratiques formelles en matière de ressources humaines améliorent généralement les performances de l'entreprise, l'efficacité peut être compromise par des niveaux élevés d'implication de la famille, en particulier dans la propriété, car elle peut donner la priorité à des objectifs centrés sur la famille plutôt qu'à une gestion professionnelle des ressources humaines. Cette étude met en évidence l'interaction complexe entre les stratégies de ressources humaines, la dynamique familiale et les résultats en matière de performances, et souligne la nécessité d'une gestion stratégique des ressources humaines équilibrant les objectifs familiaux et organisationnels dans les entreprises familiales.

JEL Classification: M12, M51, M52, M53, M54

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1 | Introduction

The relationship between formalized human resources (HR) practices and firm performance has been extensively explored in existing literature (Boon et al. 2019; Jiang et al. 2012, 2017). However, within the domain of family businesses, this connection remains relatively underexplored and contested (R. Chang et al. 2023; Flamini et al. 2021; Marler et al. 2021; Sánchez-Marín et al. 2024). While initial academic enquiries experienced modest growth following Huselid (1995)'s seminal work, recent years have witnessed renewed interest (Flamini et al. 2021). Two main contrasting perspectives emerge in the family firm's area. One viewpoint suggests that systems fostering transparency, inclusion and the mitigation of opportunistic behaviours, alongside the presence of socioemotional wealth (SEW) resources, influence HR practices and their impact on firm performance positively (Christensen-Salem et al. 2021; Songini and Gnan 2015; Gnan et al. 2015). Conversely, an alternative perspective emphasizes control, supervision and the exploitation of competitive advantages to align managerial and employee behaviours with HR practices geared toward performance improvement (Dekker et al. 2015; Sánchez-Marín et al. 2024).

Despite numerous studies on the impact of formalized HR practices on family firm performance (Cruz et al. 2010, 2011; Michiels et al. 2022; Pelaez-Leon and Sánchez-Marín 2022; Peláez-León and Sánchez-Marín 2023; Steijvers et al. 2017; Sánchez-Marín et al. 2019, 2024), there is still a gap in understanding how HR practice formalization drives performance. Research by Sánchez-Marín et al. (2019, 2024) and Michiels et al. (2022) has shed light on family presence within businesses, yet the role of family involvement in the relationship between HR formalization and performance remains unclear and produces mixed results. While family influence in ownership and management has been linked to HR practices (Sánchez-Marín et al. 2019; Steijvers et al. 2017) and differential treatment of employees (Cruz et al. 2011), findings on its effects range from positive (Michiels et al. 2022) to negative (Madison et al. 2018) or mixed (Peláez-León and Sánchez-Marín 2023).

Moreover, past research on HR practice formalization has often been constrained, primarily focusing on specific managerial-level practices such as compensation and training and on comparisons between family and non-family businesses, with less attention given to the formalization of global HR systems and their impact on family firm financial performance (Sánchez-Marín et al. 2019). Furthermore, although many studies (Hernandez-Linares et al. 2023; Pelaez-Leon and Sánchez-Marín 2022; Peláez-León and Sánchez-Marín 2023; Sánchez-Marín et al. 2024) have examined the link between high-performance HR practices and firm financial performance, they do not specifically address the effects of formalizing these HR practices. Additionally, although some research considers the influence of family-centric non-financial objectives on HR formalization (Michiels et al. 2022), it does not explore how these objectives affect the relationship between formalization and firm performance.

Therefore, there is a need for further research to understand the unique factors driving family firms to formalize their HR

practices and the impact of this formalization on family firm performance. The socioemotional wealth (SEW) framework (Gómez-Mejía et al. 2007) offers a way to explore HR decision-making by considering the family's focus on preserving control, status, reputation and business identity (Berrone et al. 2010; Gómez-Mejía et al. 2007; Gomez-Mejia et al. 2011). By examining HR decisions in the context of a family's pursuit of both economic and non-economic objectives (Christensen-Salem et al. 2021; Michiels et al. 2022), our specific objective is to explore how the formalization of HR practices influences performance—considering both financial performance of family firms and employee perceived performance. This analysis focuses on the moderating effects of family involvement in ownership and management, as well as the presence of family employees. To empirically test these propositions, this research adopts a structural equation modelling (SEM) methodology, analyzing a representative sample of 490 medium-sized Spanish family businesses across industrial and service sectors. Utilizing covariance-based and variance-based SEM analyses lends robustness to our findings providing a comprehensive empirical model.

Seeking to enrich our understanding of the determinants, moderating factors and consequences of HR practices formalization, this article contributes in several ways to the literature on family businesses and HR management. First, it responds to recent calls offering nuanced insights into the intricate relationship between HR practices formalization and firm performance within family firms (Casprini et al. 2024; Flamini et al. 2021). Exploring the moderating effect of family involvement in ownership, management and employment sheds light on how familial dynamics influence the effectiveness of HR management (Sánchez-Marín et al. 2024). Second, by focusing beyond specific analyses of HR practices to examine the whole formalization process of HR systems and its impact on firm performance in a family business setting, this research fills a critical gap in the existing literature (De Massis and Foss 2021; Steijvers et al. 2017). Third, by analyzing two distinct types of outcomes (firm financial performance and employee perceived performance) this study provides a more comprehensive view of how HR formalization impacts family businesses, highlighting that the benefits of structured HR practices extend beyond traditional financial metrics to include aspects related to employee engagement and productivity (Madison et al. 2018; Michiels et al. 2022). This dual focus underscores the importance of considering multiple performance indicators when assessing the effectiveness of HR strategies on family firms (Cruz et al. 2011; Rondi et al. 2022). Finally, through the application of the SEW framework, this study provides a fresh theoretical lens for understanding the non-economic versus financial motivations and behaviours driving HR practices formalization in family businesses (Christensen-Salem et al. 2021; Vardaman et al. 2024). It underscores the importance of non-economic, familial values and goals in shaping organizational practices, which include decisions oriented to mutual gains, adjusting and balancing HR management strategies (Flamini et al. 2022; Lambrechts and Gnan 2022).

The remainder of this document is structured as follows. First, we propose the theoretical model underpinning our research hypotheses. Second, we describe the empirical research

methodology. Subsequently, we present the results of our empirical analysis. Finally, we offer conclusions, discussing the main contributions of this research to academic and business practice and outlining avenues for future research.

2 | Theoretical Framework and Research Hypothesis

We develop a comprehensive theoretical framework that explores the interplay between HR formalization and family firm performance. Previous research has highlighted the importance of standardized HR practices in enhancing organizational effectiveness, yet the influence of family involvement remains underexplored and yields mixed results (see for a detailed review Sánchez-Marín et al. (2024)). Our framework begins by examining the impact of formalized HR practices on firm performance, considering how standardized recruitment, training and compensation processes can drive success. We then analyze the role of family influence, investigating how varying levels of involvement in ownership and management shape HR practices and their outcomes. Finally, we consider the moderating effects of family employees' presence, assessing how their involvement affects the implementation and efficacy of HR formalization. These dimensions form the basis of our hypotheses, aiming to clarify the intricate relationship between HR practices, family dynamics and firm performance.

2.1 | Formalization of HR Practices and Firm Performance

The formalization of HR practices within family businesses stands as a pivotal factor influencing organizational performance (Jiang et al. 2017). Formalized HR practices are characterized by clear policies, procedures and guidelines that govern employee interactions and organizational processes, ensuring consistency and fairness in HR management. It encompasses the systematic codification, standardization and implementation of HR processes such as recruitment, selection, training, performance appraisal, compensation and employee development initiatives or participation (Jiang et al. 2012; Saridakis et al. 2017). They are concerned with improving 'the knowledge, skills and abilities of a firm's current and potential employees' (Huselid 1995, 635) and are characterized by selective recruiting and hiring practices, extensive training and merit-based promotions, standardized performance appraisal processes, incentive-based compensation and formal employee participation mechanisms (Jiang et al. 2017).

Extensive research underscores the positive impact of formalized HR practices on firm performance across diverse industries and organizational settings (Posthuma et al. 2013; Subramony 2009). These practices contribute significantly to enhancing the knowledge, skills, abilities, attitudes and behaviours of employees, thereby fostering higher levels of motivation, engagement and productivity within the workforce (Huselid and Becker 2011). Formalization also facilitates the alignment of employee efforts with organizational goals and

objectives, leading to improved organizational effectiveness and efficiency (Collins and Clark 2003).

Moreover, substantial empirical evidence supports the notion that implementing global formalized HR systems yields positive outcomes for both individuals and organizations (Kehoe and Wright 2013; Wright et al. 2005). The interrelation among formalized HR practices fosters organizational commitment, productivity, meritocracy and employee satisfaction (S.-I. Chang 2012; Chiang et al. 2015). Moreover, formalised HR systems have been associated with numerous individual and collective advantages (Delaney and Godard 2001; Fleetwood and Hesketh 2008). Research demonstrates the correlation between such HR practices and higher levels of productive work behaviours, improved financial performance at the firm level and reduced absenteeism and turnover intentions (Combs et al. 2006; Kehoe and Wright 2013; Wright et al. 2005).

In the context of family businesses, formalization assumes heightened significance due to the intricate challenges posed by family influence and dynamics (Madison et al. 2018). Unlike non-family firms, family businesses often contend with issues such as nepotism, favouritism and conflicts of interest, which can hinder effective HR management (Christensen-Salem et al. 2021; Cruz et al. 2011; Gomez-Mejia et al. 2011). Formalized HR practices offer mechanisms for minimizing these challenges through standardized recruitment, evaluation, compensation and participation systems that support merit-based decisions (Sánchez-Marín et al. 2019).

Formalization also promotes fairness, equity and transparency—factors essential to maintaining employee trust and morale (Eddelston and Kellermanns 2006). As recent reviews show, formal HR systems help professionalize family firms, thereby enhancing their internal management capabilities and external legitimacy (Michiels et al. 2022; Casprini et al. 2024). The implementation of mutuality-driven HR practices, which balance family goals and employee wellbeing, further improves performance outcomes (Flamini et al. 2022; Lambrechts and Gnan 2022; Ferrari 2025). This line of research reinforces earlier evidence on the importance of professionalization mechanisms such as HR formalization to reduce bias, improve operational transparency and support firm performance (J. M. P. De Kok et al. 2006).

Furthermore, empirical studies confirm that formalized HR systems are positively linked to both financial and non-financial outcomes in family SMEs (Pelaez-Leon and Sánchez-Marín 2022; Peláez-León and Sánchez-Marín 2023; Sánchez-Marín et al. 2024; Vardaman et al. 2024). These benefits extend to employee satisfaction and engagement, organizational resilience and strategic agility (Schilpzand et al. 2025; Atkinson et al. 2022). Additionally, mutuality-based approaches help mitigate role identity conflicts between family and non-family employees (Ferrari 2025) while fostering inclusive HR environments that elevate firm cohesion. Strategic HR management approaches tailored to family firm logics—such as those emphasizing socioemotional wealth and relational governance—have also been found to amplify performance outcomes (Lambrechts and Gnan 2022; Flamini et al. 2021).

Recent conceptual frameworks have further highlighted how contextualizing HR management to the family firm setting reveals underexplored contingencies, such as family leadership styles, governance complexity and generational shifts (Casprini et al. 2024; De Massis and Foss 2021). These factors shape the efficacy of formalization processes and offer a roadmap for future HR research sensitive to family-specific dynamics. Moreover, formalization enhances the resilience of family businesses during periods of economic uncertainty or transition, enabling them to adapt to changing market conditions and maintain a competitive edge in the industry (Lai et al. 2016). Cross-disciplinary findings also suggest that HR formalization—when aligned with strategic intent and long-term orientation—can mitigate nepotistic tendencies and promote sustainable competitiveness (Schilpzand et al. 2025; Vardaman et al. 2024).

In summary, formalizing HR practices is a critical determinant of firm performance in family firms. By establishing clear policies, procedures and guidelines for HR management and organizational development, formalization promotes fairness, meritocracy and professionalism within the organization. It contributes to enhancing the long-term success of the family businesses. Based on these arguments, we propose:

H1. *The formalization of HR practices positively influences family firm performance.*

H1a. *The formalization of individual HR practices (selection, training, compensation and participation) has a positive effect on family firm performance.*

H1b. *The formalization of HR systems has a positive influence on family firm performance.*

2.2 | The Role of Family Influence on Ownership and Management

The extent of family influence within a business is a pivotal determinant of its distinctiveness and variability among family firms (Nordqvist et al. 2014). This influence shapes strategic decision-making, steering it toward the pursuit of family-centric objectives alongside economic goals (Michiels et al. 2022; Rondi et al. 2022). Consequently, the nature and intensity of family involvement significantly impact the type, level and formalization of HR practices implemented, as well as the principles of professionalism and fairness upheld within the organization (J. M. P. De Kok et al. 2006; Sánchez-Marín et al. 2019).

Despite the potential benefits, existing research often depicts family businesses as characterized by less formalization of HR practices, attributing this phenomenon to the prevalence of a ‘patriarchal’ family model (Flamini et al. 2021; Cruz et al. 2011). Under this framework, job security is often tied to familial loyalty, obviating the perceived need for formal incentives and control mechanisms within the organization. Consequently, discussions surrounding family businesses tend to revolve around the dichotomy between formal and informal HR practices (J. M. De Kok and Uhlaner 2001).

Some studies argue that informality in HR practices can be beneficial for family businesses, particularly in the absence of internal issues. Owner-managers may resist formalization, preferring a flexible approach to navigate higher levels of environmental uncertainty (Holten and Crouch 2014). Informal practices are often associated with the development of teamwork, strong social bonds and heightened employee motivation (Marlow and Patton 2002). However, informality may not be conducive to addressing organizational challenges, particularly those stemming from familial influence within the business. Grievances and disciplinary issues may be perceived as arbitrary and unfair under informal practices, undermining employee trust and commitment (Reid et al. 2002).

In addition, the distinction between family involvement in ownership and family involvement in management holds significant implications for HR practices and organizational dynamics. Increased family influence in ownership, typically manifested through ownership stakes and voting rights, has been associated with various challenges such as nepotism, adverse selection and asymmetric altruism (Cruz et al. 2011; Firfiray et al. 2018; Schulze et al. 2001). This ownership-centric approach often prioritizes the preservation of family wealth over professional guidance in HR processes and practices. In ownership-driven family businesses, decision-making regarding HR policies, including selection, promotion and compensation, may be influenced by familial ties and considerations rather than merit-based criteria (Sánchez-Marín et al. 2019). This can lead to instances of nepotism, where family members are favoured for employment or advancement opportunities, irrespective of their qualifications or performance (Firfiray et al. 2018). Adverse selection may also occur, as family members may be appointed to positions for which they are not best suited, undermining organizational effectiveness and performance.

Similarly, family involvement in management often reflects a preference for less formalized HR practices, driven by factors such as managerial entrenchment and familial goals (Miller et al. 2013). In such cases, family-centric objectives may take precedence over professional standards and meritocracy in HR decision-making processes (Michiels et al. 2022; Rondi et al. 2022). The dominance of family-centred goals in management decisions can pose economic risks for the company, potentially compromising organizational performance (Pelaez-Leon and Sánchez-Marín 2022). By prioritizing familial interests over organizational objectives, management decisions may overlook the importance of merit-based HR practices, which are essential for attracting and retaining talent, fostering a culture of fairness and driving performance excellence.

Consequently, the adoption of less formalized HR practices by family firms often is substituted by affective mechanisms of monitoring and trust-related aspects of family-member employees (Christensen-Salem et al. 2021; Cruz et al. 2010; Sánchez-Marín et al. 2019). To operationalize this affective monitoring through specific HR practices, family firms tend to adopt relaxed criteria for employee recruitment and selection, prioritizing alignment with the firm's values and culture (Dyer and Mortensen 2005). They also place greater emphasis on informal, long-term training activities (Kotey and Folker 2007),

implement seniority-based appraisal and pay systems (Anderson and Reeb 2003; Carrasco-Hernández and Sánchez-Marín 2007) and may introduce casual employee participation mechanisms.

According to the above arguments, we suggest that higher levels of family involvement are associated with decreased formalization of HR practices and that this involvement moderates the relationship between formalization and firm performance in a negative direction.

H2. *The greater the family involvement in ownership and management of the firm, the lower the formalization of HR practices.*

H3. *Family involvement in ownership and management negatively moderates the relationship between the formalization of HR practices and family firm performance.*

2.3 | The Role of Family Employees

The influence of the presence and proportion of family employees on the formalization and effectiveness of HR practices is multifaceted and can significantly shape organizational dynamics within family businesses. In general, a higher proportion of family members working within the company tends to correlate with lower levels of formalized HR practices (Cruz et al. 2011; Aldrich and Langton 1997), making such practices less effective from a financial viewpoint. Several key factors come into play, impacting HR practices in various ways.

Firstly, a higher proportion of family employees often leads to a more informal organizational culture, where familial relationships and dynamics heavily influence decision-making processes (Nordqvist et al. 2014). In such environments, there may be a tendency to prioritize familial ties over professional qualifications when it comes to hiring and promotion decisions. This informal approach to HR practices can hinder the formalization of recruitment, selection and performance evaluation processes, as decisions may be based more on personal relationships than on merit or competency.

Additionally, a larger presence of family members within the organization may result in a greater emphasis on maintaining family harmony and unity, sometimes at the expense of implementing formal HR policies and procedures (Cruz et al. 2011; Rondi et al. 2022). Family businesses often prioritize preserving socioemotional wealth and familial relationships, which can lead to a reluctance to implement formalized HR practices that may be perceived as imposing rigid structures or disrupting familial dynamics.

Moreover, the increased presence of family employees may create challenges related to conflicts of interest and perceptions of fairness among non-family employees (Schulze et al. 2003). The bifurcation bias effect (Madison et al. 2018) has key negative consequences since non-family employees may perceive preferential treatment of family employees in the implementation of HR practices, such as promotions or compensation decisions, which can erode trust and morale within the organization. Consequently, family businesses may be hesitant

to formalize HR practices to avoid exacerbating these tensions and maintain harmony among employees.

Furthermore, a higher proportion of family members within the workforce may result in a lack of diversity and fresh perspectives, which can hinder innovation and organizational effectiveness (Chua et al. 2009). Family businesses may struggle to attract external talent due to perceptions of nepotism (Firfiray et al. 2018) or limited opportunities for career advancement beyond the family circle. This can further perpetuate the informality of HR practices and impede efforts to formalize processes for attracting and retaining top talent.

Overall, the influence of the proportion of family employees on HR practices formalization and effectiveness underscores the complex interplay between familial relationships, organizational culture and strategic decision-making within family businesses. While the presence of family members can bring unique strengths and advantages to the organization, it also poses challenges from the financial viewpoint that can negatively affect family firm performance. Therefore, building upon these arguments, we propose:

H4. *The negative effects that family involvement in ownership and management has on the formalization of HR practices are greater as the presence of family employees increases.*

H5. *The greater presence of family employees negatively moderates the relationship between the formalization of HR practices and family firm performance.*

Figure 1 summarizes the research model and the hypotheses to be tested.

3 | Methodology

3.1 | Data Collection and Sample

The study focuses on family businesses (FBs) in Spain, a particularly relevant context given their significant role in the national economy. Representing approximately 90% of all Spanish firms, family businesses contribute substantially to the country's GDP and employment (Casillas et al. 2024). In addition, the research specifically targets medium-sized family firms (50–250 employees), which face unique challenges related to the professionalization of internal processes, particularly HR practices. Medium-sized companies provide an ideal context for examining the impact of HR practices on firm performance. Unlike small businesses, which often lack formalized structures, or large firms, where processes are typically highly standardized and professionalized, medium-sized family firms balance formalization with flexibility. This balance allows for a more nuanced analysis of HR practices, as these firms are more likely to adopt formalized HR systems while retaining adaptability and family idiosyncrasies in their operations (Sánchez-Marín et al. 2019), leading to unique interactions between economic and non-economic objectives that make them a pivotal context for understanding the intersection of family dynamics and firm performance (Michiels et al. 2022).

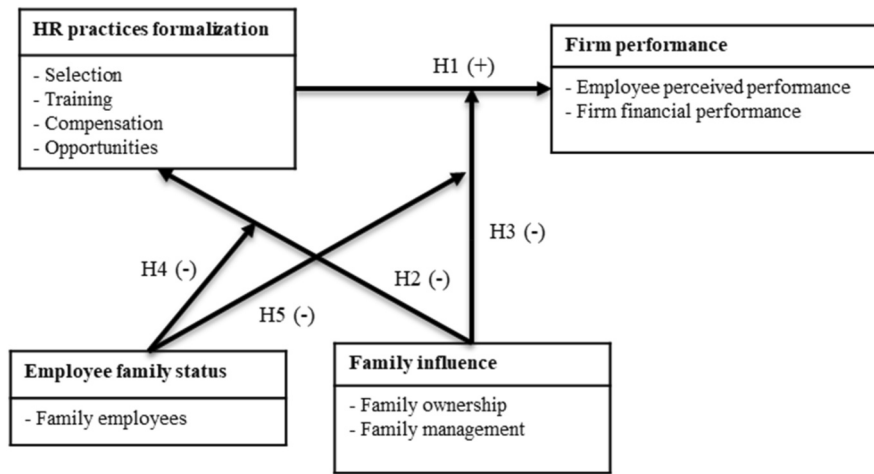


FIGURE 1 | Research model and hypothesis. *Source:* own elaboration.

The population of family businesses was identified using the SABI database (Iberian Balance Sheet Analysis System), following the 2015 Family Business Institute's criteria: at least one family member belongs to the management board, one family member controls at least 5% of the ownership, or multiple family members collectively own at least 20%. Based on these criteria, the population comprised 3740 family businesses, with 29.6% in the industrial sector and the remainder in the service sector.

Two data sources were used to extract information from this initial population. First, a telephone survey was conducted between March and June 2016 in collaboration with a market research company, following stratified random sampling by industry sector to ensure the representativeness of the medium-sized family business population. The survey targeted HR managers and collected information on family influence in the business, the number of family members employed in the company, the employee perceived performance and the formalization of HR practices (see Section 3.2 and Table 1 for detailed information about the specific formulation of questions and measurement of these perceptual variables). The survey was pre-tested with a pilot group of 15 respondents to refine clarity and timing. Interviews were conducted by trained professionals using a standardized protocol and specific coding software for telephone surveys (CATI—Computer Assisted Telephone Interviewing), ensuring consistency and minimizing bias. Each interview lasted 15–20 min, with a focus on ensuring respondent engagement and data accuracy and respondents were assured of confidentiality.

Second, the SABI database provided additional firm-level data, including economic performance indicators (including revenues, profit margins and profitability, among others), size, age and sector. Survey responses were linked to SABI data using unique firm identifiers based on the company's tax identification number. This integration enabled a comprehensive dataset, merging qualitative survey results with quantitative data for each company in the sample. Cross-validation checks (e.g., firm size reported in the survey vs. firm size contained in SABI) ensured consistency between the

two sources and cases with incomplete or mismatched data were excluded.

The final dataset included 507 responses, with a response rate of 13.10%, comparable to similar studies (Madison et al. 2018). During data cleaning, 17 anomalous responses were removed based on suspicious patterns identified through diagnostic tests (Hair et al. 2021). The resulting sample consisted of 490 family businesses, yielding a sampling error of 4.06% (95% confidence level, $P = Q = 0.05$). Data quality was rigorously verified using standard tests for non-response bias, common method bias, latent factor analysis, missing data analysis via the Expectation-Maximization Method (EMM) and outlier detection (Hair et al. 2019). This ensured that the dataset was robust and suitable for the intended analyses.

Table 2 presents the demographic characteristics of the firms analyzed, comparing the original 2016 sample with the active firms in 2023. The sample primarily consists of medium-sized, family-led businesses, with a significant focus on the service sector. In 2016, 71.8% of firms operated in services, while 28.2% were in the industrial sector. This sectoral distribution remains consistent among active firms in 2023, with 70.3% in services and 29.7% in industry, indicating stability in the sample's sectoral composition over time. The age distribution also demonstrates consistency despite some shifts. While 55.71% of firms were 10–30 years old in 2016, active firms in 2023 show an increase in older firms, with 46.0% now 30–50 years old and 8.81% over 50 years old. This reflects the natural ageing of the sample but retains its core characteristics. Family leadership remains predominant, with 82.65% of firms led by a family CEO in 2016 and 82.92% in 2023, highlighting the enduring role of family governance within the sample. Regarding financial performance, the average return on assets (ROA) decreased from 4.82% during the period 2016–2018 to 2.27% in 2021–2023. This decline is likely influenced by broader economic challenges, such as the impact of the COVID-19 pandemic, but does not alter the essential characteristics of the sample. Overall, the firms that remain active maintain similar sectoral, age and governance characteristics as the original sample, ensuring the robustness of the analysis across both time periods.

TABLE 1 | Results for the measurement model.

Variable/Item	Loads (λ)		Interval R^2	T-test Bootstrapping	Composite reliability (ρ_c)		AVE [5%-95%]
	CB-SEM	PLS-SEM			[5%-95%]	Rho_A [5%-95%]	
Selection							
REC1. You have selected the most suitable person.	0.77	0.78	0.34-0.38	32.78 ($p < 0.000$)	0.863 [0.828-0.892]	0.864 [0.831-0.894]	0.677 [0.619-0.734]
REC2. You have selected based on general traits and skills to fulfil various roles.	0.89	0.86	0.38-0.42	35.05 ($p < 0.000$)			
REC3. You have selected according to the specific requirements of the job.	0.82	0.82	0.36-0.39	37.21 ($p < 0.000$)			
Training							
TRA1. It has provided continuing education programs.	0.79	0.81	0.26-0.29	35.12 ($p < 0.000$)	0.903 [0.882-0.921]	0.904 [0.884-0.922]	0.700 [0.652-0.746]
TRA2. You have invested enough in training.	0.87	0.84	0.27-0.30	41.95 ($p < 0.000$)			
TRA3. It has implemented training programs to achieve high quality at work.	0.86	0.82	0.27-0.29	41.90 ($p < 0.000$)			
TRA4. It has offered extensive training, not just limited to skills training.	0.83	0.88	0.28-0.31	38.34 ($p < 0.000$)			
Compensation							
COM1. You have evaluated performance with measurable goals and results.	0.79	0.77	0.25-0.28	30.64 ($p < 0.000$)	0.856 [0.829-0.879]	0.859 [0.833-0.882]	0.545 [0.501-0.593]
COM2. He has evaluated performance from multiple sources.	0.74	0.73	0.23-0.27	26.04 ($p < 0.000$)			
COM3. You have given feedback to employees based on the evaluation of their performance.	0.83	0.80	0.26-0.29	29.14 ($p < 0.000$)			
COM4. You've paid based on performance.	0.72	0.71	0.23-0.26	27.18 ($p < 0.000$)			
COM5. It has provided incentives based on the results achieved.	0.70	0.70	0.21-0.25	23.08 ($p < 0.000$)			
Opportunities							
IO1. It has encouraged suggestions for work improvements.	0.80	0.89	0.57-0.64	29.93 ($p < 0.000$)	0.874 [0.851-0.894]	0.720 [0.662-0.774]	0.776 [0.741-0.809]
IO2. It has provided opportunities to participate in decision-making.	0.70	0.86	0.50-0.56	28.51 ($p < 0.000$)			
Employee perceived performance							
APE1. They do an excellent job.	0.85	0.82	0.24-0.29	23.34 ($p < 0.000$)			

(Continues)

TABLE 1 | (Continued)

Variable/Item	Loads (λ)		Interval R^2	T-test Bootstrapping	Composite reliability (ρ_c)		AVE [5%-95%]
	CB-SEM	PLS-SEM			[5%-95%]	Rho_A [5%-95%]	
APE2. They offer excellent added value.	0.83	0.76	0.23-0.28	19.73 ($p < 0.000$)	0.868	0.874	0.571
APE3. Your internal and/or external customers have little reason to complain.	0.70	0.70	0.18-0.24	12.10 ($p < 0.000$)	[0.846-0.887]	[0.853-0.895]	[0.527-0.613]
APE4. No wasted resources.	0.70	0.74	0.22-0.27	16.92 ($p < 0.000$)			
APE5. Overall, its performance has been exceptional.	0.81	0.82	0.24-0.29	21.42 ($p < 0.000$)			
Firm financial performance							
EP18. Return on asset (ROA) in 2018	0.88	0.73	0.22-0.40	6.35 ($p < 0.000$)	0.897	0.921	0.748
EP17. Return on asset (ROA) in 2017	0.95	0.95	0.35-0.48	12.86 ($p < 0.000$)	[0.869-0.920]	[0.882-0.974]	[0.694-0.796]
EP16. Return on asset (ROA) in 2016	0.76	0.86	0.30-0.43	10.89 ($p < 0.000$)			

Source: Created by authors. Bootstrapping biased confidence interval corrected to 95% (based on $n = 10,000$ subsamples).

3.2 | Variables Measurement

3.2.1 | HR Practices Formalization

We initially employed an 18-item scale to assess the degree of formalization or standardization of HR practices within the family firm. The scale design was based on the framework proposed by Jiang et al. (2012, 2017) and further developed by Pelaez-Leon and Sánchez-Marín (2022), Peláez-León and Sánchez-Marín (2023). After a refinement process (detailed in Section 3.3 and Table 1), the scale was reduced to 14 items: 3 items measuring recruitment and selection practices (*selection*), four for training and career development practices (*training*), four related to performance appraisal and compensation practices (*compensation*) and two to opportunities practices (*opportunities*). As outlined in Table 1, each item was rated on a 1-5 Likert scale (ranging from 1 completely disagree to 5 completely agree), where respondents indicated their agreement with the degree of implementation of HR practices implemented in the past 3 years which indicate, in turns, the level of HR formalization in each practice.

3.2.2 | Family Firm Performance

Two indicators were used to assess family firm performance. The first is a quantitative measure: *firm financial performance*, specifically based on the return on assets (ROA) indicator. ROA is widely used in HR and family business literature (Sánchez-Marín et al. 2024; Wagner et al. 2015) as it provides an objective and measurable financial metric directly linked to firm success. The data for this measure were extracted from the SABI database and calculated as the average ROA for two periods: 2016 to 2018 and 2021 to 2023, representing the last three available years in the database. This dual-period approach allows for a robust evaluation of financial performance over time. The second indicator is a qualitative perceptual measure, *employee perceived performance*, based on respondents' perceptions of diverse dimensions of performance. This measure has been based on Bae and Lawler's (2000) scale that comprises 5 items on a 5-point Likert scale (from 1 completely disagree to 5 completely agree) that includes questions concerning the employees' level of performance, the firm added value, the customer satisfaction, the firm resources optimization and the overall performance (see Table 1 for the detailed formulation of items).

3.2.3 | Family Influence on Ownership and Management

The degree of family influence within a firm is assessed by examining the extent of family involvement in both ownership and management (Steijvers et al. 2017). *Family involvement in ownership* is quantified as the percentage of the company's shares owned by family members, providing a clear indication of the family's control over more informal and family-centric HR strategic decisions (Cruz et al. 2011; Michiels et al. 2022). *Family involvement in management* is measured by the proportion of family members within the company's management

TABLE 2 | Firm sample demographic characteristics.

Sample	Original sample in 2016 (<i>n</i> = 490)		Updated sample with active companies in 2023 (<i>n</i> = 393)	
	<i>n</i>	%	<i>n</i>	%
Industry, sector and family status				
Sector				
Industry	138	28.20%	108	29.70%
Service	352	71.80%	255	70.30%
Firm age				
0–10 years	35	7.14%	22	6.06%
10–30 years	273	55.71%	142	39.11%
30–50 years	155	31.63%	167	46.00%
More than 50 years	27	5.51%	32	8.81%
CEO family status				
Family CEO	405	82.65%	301	82.92%
Non-family CEO	85	17.35%	62	17.08%
Financial performance				
Return on assets (ROA)	<i>n</i>	%	<i>n</i>	%
	490	4.82%	393	2.27%

team. This is captured through a quantitative variable derived from survey data, indicating the ratio of family managers to the total number of managers in the firm. A higher ratio implies a greater degree of family influence over HR strategic decisions (Madison et al. 2018).

3.2.4 | Employee Family Status

The presence of *family employees* is measured by the percentage of employees who are members of the owning family out of the total number of employees. This metric offers insights into the degree of family integration in the company's daily operations, which can significantly shape organizational culture and HR practices. A higher percentage of family employees indicates a stronger family presence, often leading to an informal HR practices design that emphasizes maintaining family cohesion and socioemotional wealth (Cruz et al. 2011; J. M. P. De Kok et al. 2006; Madison et al. 2018).

3.2.5 | Control Variables

Three widely used control variables in the context of family business and HR research (Gómez-Mejía et al. 2003; Madison et al. 2018) have been utilized: firm age, firm size and sector. Firm age and sector are obtained from the SABI database, while the firm size is obtained from the survey. *Firm size* is measured by the number of employees. *Firm age* is measured by the logarithm of the number of years since its founding. The *sector* is measured with a dichotomous variable that takes the value 0 if the company belongs to the industrial sector and 1 if otherwise. For robustness test purposes (see Table 3 for details), all the control variables were updated using the most recent data available from the SABI database for 2023.

3.3 | Reliability and Validity of Measures

According to Henseler et al. (2016) and Bentler (2006), the overall goodness of fit of the model should be the starting point for the assessment of the model before developing the confirmatory model. Two analysis models have been developed, one from CB-SEM and the other from PLS-SEM. In CB-SEM, Bentler (2006) recommends examining three measures of adjustment: absolute adjustment measures, incremental adjustment measures and parsimony adjustment measures. The model has been estimated with EQS v.6.3, with the extension of the robust methodology of Satorra and Bentler (1994) since the model does not meet the assumptions of multivariate normality.¹ In addition, the adjustment indicators in PLS-SEM have been estimated using SmartPLS v.4. Thus, according to Henseler et al. (2016), model fitting can be carried out employing fit indices (SRMR) and using three inferential statistics (Bootstrap with 10,000 repetitions) of exact fit (SRMR, dULS and dG). The methodology estimated in PLS-SEM is appropriate for estimates with data with non-normal distributions (Hair et al. 2019). Table 4 shows the adjustment indicators, all of which are within the parameters recommended by the literature (Hair et al. 2019; Henseler et al. 2016; Bentler 2006), so there is a good fit for the model.

Regarding the individual reliability of each item, as shown in Table 1, the values are significant ($p < 0.05$) and with a load (λ) greater than 0.7 (Hair et al. 2019). Convergent validity has been measured with the extracted variance (AVE), all scales offer a value higher than the recommended limit of 0.5 (Bentler 2006; Hair et al. 2019).

To evaluate discriminant validity (see Table 5), the extracted mean variance (AVE) has been estimated (Hair et al. 2019) and compared with the correlations between constructions, with the square root of AVE for all constructions being greater than the correlation between them, suggesting that each construction is

TABLE 3 | Moderating effects in original versus updated sample of family firms.

Variables	HR practices formalization		Employee perceived performance		Firm financial performance	
	B (original 2016)	B (updated 2023)	B (original 2016)	B (updated 2023)	B (original 2016)	B (updated 2023)
Sector	0.04	0.03	-0.01	0.01	0.03	0.08
Firm age	0.02	0.05	-0.09**	0.03	0.03	0.03
Firm size	-0.01	0.08	0.02	-0.05	0.01	0.18***
HR practices formalization [FHR]			0.65***	0.68***	0.17***	0.15**
Family ownership [FIO]	-0.16***	-0.13**	0.04	0.09	0.03	-0.01
Family management [FIM]	-0.01	0.04	0.09**	0.15**	0.02	-0.05
Family employees [FE]	0.03	-0.01	-0.01	-0.02	0.01	-0.06
FIOxFHR			-0.07	0.02	0.10**	0.13**
FIM × FHR			0.12***	0.12**	-0.19***	0.07
FIO × FE	-0.06*	-0.09*				
FIM × FE	0.03	-0.02				
FE × FHR			0.02	0.05	-0.17***	-0.11**

Note: Structural Model Adjustment (original sample in 2016): Satorra-Bentler $\chi^2(181) = 258.92$; [NFI] = 0.92; [TLI] = 0.96; [CFI] = 0.97; [RMSEA] = 0.03; SRMR = 0.03. Structural Model Adjustment (updated sample with active companies in 2023): Satorra-Bentler $\chi^2(181) = 232.10$; [NFI] = 0.90; [TLI] = 0.96; [CFI] = 0.97; [RMSEA] = 0.03; SRMR = 0.04.

*** $p < 0.001$.

** $p < 0.01$.

* $p < 0.05$.

more strongly related to its own measures than to others. Regarding the reliability or internal consistency of each scale, the composite reliability indicator (ρ_c) and the Rho_A indicator have been measured, finding values higher than 0.8 and lower than 0.95 as recommended by the literature (Hair et al. 2019; Bagozzi and Yi 2012). In addition, a 95% confidence interval analysis was conducted to ensure that the reliability indices (ρ_c and rho_A) meet the recommendations outlined by Hair et al. (2019), confirming the robustness of the measures.

3.4 | Higher-Order Model

Higher-order structural equation models have been developed, following the recommendations of Koufteros et al. (2009) and Rindskopf and Rose (1988), complying with the estimated global model and formed by four first-order dimensions representing the HR practices: selection, training, compensation and opportunities.

All dimensions have two or more items according to the recommendations of (Rindskopf and Rose 1988). To test the goodness-of-fit of higher-order models, the recommendations proposed by Hair et al. (2019) have been followed in CB-SEM. First, the fit of the measurement model of uncorrelated first-order factors should be compared with the fit of the lower-first-order factor model in which correlations are freely estimated and significantly worse adjustment differences should be found (see Table 6; $\Delta X^2 = 411.81$; $p < 0.05$). Next, the invariance between the higher-order model and the lower-order model has been tested. The higher-order model is not significantly worse than the lower-order model, both when comparing the second

order with the first order. This evidences the validity and correct estimation of higher-order models (see Table 6; $\Delta X^2 = 12.37$; $p > 0.14$).

The recommendations of Sarstedt et al. (2019) were followed to estimate and validate higher-order models in PLS-SEM using the repeated measures approach. As shown in Table 7, all items are significant ($p < 0.05$) and the R^2 values exceed 0.5, aligning with literature standards. Table 7 also provides an analysis of individual indicators for each item, confirming that the composite reliability coefficients (ρ_c and RHO_A) and internal consistency (AVE) meet recommended thresholds.² Additionally, the model's discriminant validity was assessed by comparing the square root of the AVE (diagonal in Table 5) with the inter-construct correlations (off-diagonal elements). The square root of the AVE for each construct is greater than the correlations between constructs, confirming adequate discriminant validity. Overall, these results indicate that the higher-order constructs are robust and reliable.

4 | Results

This section presents the findings from the structural model analysis, using both covariance-based structural equation modelling (CB-SEM) and complementary partial least squares structural equation modelling (PLS-SEM) approaches. Confidence intervals for path coefficients are provided, following Hair et al. (2019) and the estimation process adheres to the recommendations of Streukens and Leroi-Werelds (2016) by employing bootstrapping with 10,000 samples. Paths with confidence intervals that do not include zero are deemed significant (Hair

TABLE 4 | Summary of goodness-of-fit indicators in PLS-SEM and CB-SEM.

Criteria	Indexes	Good fit threshold	Model estimates
CB-SEM			
Absolute fit measures	Satorra-Bentler χ^2	$p > 0.05$	$\chi^2 (194) = 333.82 (p < 0.05)$
	RMSEA	RMSEA < 0.08	RMSEA = 0.04
Incremental adjustment measures	CFI	CFI > 0.90	CFI = 0.95
	TLI	TLI > 0.90	TLI = 0.96
	NFI	NFI > 0.90	NFI = 0.91
Parsimony adjustment measures	χ^2/df^{*a}	$\chi^2/df < 5.0$	$\chi^2/df = 1.72$
PLS-SEM			
Adjustment indicators	SRMR	SRMR < 0.08 SRMR < 0.10	SRMR* = 0.03 (*saturated model)
Accurate fit test bootstrap	SRMR	SRMR \leq U.B. ^b HI95	U.B. SRMR HI95 = 0.03
		SRMR \leq U.B. HI99	SRMR** = 0.03 (**estimated Model)
	d_{ULS}	$d_{ULS} \leq$ U.B. HI95 $d_{ULS} \leq$ U.B. HI99	U.B. d_{ULS} HI99 = 0.24 $d_{ULS}^{***} = 0.20$ (***)estimated Model)
	d_G	$d_G \leq$ U.B. HI95 $d_G \leq$ U.B. HI99	U.B. d_G HI95 = 2.21 $D_G^{***} = 0.12$ (***)estimated Model)

Abbreviation: df = degrees of freedom of the SEM estimated model.

^aHI95 = upper bound of the 99% Bootstrap-based percentile confidence interval (HI95).

^bHI99 = upper bound of the 99% Bootstrap-based percentile confidence interval (HI99).

*** $p < 0.001$.

** $p < 0.01$.

* $p < 0.05$.

TABLE 5 | Discriminant validity of the measurement model.

Variables	Mean	SD	1	2	3	4	5	6
1. Selection	3.64	0.95	0.82					
2. Training	3.72	0.96	0.50	0.84				
3. Compensation	4.14	0.75	0.65	0.60	0.75			
4. Opportunities	3.75	0.94	0.59	0.57	0.65	0.73		
5. Employee perceived performance	4.02	0.63	0.51	0.51	0.57	0.44	0.76	
6. Firm financial performance	5.26	6.99	0.03	0.14	0.06	0.14	0.10	0.87
Second-order measurement model								
Variables	Mean	SD	1	2	3	4	5	6
1. HR practices formalization	3.81	0.71	0.79					
2. Employees perceived performance	4.02	0.63	0.66	0.76				
3. Firm financial performance	5.26	6.99	0.12	0.10	0.87			

et al. 2021) and no issues with multicollinearity were detected (Hair et al. 2019).

Results are structured into two models. The first model examines the influence of individual HR practices on firm performance, while the second model tests the broader impact of HR

system formalization, as well as the moderating effects of family influence in ownership and management and the presence of family employees. As a glimpse, our results demonstrate the relationship between HR practices, family dynamics and firm performance, providing insights into which hypotheses are fully or partially supported. Model fit indicators suggest that the

TABLE 6 | Goodness-of-fit of higher-order models (HR practices formalization).

Model Description	χ^2	df	χ^2/df	RMSEA	TLI	CFI	$\Delta\chi^2$	Δdf	p-value
First-order measurement model									
Measurement model	163.12	71	2.29	0.05	0.96	0.97			
Uncorrelated measurement model	574.93	77	7.46	0.12	0.78	0.81	411.81	6	0.000
Second-order measurement model									
Hierarchical model	148.22	71	2.08	0.05	0.96	0.97			
Multi-group model—2nd order/1st order	312.29	142	2.20	0.05	0.96	0.97			
Multi-group model with constraints	324.66	150	2.16	0.05	0.96	0.97	12.37	8	0.135

TABLE 7 | Results for measurement of higher-order dimensions.

	Loads (λ) CB-SEM	Loads (λ) PLS-SEM	Interval R^2	T-test Bootstrap	Composite reliability (ρ_c) [5%–95%]	Rho_A [5%–95%]	AVE [5%–95%]
HR practices formalization							
1. Selection	0.72	0.79	0.27–0.36	13.91***	0.87 [0.85–0.89]	0.80 [0.76–0.84]	0.63 [0.58–0.67]
2. Training	0.70	0.77	0.29–0.37	15.05***			
3. Compensation	0.80	0.80	0.26–0.33	16.35***			
4. Opportunities	0.86	0.80	0.29–0.37	15.43***			

Note: Bootstrapping biased confidence interval corrected to 95% (based on $n = 10,000$ subsamples).

*** $p < 0.001$.

structural models are robust, with good explanatory power and acceptable predictive relevance, confirming the validity of the analytical approach used.

Specifically, the first model examines hypothesis H1a. As shown in Figure 2, the formalization of selection practices positively impacts employee perceived performance ($\beta = 0.17$; $p < 0.05$) but does not significantly affect firm financial performance ($\beta = 0.07$; $p > 0.1$). Training practices, when formalized, have a positive effect on both employee perceived performance ($\beta = 0.40$; $p < 0.01$) and firm financial performance ($\beta = 0.15$; $p < 0.05$). The formalization of compensation practices positively influences firm financial performance ($\beta = 0.14$; $p < 0.05$) but shows no significant impact on employee perceived performance ($\beta = 0.01$; $p > 0.01$). Similarly, the formalization of opportunity practices enhances employee perceived performance ($\beta = 0.32$; $p < 0.01$) but does not affect firm financial performance ($\beta = 0.07$; $p > 0.01$). The results estimated in PLS-SEM are consistent with those obtained using CB-SEM, partially supporting hypothesis H1a.

The second model evaluates the remaining hypotheses. As shown in Table 8, hypothesis H1b is confirmed, indicating a positive effect of the formalization of HR systems on both employee perceived performance ($\beta = 0.65$; $p < 0.001$) and firm financial performance ($\beta = 0.17$; $p < 0.001$). The model also addresses hypothesis H2, revealing a significant negative effect of family influence on ownership on HR practices formalization ($\beta = -0.16$; $p < 0.001$), while no significant effect is found for family influence on management ($\beta = -0.01$; $p > 0.1$). Regarding hypothesis H3, a positive moderating effect is observed for family influence on ownership between HR formalization and firm financial performance ($\beta = 0.10$; $p < 0.01$), but not for employee perceived performance ($\beta = -0.06$; $p > 0.1$). Additionally, family influence on

management shows a positive moderating effect on the relationship between HR formalization and employee perceived performance ($\beta = 0.12$; $p < 0.001$), while having a negative moderating effect on the relationship with firm financial performance ($\beta = -0.19$; $p < 0.001$). Thus, hypotheses H2 and H3 are partially supported.

In the second model, hypothesis H4 was also tested using paths estimated in CB-SEM. The results indicate that a greater presence of family employees amplifies the negative effect of family involvement in ownership on HR practices formalization ($\beta = -0.06$; $p < 0.10$) but does not significantly affect the impact of family involvement in management on HR practices formalization ($\beta = 0.03$; $p > 0.10$). Regarding hypothesis H5, a higher proportion of family employees was found to negatively moderate the relationship between HR practices formalization and firm financial performance ($\beta = -0.17$; $p < 0.01$), but not the relationship between formalization and employee perceived performance ($\beta = 0.02$; $p > 0.10$). Based on these findings, hypotheses H4 and H5 are partially supported. Additionally, the results obtained using PLS-SEM are consistent with those from CB-SEM for all hypotheses.

Finally, to ensure robustness, we recalculated the results using the same measurement model with updated firm financial performance data (average ROA for 2021–2023) and company size and age (2023), based on the most recent data extracted from the SABI database. As shown in Table 3, most results remain consistent, confirming our hypotheses and reinforcing that the relationships between HR formalization, family dynamics and performance metrics hold over time. Additionally, the measurement model continues to exhibit stable fit indicators, with all parameters remaining within the expected ranges, further validating our findings.

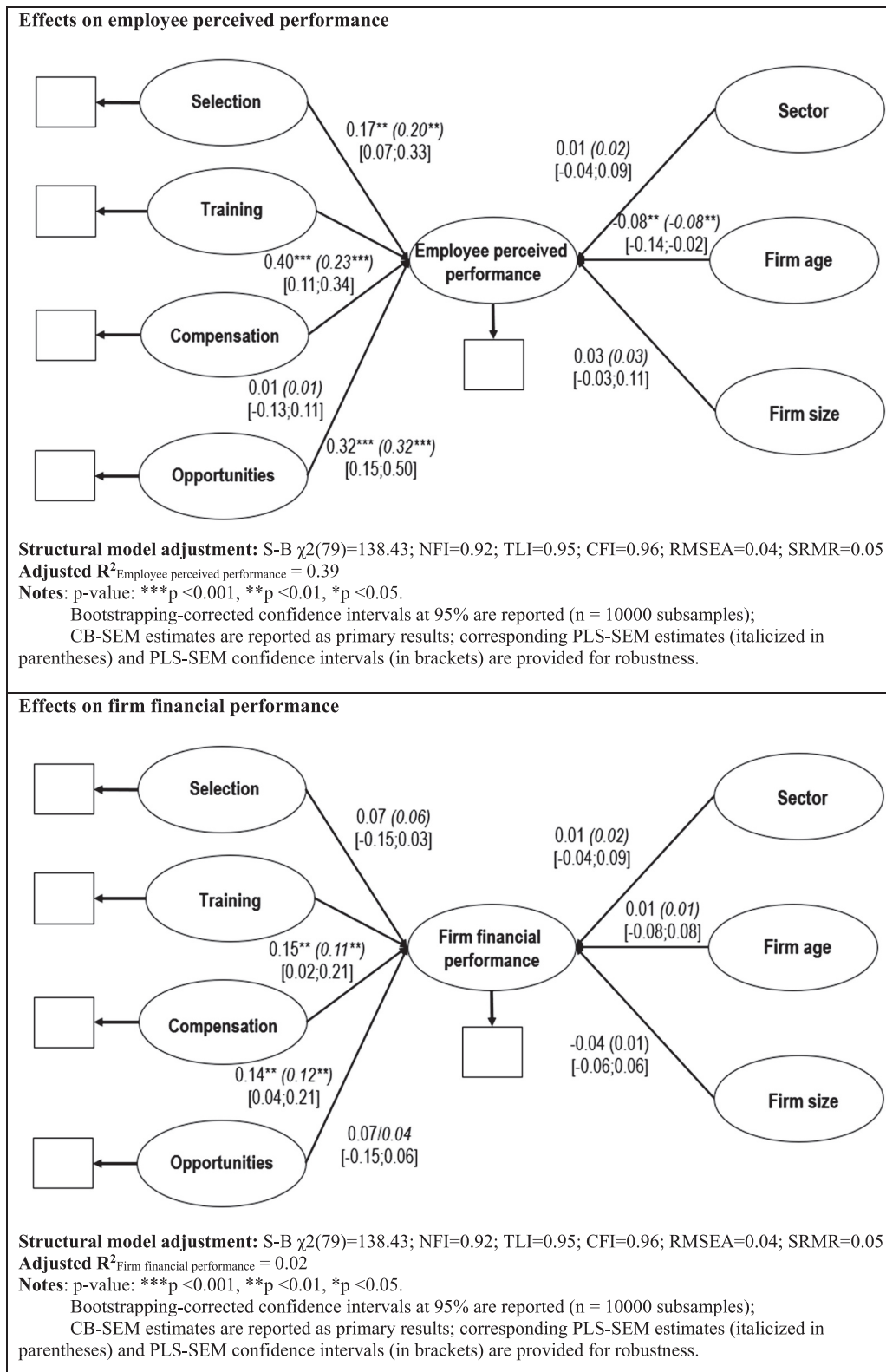


FIGURE 2 | Effects of the HR practices formalization on firm performance.

5 | Discussion and Conclusions

5.1 | Discussion of Findings

This study investigates how the formalization of HR practices affects the performance of family firms, considering the

moderating roles of family involvement in ownership, management and the influence of employees' family affiliation. Framed through the lens of the SEW approach, the analysis of 490 medium-sized Spanish family businesses offers new insights into how structured HR systems interact with the specific dynamics of family firms.

TABLE 8 | Moderating effects of family influence on HR practices formalization and firm performance.

Variables	HR practices formalization		Employee perceived performance		Firm financial performance	
	B	B	B	B	B	B
	(CB-SEM)	(PLS-SEM)	(CB-SEM)	(PLS-SEM)	(CB-SEM)	(PLS-SEM)
Sector	0.04	0.03 [−0.06; 0.13]	−0.01	0.01 [−0.08; 0.08]	0.03	0.03 [−0.07; 0.12]
Firm age	0.02	0.03 [−0.06; 0.11]	−0.09**	−0.08** [−0.16; −0.01]	0.03	0.03 [−0.07; 0.13]
Firm size	−0.01	−0.01 [−0.13; 0.09]	0.02	0.03 [−0.03; 0.11]	0.01	0.01 [−0.07; 0.09]
HR practices formalization [FHR]			0.65***	0.67*** [0.58; 0.76]	0.17***	0.16*** [0.05; 0.27]
Family ownership [FIO]	−0.16***	−0.16*** [−0.26; −0.06]	0.04	0.03 [−0.05; 0.12]	0.03	0.03 [−0.05; 0.08]
Family management [FIM]	−0.01	−0.01 [−0.11; 0.08]	0.09**	0.11** [0.02; 0.19]	0.02	0.01 [−0.1; 0.09]
Family employees [FE]	0.03	0.03 [−0.11; 0.15]	−0.01	0.01 [−0.08; 0.08]	0.01	0.02 [−0.09; 0.14]
FIOxFHR			−0.07	−0.06 [−0.19; 0.11]	0.10**	0.09* [0.01; 0.18]
FIMxFHR			0.12***	0.11* [0.01; 0.22]	−0.19***	−0.21*** [−0.34; −0.11]
FIOxFE	−0.06*	−0.11*** [−0.18; −0.03]				
FIMxFE	0.03	0.09 [−0.07; 0.26]				
FExFHR			0.02	0.01 [−0.06; 0.06]	−0.17***	−0.12*** [−0.20; −0.03]

Note: Structural Model Adjustment: Satorra-Bentler $\chi^2(181) = 258.92$; [NFI] = 0.92; [TLI] = 0.96; [CFI] = 0.97; [RMSEA] = 0.03; SRMR = 0.03. Adjusted coefficients of determination (R^2): $R^2_{\text{Employee perceived performance}} = 0.47$; $R^2_{\text{Firm financial Performance}} = 0.10$; $R^2_{\text{HR practices formalizations}} = 0.05$. Bootstrapping-corrected confidence intervals at 95% are reported ($n = 10,000$ subsamples).

*** $p < 0.001$.

** $p < 0.01$.

* $p < 0.05$.

Firstly, the results confirm that formalized HR practices—when viewed as an integrated system—positively impact firm performance. This reinforces existing literature on the value of professionalized HR systems (Madison et al. 2018; Michiels et al. 2022) but expands it by showing that the benefits go beyond financial outcomes, also including improved employee engagement, motivation and perceived performance (Vardaman et al. 2024). This multidimensional effect supports recent calls to assess HR management using broader performance criteria (Cruz et al. 2011; Rondi et al. 2022).

Secondly, the findings reveal that high family involvement in ownership and management moderates and, in many cases, weakens the positive relationship between HR formalization and firm performance. This outcome aligns with the SEW perspective, which highlights how family firms may resist standardization in order to protect family control, identity and loyalty (Sánchez-Marín et al. 2024; Christensen-Salem et al. 2021). Similarly, a greater presence of family employees is associated with lower degrees of HR formalization and reduced effectiveness, potentially due to role ambiguity or bifurcation bias (Firfiray et al. 2018). These results point to the need for family firms to balance relational priorities with the demands of professionalism and merit-based governance.

Thirdly, the study offers evidence for the differentiated impact of specific HR practices. Practices such as recruitment,

selection and training are more strongly associated with employee perceived performance, while performance evaluation and compensation are more closely linked to financial outcomes. Our nuanced analysis demonstrates an asymmetric effect: HR formalization has a more pronounced influence on productive-labour variables, such as employee engagement and perceived performance, compared to its effect on financial metrics. This supports the literature advocating for system-level HRM perspectives that recognize interdependencies and variation in practice impact (Steijvers et al. 2017; De Massis and Foss 2021). It also shows that tailoring HR strategies to the firm's objectives, whether economic or non-economic, can enhance their overall effectiveness. Moreover, the findings reinforce the role of mutuality-based HRM in mitigating the downsides of informal governance (Flamini et al. 2022; Lambrechts and Gnan 2022; Ferrari 2025). These approaches appear especially useful in contexts with high family involvement, where standardized policies might otherwise clash with affective expectations.

Finally, the study confirms that HR formalization enhances organizational resilience, even in dynamic environments such as the post-COVID economy. The consistency of results across both original and updated financial data illustrates the robustness of formal HR structures and their strategic value in family firm contexts (Lai et al. 2016; Schilpzand et al. 2025). This adds further support to the argument that HR formalization is not merely an

administrative concern, but a strategic enabler of long-term performance and stability in family-owned enterprises.

5.2 | Contributions

This study offers several key contributions to the literature on HR management in family business. First, it responds to recent calls for nuanced insights into the link between HR formalization and performance outcomes in family firms (Casprini et al. 2024; Flamini et al. 2021). By integrating moderating variables—such as family ownership, management and employment—it advances our understanding of how family dynamics shape the efficacy of formal HR systems (Sánchez-Marín et al. 2024). These findings confirm that high family involvement can act as a double-edged sword, intensifying the need for formalization while simultaneously constraining its implementation.

Second, the paper goes beyond analyzing isolated HR practices to consider formalization at the system level, offering a more integrated and realistic picture of HR management in family firms. This holistic approach recognizes that HR practices do not operate in isolation but rather form interconnected systems that influence each other and jointly shape employee behaviour, governance efficiency and firm outcomes. By addressing HR formalization as a multidimensional construct composed of recruitment, training, evaluation, compensation and participation mechanisms, the study provides empirical validation for system-level thinking within family firm settings. It reveals how coherent and standardized HR systems contribute to the professionalization of the firm, reduce internal inconsistencies and favouritism and strengthen decision-making legitimacy. Additionally, the findings underscore that gaps in system integration—often exacerbated by fragmented family influence—can hinder the strategic alignment of HR functions, echoing concerns raised by De Massis and Foss (2021), Steijvers et al. (2017) and J. M. P. De Kok et al. (2006) regarding the vulnerabilities of SME governance without structured HR support. This contribution also builds on recent calls to reframe HR management in the family firm context (Casprini et al. 2024), demonstrating how system-level HR formalization aligns with mutuality-driven approaches (Flamini et al. 2022) and supports broader goals of fairness, cohesion and resilience (Lambrechts and Gnan 2022; Christensen-Salem et al. 2021).

Third, by examining both financial performance and employee perceived performance, this study responds to the need for more comprehensive performance measurement in family business research (Madison et al. 2018; Michiels et al. 2022). The findings reveal that HR formalization has a differentiated effect on these two performance dimensions: practices related to recruitment, selection and training are more strongly linked to employee engagement and satisfaction, while performance evaluation and compensation more directly influence financial outcomes. This dual perspective contributes to a deeper understanding of how HR practices operate within family business settings, supporting prior work that emphasizes the strategic relevance of tailoring HR strategies to address both attitudinal and financial goals (Flamini et al. 2022; Rondi et al. 2022). Moreover, the paper

reinforces the growing emphasis on non-financial performance indicators such as productivity, motivation and internal alignment as essential metrics for evaluating the broader impact of HR practices (Cruz et al. 2011; Christensen-Salem et al. 2021). By doing so, it aligns with current research agendas calling for a more balanced and multidimensional view of HRM outcomes in the family firm context (Casprini et al. 2024; Vardaman et al. 2024).

Finally, by adopting the SEW framework, the study provides a theoretically grounded explanation of how non-financial goals interact with the implementation of HR practices in family firms (Christensen-Salem et al. 2021; Vardaman et al. 2024). Our findings show that when family involvement is high the positive relationship between formalized HR practices and performance weakens. This suggests that socioemotional considerations can inhibit full adoption of standardized HR systems, especially if they are perceived to conflict with relational or legacy goals. However, when HR formalization is aligned with family values—such as through mutuality-based practices—it can support both professionalization and the preservation of socioemotional wealth (Flamini et al. 2022; Lambrechts and Gnan 2022). This reinforces the importance of balancing economic and non-economic objectives in HRM decisions. While the study does not directly assess generational succession or governance complexity, it aligns with the literature emphasizing the need for contextual sensitivity in HRM strategies tailored to family firm realities (Casprini et al. 2024; De Massis and Foss 2021).

In sum, the paper integrates family business specificities into HR management by demonstrating that formalized HR systems can serve not only as mechanisms for enhancing organizational performance but also as tools to mitigate the unique governance challenges posed by family dynamics. By examining both the enabling and constraining effects of family involvement, the study provides empirical evidence that supports recent developments advocating for context-sensitive and multidimensional HR management frameworks in family firms.

5.3 | Limitations and Lines for Future Research

This study acknowledges several limitations that pave the way for future research directions. First, future investigations should enhance the depth of our exploration by incorporating additional dimensions of heterogeneity within family firms (Chrisman et al. 2012). This could entail investigating how variations in family governance or the stage of family generations influence the formalization of HR practices and their effectiveness. Second, our study primarily relies on the perceptions of the primary individual responsible for HRM functions. To deepen our understanding, future research could directly explore this effect across various levels of analysis, considering how HPWP effectiveness is perceived by employees, supervisors and managers (Jiang et al. 2017). Third, despite our updated and recent secondary data, the perceptual information used in this study is from 2016, which may not fully capture recent trends or developments in HR practices, especially in the wake of significant global disruptions such as the COVID-19 pandemic. Future studies could use more recent primary data to assess whether

and how these events have altered the perceptual dynamics between HR practices formalization and family firm performance. Fourth, our examination of HR effectiveness does not consider the ‘reverse logic’ of financial goals (Pelaez-Leon and Sánchez-Marín 2022). Future investigations should directly and empirically explore the reciprocal effects of HR formalization on both nonfinancial and financial outcomes. Finally, our study focuses exclusively on a cross-sectional sample of Spanish SMEs. To provide a more comprehensive understanding, future research could adopt longitudinal or cross-country approaches to assess how institutional contexts, family aspirations and needs shape the relationships between HR practices and family-centred goals.

5.4 | Concluding Remarks

This study investigates the impact of HR practice formalization on family firm performance, focusing on the moderating roles of family involvement in ownership, management and the influence of employees’ family affiliation. Analyzing 490 medium-sized Spanish family businesses, the findings reveal that formalized HR practices enhance professionalism, meritocracy and performance outcomes, benefiting both perceived employee engagement and financial results. However, high levels of family involvement in ownership and management negatively moderate this relationship, reducing the effectiveness of HR formalization. Additionally, a greater proportion of family employees is associated with lower levels of HR formalization, underscoring the challenges of addressing potential biases in family firms. These results highlight the need for family businesses to carefully balance familial objectives with professional management strategies to maximize the benefits of HR formalization.

The findings also provide nuanced insights into the differential effects of HR practices. While recruitment, selection and training are more closely associated with perceived employee performance, performance evaluation and compensation are strongly linked to financial outcomes. This asymmetric impact underscores the importance of aligning specific HR practices with targeted performance goals. Moreover, the study contributes to the broader understanding of HR formalization by addressing gaps in the literature and extending implications to SMEs beyond family firms. By adopting tailored HR strategies that balance familial dynamics and organizational imperatives, family businesses can achieve a mutual-gain perspective, fostering both economic and non-economic success. These conclusions lay a foundation for future research exploring the complex dynamics of HR formalization in family-owned firms.

Conflicts of Interest

The authors declare no conflicts of interest.

Data Availability Statement

The data supporting this study are openly available in Zenodo at <https://doi.org/10.5281/zenodo.13952022>, following an embargo to allow for the publication of research findings.

Endnotes

¹ The distribution of the variables used in the models is evaluated. First, univariate measures of asymmetry and kurtosis are examined, using the Kolmogorov-Smirnov and Shapiro-Wilks tests. In general, the information collected with the survey does not present problems of asymmetry and kurtosis, only the variables of size, involvement of the family in the property and percentage of employees of the family present non-normal values. Also, the variables extracted from SABI present non-normal values (economic results and seniority). In addition, Mardia’s (1970) test of multivariate kurtosis (normalized 150.56, $p < 0.001$) has been estimated, and shows that the assumption of multivariate normality is not met. When the data are not normally distributed, the structural models estimated by CB-SEM are not adequate (Astrachan et al. 2014), for their estimation the robust methodology of Satorra and Bentler (1994) must be used.

² Composite reliability (ρ_c) and RHO_A must be greater than 0.7, and less than 0.95 (Bagozzi and Yi 2012; Hair et al. 2019), no confidence interval reaches the minimum value of 0.70 (Hair et al. 2019). AVE must be greater than 0.5 (Bentler 2006; Hair et al. 2019).

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