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RESEARCH NOTE

Exploring Top Management Team Composition in Private Family Firms

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Private family firms represent the most common form of organization worldwide and have consequently received considerable attention in the academic literature (Memili et al., *Small Business Economics*, 2015). Despite growing interest, the study of human resource management in this particular context is only emerging. This research note tries to offer new insights into this problem by exploring how specific organizational factors influence the appointment of non-family members to the top management team (TMT).

To address this question, we rely on the socioemotional wealth (SEW) perspective (Gómez-Mejía et al., *Administrative Science Quarterly*, 2007). SEW refers to the non-financial utility family principals derive from their ownership and influence in the business, and covers non-financial aspects such as identity, the ability to exercise family influence, and the perpetuation of the family dynasty. According to the SEW model, family principals are risk averse with respect to SEW. As a result, they make decisions to avoid SEW losses even if they lead to suboptimal outcomes. Prior research reveals that family firms are less likely to hire non-family managers than their non-family counterparts because family principals want to maintain family control over the operation of the business in order to preserve SEW (Vandekerkhof et al., *Family Business Review*, 2015). However, we argue that various sources of heterogeneity among family firms may affect the tradeoff between SEW and financial goals in decision-making, which in turn influences the nomination of non-family managers. We contend that firm size, performance, innovation, risk-taking, proactiveness and the generation in charge of the company impact the prioritization of SEW goals in

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decision-making and consequently the appointment of non-family members to the TMT.

The empirical data come from a survey investigating ownership and management structures in privately held companies in Belgium. To identify our survey population, we used the BEL-FIRST financial database supplied by Bureau Van Dijk. After excluding companies from the financial, social, and educational sectors, we selected potential family businesses by investigating whether the company has the name of one of its directors or whether two or more directors have the same family name in order to detect possible family involvement in these firms. Based on these criteria, we identified a group of 4467 potential private family firms in BEL-FIRST, from which we drew a random sample of 2500 companies. The questionnaires were sent to the company CEOs. After two rounds, we obtained 217 responses (8.7% response rate). However, only 197 companies were retained due to the deletion of 12 incomplete cases and 8 nonfamily firms for which a family was not the majority owner.

Our results from probit regressions indicate that firm size exerts a positive influence on the proportion of non-family members in the TMT ($p < 0.05$). From the SEW perspective, this finding implies that family principals hire non-family managers to acquire the expertise required to cope with the complexity characterizing larger organizations and safeguard the future of the company in order to protect prospective SEW. Furthermore, the results also reveal a negative relationship between firm performance ($p < 0.05$) and the nomination of non-family members to the TMT, indicating that poor performing family firms are more likely to hire non-family managers. These results support the notion that family principals are willing to sacrifice a part of their current SEW endowment by hiring non-family executives in order to provide the firm with the ideal human capital base to take corrective measures that secure the future of the company for the next generations. However, we did not find any significant effects for innovativeness, risk-taking, proactiveness and the generation in charge of the company. Similarly, the control variables (firm age, TMT average age, leverage and industry affiliation) were not significantly related to the proportion of non-family members in the TMT.

While most studies rooted in the behavioral economics literature suggest that family principals make irrational strategic decisions by prioritizing SEW over financial goals (Vandemaele and Vancauteren, *Journal of Small Business Management*, 2015), this research note offers a more complete understanding of this phenomenon by showing that family principals adopt rational decisions when they are confronted by situations that are likely to endanger the future of the company. Under these circumstances, SEW and financial considerations tend to converge with the aim of securing both the family's financial and non-financial wealth. Future research with a larger sample size should try to measure the different aspects covered by the SEW concept in order to better understand how the distinctive nature of each SEW goal affects TMT composition. Finally, policy-makers could use these results to reflect about potential incentives that could help family firms hire non-family managers when needed.