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Differences and similarities in executive hiring decisions of family and non-family firms

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ABSTRACT

We juxtapose the executive recruitment decisions of family and non-family firms. We hypothesize that hiring preferences toward executive candidates differ between family and non-family firms. We test our predictions against field data from executive recruitment processes involving family and non-family firms. Drawn from an executive hiring company, the sample includes 166 candidates in 56 selection processes on behalf of 42 client companies (28 family firms). Our results indicate that family firms prefer to hire managers with strong functional competence and leadership skills, whereas non-family firms prefer to employ managers with more pronounced market knowledge. Despite these differences, both types of firms are drawn to performance-oriented candidates, i.e., individuals with a strong focus on client and result orientation. For researchers and practitioners alike, our study demonstrates the importance of understanding the distinct hiring requirements of family firms when they professionalize.

1. Introduction

Hiring executive managers externally can provide opportunities to access critical skills and capabilities that are thought to be lacking in a firm. It can unlock organizational structures and assist in professionalizing human resource development (Madison, Daspit, Turner, & Kellermanns, 2018; Stewart & Hitt, 2012); it can lead to superior economic value (Eckardt, Skaggs, & Lepak, 2018); and it marks a crucial milestone in the development of the organization (Ahrens, Calabrò, Huybr, echts, & Woywode, 2019).

Yet hiring executives externally is not a panacea for successful growth. Being able to realize the benefits of external hires is closely linked to the structures and the norms of the organization for which these individuals are hired (Kandade, Samara, Parada, & Dawson, 2020; Querbach, Waldkirch, & Kammerlander, 2020). Accordingly, recent work in the family business domain has deemed external hiring events an important and intriguing phenomenon for scholarly inquiry to better understand the professionalization of family firms (Madison et al., 2018).

There is abundant work documenting differences that exist between family and non-family firms, ranging from the pursuit of different goals, to governance structures, and outcomes (Daspit, Chrisman, Ashton, & Evangelopoulos, 2021; Fries, Kammerlander, & Leitterstorf, 2021). Despite an apparent consent in scholarly work regarding the importance of understanding differences between family and non-family firms, our knowledge of what drives the selection of non-family executives into family firms remains incomplete though (Daspit, Holt, Chrisman, & Long, 2016; Long & Mathews, 2011; Querbach et al., 2020).

To address this gap, we posit that, compared to non-family firms, the prevailing social exchange system within a family firm – for example, in the ubiquity of personal as opposed to formal interactions – induces particular preferences managerial skills upon hiring. Hence, employees who may thrive in an organization that emphasizes future orientation, trust-based relations, and a collective firm identity may not succeed in an organization that emphasizes impersonal, instrumental, transactional interactions with clearly defined obligations and expectations (Hayward, Hunt, & Miller, 2021; Kandade et al., 2020).

However, investigating only hiring processes which take place in family firms cannot uncover whether their hiring preferences are specific or shared with non-family firms. Our theoretical framework therefore illustrates and delineates the mechanisms that guide the social interactions in both, family firms and non-family firms. We contend and

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hypothesize that the differences in social exchange systems affect the preference for certain skills and capabilities upon hiring externally (Kandade et al., 2020; Querbach et al., 2020). The subsequent empirical investigation then contrasts with prior research by comparing the external hiring decisions of family and non-family firms: We analyze how the two types of firms arrive at different hiring decisions, how they weigh managerial talents, and which skills they emphasize.

To test our conjectures, we draw on data from 56 executive recruitment processes on behalf of 42 family and non-family firm client companies. 166 candidates were short-listed, 51 by non-family firms and 115 by family firms. These data were hand-collected from the files of an executive HR consultant. The client firms are mostly small and medium-sized enterprises (SMEs), mostly from central and Eastern Europe.[2] Our results indicate that family firms prefer to hire managers with strong functional competence and leadership skills, while non-family firms value market knowledge more highly. At the same time, both types of firms share a preference for hiring candidates with strong client and result orientations.

We make several contributions to the literature. First, we expand the notion of family firm professionalization using the lens of social exchange theory (Cropanzano & Mitchell, 2005; Emerson, 1976). By explicitly linking the hiring decisions to the social exchange system that governs each type of firm, we can contrast the preferences of family firms with those of non-family firms when hiring externally and shed light on which skills they feel might best suit their corporate environment.

Second, we believe that our findings on hiring preferences also inform about the needs that family and non-family firms perceive. In this regard, our research fills a void by documenting the different skills sought after when family and non-family firms hire externally. Our results show that non-family firms prefer to hire managers with more pronounced market knowledge, whereas family firms exhibit a preference for managers with superior functional competence and with strong leadership skills, and both types of firms seek to hire executives who exhibit a strong performance orientation.

Third, we shed more light on the differences that have been observed and theorized between family and non-family firm governance in the way they monitor and incentivize employees. While there is a broad array of work showing that there are differences, there are also similarities. Hence, we add the empirical observation that formal and informal social exchange systems in family and non-family firms, respectively, can both accommodate executives who emphasize more short-term performance.

The remainder of the present article is organized as follows. Section 2 introduces the literature on social exchange systems, juxtaposes potential differences in hiring preferences between family and non-family firms, and develops our hypotheses. Sections 3 and 4 introduce the data and the results of our empirical analysis. Section 5 discusses implications for theory and practice, considers the limitations of our study, and develops avenues for future research. Section 6 presents the concluding remarks.

2. Theoretical background and hypotheses

2.1. Hiring and social exchange systems

Employee fit and subsequent performance are closely linked to the structures and norms of the organization for which individuals are hired (Kandade et al., 2020; Querbach et al., 2020). Whether or not a potential hire can create value depends on the quality of employer-employee matching (Blasco & Pertold-Gebicka, 2013). This quality may depend on the organization's perception of the relationship between a candidate's characteristics and the job/skill requirements (Anderson, Lievens, van Dam, & Ryan, 2004; Eckardt et al., 2018), or the compatibility of a candidate and the culture of the organization (Blasco & Pertold-Gebicka, 2013; Sekiguchi & Huber, 2011).

The family firm is the most common type of business organization around the world (Johansson, Karlsson, & Malm, 2020; La Porta, Lopez-de-Silanes, & Shleifer, 1999). The direct involvement of families in the firm means that their distinctive family philosophies and aspirations shape the way business is managed and governed. At times, families and their firms seem inseparable (Gersick & Feliu, 2014). While family firms rely on more personal relationships and informal interactions, non-family firms tend toward formal and more restricted interactions between owners, managers, and employees (Daspit et al., 2016; Waldkirch, 2020).

In the following, we therefore draw on social exchange theory to depict and delineate different structures and norms that prevail in most family and non-family firms and that might affect the potential match between employer and employees (Cropanzano & Mitchell, 2005; Emerson, 1976). Based on these characterizations, we then link them to potential hiring preferences of both types of firms. Social exchange theory studies the social behavior that guides the interactions between different parties, where the exchange can range from economic to social motives (Daspit et al., 2016; Waldkirch, 2020). It generally addresses contracting parties' benefits and costs and their effects on the parties' social interactions and applies to relationships which reach beyond the pure exchange of goods and services, such as status or affection.

Social exchange theory has been widely employed to study employee-employer relations. It discusses the nature of social interactions and emphasizes the importance of "norms of reciprocity, repeated interactions, and social structures […] in conditioning and constraining social behavior" (Daspit et al., 2016: 46). As such, the interaction of individual members of the organization is affected by social norms and structures around them that create expectations, as well as by the obligations of organization members (Ahrens et al., 2019).

Our work along these lines distinctively differs from other work focusing on theoretical extensions that derive from social exchange theory. For example, more granular theoretical endeavors invoke Leader-Member Exchange theory to study dyadic relationships (Kandade et al., 2020). We focus on a broader view and emphasize the prevailing norms and processes to which new hires would be subject to. Other recent works have also focused on more immediate peculiarities that differ between family and non-family firms. These studies invoke the notion of organizational stewardship where family firms might be better in organizational caring derived from their aspiration of socioemotional wealth (Christensen-Salem, Mesquita, Hashimoto, Hom, & Gomez-Mejia, 2021). Analogously, we emphasize the way in which social exchanges affect the extent of person-organization fit.[3]

Investigating recruitment processes, social exchange theory advises to acknowledge the prevailing institutional arrangements into which newly hired managers are placed. Hence, social exchanges within firms can take different forms that range from generalized to restricted exchanges. Restricted exchanges are characterized by norms of explicit and direct reciprocity expectations which are derived from contractual arrangements (Ahrens et al., 2019; Daspit et al., 2016). Generalized social exchanges are, in contrast, less competitive. They rely on indirect reciprocity expectations and are governed by a long-term orientation and partnership; relations trump competition (Querbach et al., 2020). In the following, we therefore develop the argument that, since family firms and non-family firms are characterized by different social exchange systems, they are also more likely to weigh the particular skills of

[2] Following Storey (2016: 13), the SME sector formally comprises firms with fewer than 500 employees. The largest company in our sample is a manufacturing company with 3,900 employees, the median is 190 employees.

[3] However, we do not address possible negative effects which may range from nepotism to the promotion of incompetent family executives (Miller & Le Breton-Miller, 2021).

potential external hiring candidates differently, as some skills fit one system better than the other (Daspit et al., 2016; Long & Mathews, 2011).

2.2. Family and non-family firm organizations as generalized and restricted social exchanges

To understand the recruitment preferences of family and non-family firms, it is important to know the context in which a hiring decision takes place. Each external hiring decision is connected with one of the two types of social exchange systems that prevail in family and non-family firms. For family firms, the preservation of the family dynasty (Casson, 1999) and of the family's social capital (Arregle, Hitt, Sirmon, & Very, 2007) are tenets of the organization. Retaining and strengthening family authority in the firm can be a goal in itself and has been shown to strongly influence the family firm's strategic decisions (Kammerlander & Ganter, 2015).

The pursuit of such non-economic goals helps to preserve family values and harmony, fosters the accumulation of social capital and reputation, and strengthens the ability to behave altruistically toward family members (Chrisman, Chua, Pearson, & Barnett, 2012; Gómez-Mejía, Haynes, Núñez-Nickel, Jacobson, & Moyano-Fuentes, 2007; Pearson, Carr, & Shaw, 2008). As a consequence, there is a strong transgenerational emphasis within family firms (Miroshnychenko, De Massis, Miller, & Barontini, 2021). These non-economic family goals reflect the so-called "socioemotional wealth" of the family (Gómez-Mejía et al., 2007). The pursuit of family-centered, noneconomic goals through family involvement and influence in the firm is, therefore, a key factor distinguishing family and non-family firms (Chrisman, Chua, & Sharma, 2005).

Hence, family firms can be characterized as generalized social exchange systems with a high level of indirect reciprocity, a strong future orientation, trust-based relations, and a collective identity (Querbach et al., 2020). Family firms generally cherish "the high quality of relationships enabled by the family influence" (Pittino, Visintin, Lenger, & Sternad, 2016: 83). In other words, family firms are owned and managed by families, with the intention of keeping the family involved over future generations. Family-centered goals commonly manifest in the development of the firm and frequently appear in the organizational image that family firms convey (Zellweger, Kellermanns, Eddleston, & Memili, 2012). Their more generalized social exchange system tends to permeate structures and processes related to human resource management (Daspit, Chrisman, Sharma, Pearson, & Mahto, 2018).

Following Daspit et al. (2018), family firms show greater variability of governance structures compared to non-family firms, since they blend formal and informal rules to control exchanges. In contrast, the prototypical non-family firm tends to be shaped by "self-interested actors that engage in impersonal exchanges in a quid-pro-quo manner based on contractual relationships" (Querbach et al., 2020: 3). Non-family firms can therefore be best described as restricted social exchange systems (Molm, Collett, & Schaefer, 2007).

Non-family firms place more emphasis on economic performance than on the preservation of socioemotional wealth. They tend to focus more on the present rather than the future (Daspit et al., 2016; Lumpkin & Brigham, 2011; Lumpkin, Brigham, & Moss, 2010). It can be harder for non-family firms to prioritize long-term-oriented innovative actions (Chrisman, Chua, De Massis, Frattini, & Wright, 2015).

Based on the differences in how family and non-family firms engage in social exchanges with managers and employees, they should therefore also exhibit differential preferences regarding the skills and characteristics of individuals they seek to hire: what may work in a restricted social exchange system (e.g., in a non-family firm) that emphasizes impersonal, instrumental, transactional interactions with clearly defined obligations and expectations may not be successfully applied in a generalized social exchange system (e.g., in a family firm) which emphasizes future orientation, trust-based relations, and a collective family firm identity. Therefore, we posit that family firms will differ in their hiring preferences from non-family firms, in that they will weigh managerial skills differently.

In the following sections, we derive our specific hypotheses regarding potential differences in employment preferences between family and non-family firms.

2.3. Hypotheses regarding relative skill preferences in hiring decisions of family and non-family firms

2.3.1. The relative preferences regarding managerial skills

Managers must fulfill several strategic and operational objectives. A manager's skillset broadly encompasses knowledge and experience that are relevant for the task of managing a firm. These skills are process-specific, i.e., relevant for running the day-to-day operations of the firm, as well as context-specific, as they relate to the industry and the environment in which the firm competes. When it comes to hiring for managerial skills externally, family firms and non-family firms are likely to differ in their preferences (Baù, Pittino, Sieger, & Eddleston, 2020; Schell, de Groote, Moog, & Hack, 2020).

Family firms have a wide spectrum of internal stakeholders with whom managers must transact and interact. They are characterized as cooperative, while often offering work environments that rely on greater individual employee involvement to manage the diverse actors involved in the family firm (Block, Fisch, Lau, Obschonka, & Presse, 2016; Mitchell, Morse, & Sharma, 2003; Morris, Allen, Kuratko, & Brannon, 2010; Neubaum, Thomas, Dibrell, & Craig, 2017). Moreover, family firms often operate in highly specialized industries where they may require deeper industry experience from their employees (Audretsch, Lehmann, & Schenkenhofer, 2021). The success of external managers in family firms may therefore depend on understanding the business needs of the company but also the relevant actors, their responsibilities, and the relationships between them.

Prior work has shown that individuals who have a wider range of experience in managing across industries and managing in different functional roles develop a greater awareness of other individuals' strengths and weaknesses (Kolev, Wangrow, Barker, & Schepker, 2019; Tasheva & Hillman, 2019). Such awareness is crucial for leading in diverse team environments and facilitates communication within a broad spectrum of stakeholders (Tasheva & Hillman, 2019). Managers with a broader range of managerial skills might therefore be more suitable for striving within a family firm. Their skillset can potentially provide the capacity for reliable and repeatable communication and coordination activities that are necessary to thrive in family firms. Consequently, family firms may prefer executives with general managerial skills (derived from functional and industry experience) that potentially allow them to manage the complex family environment and to identify new business opportunities (Andersson, Johansson, Karlsson, Lodefalk, & Poldahl, 2018).

In non-family firms, the social exchange system is more restricted, with formal policies in place that determine employee development trajectories. As human resources policies aim to develop the necessary managerial skills on the job, non-family firms should prefer talent that can be further developed when hiring external managers (Stewart & Hitt, 2012). Talented new hires will enter formalized training, and on-the-job learning in a structured occupational environment can facilitate the development of firm-specific knowledge. Skill-enhancing human resource management practices in staffing, training, and career development should incentivize external managers to develop abilities and self-efficacy (Pittino et al., 2016). These conjectures are further informed by prior research that confirms that non-family firms find it less difficult to retain high-profile employees (Bassanini, Breda, Caroli, & Rebérioux, 2013; Chrisman, Sharma, Steier, & Chua, 2013; Schulze, Lubatkin, Dino, & Buchholtz, 2001; Verbeke & Kano, 2012). Their human resources policies should consequently place less emphasis on the pre-existing managerial skills of new employees, while focusing more on developing talent internally (Chrisman, Memili, & Misra, 2014).

In summary, social exchange systems between family firms and non-family firms differ and different candidate skills are therefore suited for each system. Family firms tend to prefer candidates with more general managerial skills. Such candidates can navigate the complex family firm environment and are better fit to develop the skills necessary to master the complex interactions with many different stakeholders within the family firm. Non-family firms focus more on developing and nurturing relevant idiosyncratic skills through higher powered skill-enhancing human resource management practices, whereas family firms are more often focused on broad job descriptions, flat hierarchies, and learning-on-the-job to navigate the social exchange within family firms (Flamini, Gnan, & Pellegrini, 2020; Rondi, Überbacher, von Schlenk-Barnsdorf, De Massis, & Hülsbeck, 2021). In comparison with non-family firms, family firms should therefore, be relatively more attracted by a candidate's existing general managerial skills. Hence, we formulate the following hypothesis.

Hypothesis 1. Compared to non-family firms, family firms exhibit a stronger employment preference for candidates with more general managerial skills.

2.3.2. The relative preference regarding leadership skills

The presence of strong corporate leadership can contribute positively to a company's financial performance (Wilderom, van den Berg, & Wiersma, 2012). However, the professional hierarchies for leadership skills or to develop them internally differ between family and non-family firms (Baù et al., 2020; Fries et al., 2021).

Operating as restricted social exchange systems, non-family firms tend to rely more on formal agreements when it comes to developing their employees. They are more likely to employ high-performance work systems and provide more leadership opportunities for employees (Tsao, Chen, Lin, & Hyde, 2009). Arguably, non-family firms aim to motivate and groom their workforce through the use of sophisticated human resources management practices and thus, processes that emphasize leader development are a strategic focus in many non-family firms to develop the soft skills of their employees (Day, Fleenor, Atwater, Sturm, & McKee, 2014; Kaiser & DeVries, 2000).

In non-family firms, transparent professional hierarchies outline how individuals can get promoted to the next hierarchical level are instrumental in developing leaders over time. The benefits of status that come with leadership assignments are often communicated early in their careers to employees (Day et al., 2014). The something for something mentality in restricted social exchange systems which generally prevails in non-family firms help to define career paths more clearly and, potentially, allows employees to develop leadership skills as they progress along such defined paths. Consequently, "the extent to which HRM is planned and organized is key to benefit adoption – and perhaps to the effectiveness of these benefits" (Dulebohn, Molloy, Pichler, & Murray, 2009: 99).

Non-family firms with more restricted social exchange systems should, therefore, rely more on their own leadership development initiatives rather than hiring people based on their externally-developed leadership skills (Lange, 2007). In turn, this structured process of leadership development is likely to reduce the preference for hiring employees with leadership skills.

By contrast, the more generalized social exchange system in family firms emphasizes flat hierarchies and a more collaborative work environment. Prior work has therefore noted that the tension between economic goals and idiosyncratic culture can impede the development of leadership talent within family firms (Miller & Le Breton-Miller, 2006). Hence, while it seems that non-family firms focus on formally developing leadership talent, family firms are less likely to have structures in place to do the same (Cabrera-Suarez, 2005; Daspit et al., 2016). In part, the lack of leadership development might be due to the lack of formal hierarchies that necessitate leadership training in more restricted social exchange systems (Daspit et al., 2016). Chua, Chrisman, and Bergiel (2009)) point out that family firms often have unclear paths for career progression, at worst even imposing a glass-ceiling for non-family employees. Thus, there is little room and little need to develop leadership skills internally (Baù et al., 2020; Fries et al., 2021). Similarly, Hauswald, Hack, Kellermanns, and Patzelt (2016) show that non-family employees in family firms are less power-oriented and, consequently, less interested in advancing in their careers than employees in non-family firms are. This is another characteristic of a family firm that would be detrimental to leadership development.

In summary, the restricted social exchanges taking place in non-family firms should make it more likely that leaders are developed internally, so we expect non-family firms to rely on grooming their own leaders instead of hiring outside managers for their leadership skills. At the same time, the more generalized social exchange system prevalent in family firms makes it more difficult to develop leaders internally, so we argue that family firms will perceive leadership as a skill that they should particularly prefer when hiring externally. When they hire externally through an HR agency, we expect that family firms will have a stronger preference for leadership skills than non-family firms will. We, therefore, formulate the following hypothesis.

Hypothesis 2. Compared to non-family firms, family firms exhibit a stronger employment preference for candidates with stronger leadership skills.

2.3.3. The relative preference regarding performance orientation

The individual performance of newly hired employees depends on many factors. Some pertain to the employees, some to the organization which hires them. Importantly, the corporate contexts of family firms and non-family firms emphasize different goals that must be accepted by the new hire. The more generalized social exchange system in family firms implies a strong focus on long-term orientation, on cultural fit, and on first learning the ropes and intricacies of the family firm culture (Schell et al., 2020). In contrast, the more restricted social exchange system in non-family firms emphasizes contractual obligations and expectations; new employees must be up and running with a stronger emphasis on performing in the short-term.

Early work on motivational processes has documented that the performance orientation of individuals is an important determinant distinguishing between employees who emphasize short-term financial performance or long-term goals. According to Kohli, Shervani, and Challagalla (1998), strongly performance-oriented individuals aim at pleasing their superiors. Hence, they show superior performance because they want to be judged able and willing by others (Ames & Archer, 1988). Such performance orientation is seen as the main predictor of good performance, which eventually allows these individuals to extract higher extrinsic rewards as well. However, more recent advancements in this literature also indicate a trade-off from the point of view of the firm. Employing individuals with strong performance orientation but lacking a long-term perspective may only pay off in the short term (Arnold et al., 2019), may present room for negative group conflict (Klein & Speckbacher, 2020), and performance effects may differ for different types of firms (Hernández-Linares, Kellermanns, & López-Fernández, 2021). As a consequence, performance-oriented individuals may flourish only within a formal company culture that includes incentive schemes and the monitoring of individual and group performance (Querbach et al., 2020).

Non-family firms tend to find it easier to formalize their governance structure (Daspit et al., 2018). Unconstrained by the interests of family members, they provide better and broader career opportunities for non-family managers, including promotion ladders and bonuses. Hence, non-family firms can hire and, subsequently, integrate and incentivize high-quality managers more easily (Chrisman et al., 2014). Also, incentive schemes align the interests of the managers and those of the owners and alleviate agency problems (Chrisman, Devaraj, & Patel, 2017). Non-family firms are more likely to use appraisal systems to cope with moral hazard and to match the expectations of the principal and the agent. Such systems link the individual performance of employees with objectives and outcomes that should increase non-family firm's performance.

In contrast, family firms often rely more on informal governance mechanisms and find it difficult to establish a more performance-oriented culture (Hernández-Linares et al., 2021). When hiring external managers, family firms may pay particular attention to recruiting individuals who exhibit cultural fit rather than a high performance-orientation. Less performance-oriented employees are more willing to forego short-term gains in exchange for the benefit of enhancing their skills in the long term (Ames & Archer, 1988; Kohli et al., 1998).

Some family firms aim to reduce moral hazard through their internal corporate and family culture (Schell et al., 2020); owner-families keep close relations with the firm and perceive the company as an important part of the family identity (Vallejo, 2009). The close and long-term relationship of the family to the company makes monitoring employees and contract enforcement easier (Bennedsen, Pérez-González, & Wolfenzon, 2010). Formal performance appraisal may be very costly in family firms, and family firms would, therefore, rely more on trust than on formal contractual agreements (Boncken, Hughes, Ratzmann, Cesinger, & Pesch, 2020; Schulze et al., 2001). At times, formal governance structures could jeopardize the stewardship environment that relies on care and concern rather than on short-term economic goals (Miller & Le Breton-Miller, 2006; Stewart & Hitt, 2012).

Following Kumar, Sunder, and Leone (2014), better individual and firm performance come from greater congruence between individual employee characteristics and the values of the organization. Hence, family firms and non-family firms might weigh the performance orientation of hiring candidates very differently. To avoid formalizing governance structures, family firms might therefore forego the hiring performance-oriented candidates. Since non-family firms are used to negotiating incentive contracts, specifying benefits, and granting financial rewards for individual behavior (Querbach et al., 2020), they should be more likely than family firms to hire strongly performance-oriented external managers; they can readily integrate managers who value rewards over development opportunities. In contrast, family firms must balance their pursuits of non-economic and economic goals due to their culture, which places conservation above short-term economic gains (Astrachan, Botero, Astrachan, & Prügl, 2018; Hauswald et al., 2016). Even if involving a recruitment consultant may signal their intention to professionalize, they might be more reluctant to hire strongly performance-oriented candidates. Based on these arguments, we state the following hypothesis.

Hypothesis 3. Compared to non-family firms, family firms exhibit a weaker employment preference for candidates with strong financial performance-orientation.

3. Data and methodology

3.1. Sample

We analyzed 56 selection processes on behalf of 42 client companies which, in total, short-listed 166 candidates. We were given access to information on 166 hiring candidates who were each short-listed – ranked as one of the top three candidates by the hiring company – in one of the 56 selection processes. The consultant's initial list of recommended candidates included more than three individuals. Yet only data on the top three candidates following the client firm's ranking were reported to us.

The data were hand-collected from the files of a Western European executive search consultancy that specializes in advising small and medium-sized enterprises (SMEs), mostly from central and Eastern Europe. The data set covers the years 2012–2017 and documents the executive search activities of the founder of the consultancy which today constitutes a partnership. Based on discussions with the involved HR consultant, the employment processes appeared to be equally distributed across the observation period, with no particular peak or trough. However, we did not have information on the specific timing of each hiring process and could only employ cross-sectional analysis.

With one exception, all search processes on behalf of client firms took place in Europe; specifically, in Austria, Croatia, England, Germany, Hungary, Serbia, and Switzerland. The other search process was conducted in India. The client firms cover a wide range of different industries and governance forms, including architecture and real estate offices, food processing and mechanical engineering industries, financial services, and the local offices of a global NGO. The data set reports only one nationality for each candidate and includes a total of 14 different nationalities among them. The languages associated with the candidates' reported nationalities match the local languages spoken in the 12 countries in which the HR consultant's client companies were operating.

3.2. The selection process

In this section, we briefly describe the search and selection process conducted with each client firm. In a first step, the HR consultant sifted through the consultancy's files to identify candidates who appeared professionally suitable. Second, the consultancy invited six to eight candidates for personal interviews and the HR consultant rated each candidate according to a pre-established competency model. Next, the consultancy reported on all interviewees to the responsible executive of the client firm. The HR consultant also provided a ranking of the candidates. Subsequently, all of these candidates were invited for interviews by the client firm, whose responsible executives decided on their own ranking of the top three.

During the observation period, the HR consultant administered 56 selection processes for higher-level managerial positions on behalf of 42 client companies; 14 client firms hired the HR consultant more than once. We have 166 candidates in our sample who were assessed by the HR consultant based on a competence model. To this end, the consultancy relied on criteria derived Fernández-Aráoz (1999, 2005) and Fernández-Aráoz (2010, ch. 5). Subsequently the top-three applicants were selected and ranked by the client companies in most of the 56 selection processes; in processes, clients chose to rank only two top candidates.

3.3. Variables

3.3.1. Dependent variable

3.3.1.1. Hiring decision. In all selection processes, the client firms successfully hired the candidate who they ranked top. We dichotomized this variable, with the variable taking on the value of one for those individuals who were hired and zero for those who were not. Among the non-hired candidates, we did not further distinguish between those ranked second and third for our main analysis (Brands & Fernandez-Mateo, 2016; DeVaro, Kauhanen, & Valmari, 2019; Fernandez-Mateo & Fernandez, 2016).

3.3.2. Explanatory variables

3.3.2.1. Family firms. Family firms are defined and classified in line with Chua, Chrisman, and Sharma (1999: 25) as: "a business governed and/or managed with the intention to shape and pursue the vision of the business held by a dominant coalition controlled by members of the same family or a small number of families in a manner that is potentially sustainable across generations of the family or families". In our case, the

Table 1
Descriptive Statistics.

	Non-Family Firms					Family Firms					T-Test	
Variables	Mean	SD	Min	Max	Median	Mean	SD	Min	Max	Median	Difference in Means	p-Value
Hired (1=Hire)	0.33	0.48	0.00	1.00		0.34	0.48	0.00	1.00		−0.006	(0.942)
Functional Competence	5.71	0.76	4.00	7.00	0	5.61	0.86	3.00	7.00	0	0.106	(0.452)
Market Knowledge	5.12	1.07	2.00	7.00	6	5.18	1.06	3.00	7.00	6	−0.056	(0.754)
Leadership	4.86	0.54	3.00	6.33	5	4.76	0.65	2.17	6.00	5	0.108	(0.302)
Performance Orientation	5.46	0.62	4.00	6.50	4.83	5.54	0.60	4.00	7.00	4.83	−0.070	(0.495)
Team Leadership	5.00	0.45	4.00	7.00	5.5	4.90	0.69	0.00	7.00	5.5	0.096	(0.364)
People Management	4.76	0.86	0.00	6.00	5	4.60	1.04	0.00	6.00	5	0.168	(0.313)
People Development	4.51	0.92	0.00	6.00	5	4.21	1.33	0.00	6.00	5	0.299	(0.148)
Intercultural Sensitivity	5.14	0.72	3.00	7.00	4	5.01	0.70	2.00	7.00	4	0.129	(0.279)
Client Orientation	5.35	0.69	4.00	7.00	5	5.46	0.61	4.00	7.00	5	−0.099	(0.354)
Change Leadership	4.55	0.86	3.00	7.00	5	4.75	0.88	3.00	6.00	5	−0.205	(0.164)
Strategic Orientation	5.22	0.86	4.00	7.00	4	5.06	0.77	4.00	7.00	5	0.164	(0.225)
Results Orientation	5.57	0.78	4.00	7.00	5	5.61	0.84	4.00	7.00	5	−0.040	(0.771)
No. of Employees	1011	1238	6	3900	530	395	616	3	2001	65	1.283***	(0.000)
Hiring Ranking Consultant (Ascending)	2.96	0.89	1.00	4.00	6.27	2.98	0.89	1.00	4.00	4.19	−0.013	(0.930)
Male	0.88	0.33	0.00	1.00	3	0.84	0.37	0.00	1.00	3	0.048	(0.432)
Age	43.57	6.41	28.00	58.00	1	43.65	7.31	28.00	62.00	1	0.021	(0.986)
Level of Education (Ascending)	1.86	0.92	0.00	3.00	44	1.72	1.09	0.00	3.00	44	0.132	(0.452)
In a Relationship (d)	0.73	0.45	0.00	1.00	2	0.77	0.42	0.00	1.00	2	0.040	(0.587)
Observations	51					115						

*** $p < .01$, (d) denotes a dummy variable.

HR consultant reported whether the client firm was a family business or not. We operationalized this variable as a dichotomous indicator, with the variable taking on the value of one for family firms and zero for non-family firms. According to this classification, 28 of the 42 client companies were family firms. This corresponds to 51 of the observations being candidates hired by non-family firms and 115 candidates being hired by family firms.

3.3.2.2. Managerial skills, leadership skills, and performance orientation. In assessing the individual competencies of the candidates, criteria were derived from Fernández-Aráoz (1999, 2005) and Fernández-Aráoz (2010, ch. 5). All items were rated on a seven-point Likert scale with higher numbers denoting higher competencies. Detailed information is provided in Table A1 in the Appendix.

First, we elicited the factor structure underlying the different individual items using exploratory factor analysis because the individual items originated from non-established scales (Mooi, Sarstedt, & Mooi-Reci, 2018). The factor analysis revealed that the items *Functional Competency* and *Market Knowledge* loaded on the same factor, with loadings of 0.64 and 0.75. Yet when we combined these variables into a new factor, the resulting reliability was insufficient. We decided to keep the two variables separate to proxy for managerial skills. The four items Team Leadership, People Management, People Development, and Intercultural Competency loaded on the same factor, with loadings of at least 0.60. We combined these four variables into the construct of *Leadership Skills*. Two other items, Change Leadership and Strategic Orientation, cross-loaded on the different factors. We decided to include these two variables into the leadership construct as well, as they reported loadings of at least 0.58, and theoretically related to the underlying leadership construct. In summary, Leadership skills therefore comprises of six items, internal consistency was high, with 0.79. Lastly, we combined the two variables Result Orientation and Client Orientation into one construct to proxy for *Performance Orientation* (which results in an alpha of 0.54).[4]

3.3.2.3. Ranking provided by the consultant. The consultant pre-selected six to eight candidates for structured interviews. The consultant subsequently reported her/his ranking of these candidates to the client companies, a ranking which we were able to compare and contrast with the client companies' rankings of the candidates and with the actual hiring decisions. We took the top-three ranking of the hiring company as our base ranking and matched it with the consultant's information on his ranking of these candidates. We included the rank-order recommended by the consultant as an additional explanatory variable in our analysis. We ordered the recommendations such that higher values indicate a higher ranking by the consultant.[5]

3.3.2.4. Control variables. We were further able to obtain information on the following personal attributes of the candidates: *Age*, gender (*male* = 1), relationship status (*in relationship* = 1), and *level of formal education (ascending),* and *No. of Employees (log)*. A detailed description is provided in Table A1 in the Appendix.

3.4. Methodology

Given the dichotomous nature of the dependent variable, we employed a logistic regression approach. In this approach, we estimated the following baseline model for the family firm and non-family firm sample:

$$(1)\ (\text{Hiring Decision})_i = \alpha_i + ß_1{*}(\text{Functional Competence})_i + ß_2{*}(\text{Market Knowledge})_i + ß_3{*}(\text{Leadership})_i + ß_4{*}(\text{Performance Orientation})_i + ß_5{*}\ln(\text{No. of Employees})_{it} + ß_6{*}(\text{Hiring Ranking Consultant})_i + ß_7{*}(\text{Male; dummy})_i + ß_8{*}(\text{Age})_i + ß_9{*}(\text{Level of Education})_i + ß_{10}{*}(\text{Relationship; dummy})_i + \mu_i$$

We subsequently estimated a model that also controlled for the size of the hiring firm and the recommendation provided by the HR consultant.

When comparing coefficients, we made sure that they informed our hypotheses by following the recommendations in Hoetker (2007). In

[4] Individual loadings are as follows: 1) Leadership skills; Team Leadership (0.65), People Management (0.81), People Development (0.81), Intercultural Sensitivity (0.59), Change Leadership (0.58), Strategic Orientation (0.66). 2) Performance Orientation; Client Orientation (0.77), Results Orientation (0.85), 3) 3rd Factor (not used); Functional Competence (0.64), Market Knowledge (0.75). Chi^2=403.98, p<0.001).

[5] In seven instances, the top-three list included a person who was ranked lower by the consultant but still made the top-three list of the hiring company. We estimated our regressions without these seven instances, and the results remained invariant.

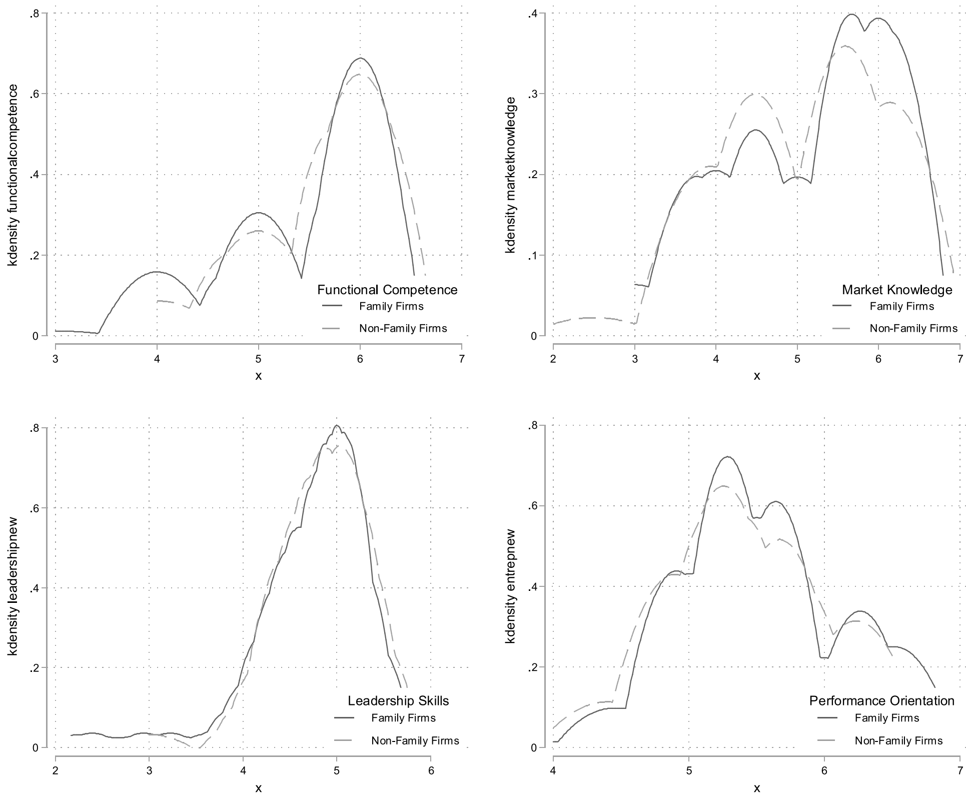

Fig. 1. Distribution of key variables for family and non-family firms.

instances like ours, Hoetker (2007: 338) recommends that researchers compare significant and insignificant coefficients across models: "If the model is estimated separately for each group, the researcher can at a minimum compare the statistical significance of the coefficients across groups. This is possible because the coefficients and standard errors are consistent within each group. One could report, for example, that x has a significant and positive impact for Group 1, but is not significant for Group 2." We report marginal effects for each coefficient and compare coefficient estimates across the family and non-family firm specifications.

To assess the robustness of our results, we also relaxed the assumption of linear predictor effects underlying the logit estimator using a spline function (Desquilbet & Mariotti, 2010; Royston & Sauerbrei, 2007). Each spline (or zone) can have different (and additive) regression coefficients, thus explicitly allowing for non-linear effects that change across the distribution and that might differ by zones. We depict the spline models that have the lowest residual mean-squared errors in Fig. 2.[6]

In addition, we provided more clarity on potentially nested structures by estimating a seemingly unrelated regression model. In these seemingly unrelated regressions, we considered that the probability of being ranked highest by the HR consultant and the probability of ultimately being hired by the client can be correlated with each other and be co-determined. We therefore employed both as dependent variables simultaneously. Each equation estimated is a valid logistic regression that could, in principle, have been estimated separately. The error terms of each equation are be assumed to be cross-correlated. Both equations used the same set of predictor variables.

4. Results

4.1. Descriptive statistics

Table 1 reports that potential candidates to be hired by both family and non-family firms scored highest on functional competence and performance orientation. Notably, no significant differences in assessed skills existed between the pools recommended for the family and the non-family firms. As expected, given that the search processes concerned upper management positions in SMEs, the typical candidate was a middle-aged male who was in a relationship; our sample comprised mostly males (86 %) and the average age was 43 years. Firm size marked the only significant difference between the samples of family and non-family firms ($p < 0.01$, with on average 1011 employees for non-family and 395 employees for family firms).

Concerning the distributions of variables, we found that, for both family and non-family firms, the mean values for all candidate assessments lied relatively close to their median values. We report the distribution graphically in Fig. 1. The graphs show strong overlap between the distributions for family and non-family firms.

We tested for the equality of distributions using a Kolmogorov-Smirnov test (Conover, 1999). Again, firm size significantly drives distributional differences between family and non-family firms ($p < 0.01$). For all other variables, we found no evidence that the distributions differed.[7] Regarding the recommendation provided by the consultant and its subsequent acceptance by the client, we found that the consultants' first-ranked candidate was always also ranked first by the non-family firms in our sample; in other words, these clients unanimously followed the consultants' advice (full cross-tabulation is available upon request from the authors). Among family firms, however,

[6] For our four key competencies, this has led to 3, 5 7, and 5 knots respectively. A full table showing all models using 3, 5, and 7 knots for all models is available upon request from the authors.

[7] We also tested whether our findings are susceptible to different distributional assumptions and used normalized (z-scores) of the predictor variables. Results remained invariant in significance and direction.

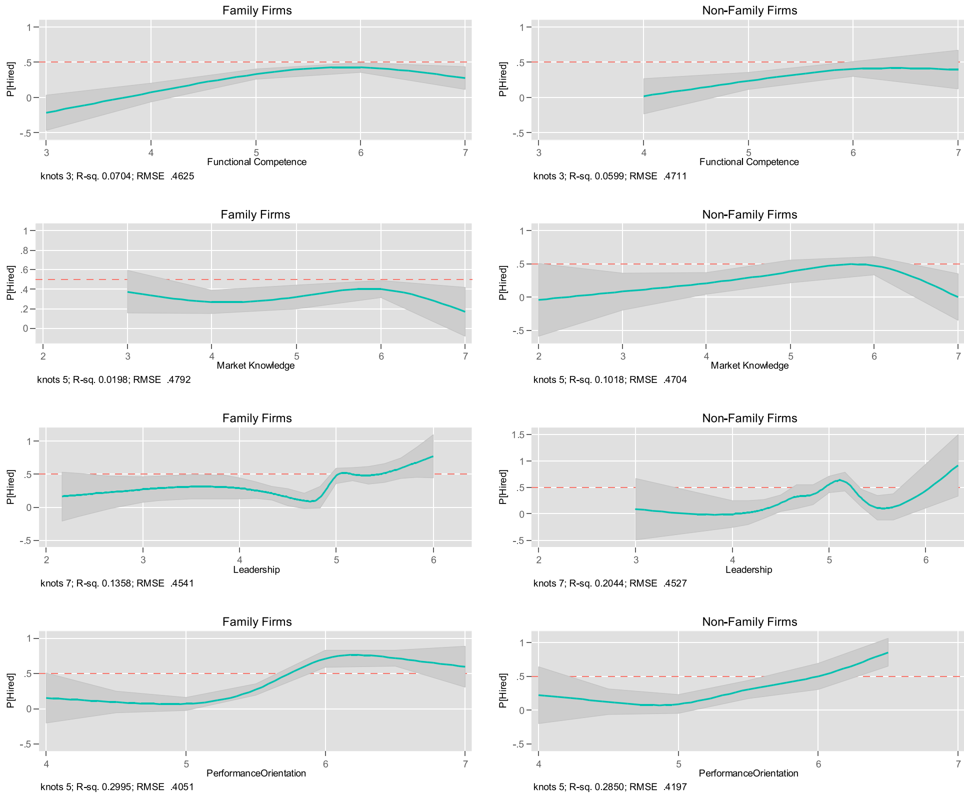

Fig. 2. Marginal effects and piece-linear decomposition of key explanatory variables.

there was such agreement in only 74 % of cases.

Table 2 depicts the results of the logit analysis for the two subsamples. In testing our hypotheses, we followed the advice provided by Hoetker (2007: 338), comparing significant and insignificant coefficients across models.[8] For non-family firms, we found that among managerial skills, market knowledge positively affects the hiring probability (ß = 0.16, $p < 0.1$), as does performance orientation (ß = 0.514, $p < 0.01$). Functional competence and leadership were not significant at conventional levels. Regarding family firms, we found that among the managerial skills, functional competence most positively affects the hiring decision (ß = 0.127, $p < 0.05$), whereas leadership (ß = 0.194, $p < 0.1$) and performance orientation (ß = 0.413, $p < 0.01$) were highly sought-after as well.

All the coefficient estimates were robust to the inclusion of firm size as an additional control variable. Note that, in Column 5 of the table, we added the hiring recommendation of the external HR consultant as an additional predictor variable. The coefficient for the hiring recommendation was significant (ß = 0.319, $p < 0.01$) and positively affected the final hiring decision. Interestingly, both functional competence and leadership skills became insignificant upon the inclusion of this variable.[9]

The coefficients indicate strong differences in employment preferences for family and non-family firms. To illustrate these points further, we calculated the average marginal effect across the variable scores (leaving all other variables at their respective means). For family firms, a one-point increase in functional competence equals, on average, a 13.9 percent increase in the likelihood of hiring. For market knowledge, a one-point increase equals, on average, a 16.1 percent increase in the likelihood of hiring for non-family firms. As it pertains to the leadership variable, we can infer that for family firms, a one-point increase equals, on average, a 20.8 percent increase in the hiring probability. Lastly, a one-point increase in the performance orientation measure equals, on average, a 51 percent increase in the likelihood of hiring for non-family firms. Conversely, for family firms, a one-point increase in the performance orientation measure equals, on average, a 40 percent increase in the likelihood of hiring.

In Fig. 2 we depict the differences between family and non-family firms using a piecewise curve fitting (splines) approach (Desquilbet & Mariotti, 2010; Royston & Sauerbrei, 2007). The dependent variable is whether a candidate was hired or not hired.

Fig. 2 shows a more nuanced perspective of the coefficient differences. Family firms are more likely to hire individuals when ratings increase from below the mean value to slightly above the mean value of functional competence (range between ratings of 3–5). Non-family firms do not report the hiring of individuals with ratings below 4. Also, the coefficients for market knowledge are in part affected by non-family firms which hire individuals with well-below average market knowledge ratings. For non-family firms, there is a steady increase in the hiring probability, yet for both firm types, very high market knowledge ratings reduce hiring

[8] We checked for the presence of unobserved heterogeneity using the method suggested by Allison (1999). We did not find evidence for distortions due to unobserved heterogeneity.

[9] In additional robustness checks, we also explored the susceptibility of our findings to using the full top-three ranking information, applying a rank-order logistic analysis (Beggs, Cardell, & Hausman, 1981) using the “rologit” command in Stata (StataCorp., 2015). While the signs of the coefficients and significance levels remain unchanged, the marginal effects are more difficult to interpret. However, in this paper, we are interested in identifying successful candidates for hiring, rather than ranking all the candidates. Thus, we refrained from tabulating these results; they are available upon request from the authors.

Table 2
Regression individual candidate assessment on hiring decision.

	(1) Non-Family Firms	(2) Family Firms	(3) Non-Family Firms	(4) Family Firms	(5) Family Firms
Dep. Variable: Hired					
Functional Competence	0.041	0.127**	0.042	0.139**	0.051
	(0.757)	(0.050)	(0.754)	(0.041)	(0.429)
Market Knowledge	0.160*	0.021	0.161*	0.016	0.037
	(0.075)	(0.682)	(0.082)	(0.760)	(0.430)
Leadership	0.258	0.194*	0.257	0.208*	0.063
	(0.206)	(0.083)	(0.210)	(0.068)	(0.474)
Performance Orientation	0.514***	0.413***	0.514***	0.407***	0.260***
	(0.004)	(0.000)	(0.004)	(0.000)	(0.003)
No. of Employees (log)			0.003	−0.019	−0.001
			(0.954)	(0.545)	(0.964)
Hiring Ranking Consultant (Ascending)					0.319***
					(0.000)
Male (d)	0.257**	0.150	0.259**	0.152	0.116
	(0.023)	(0.236)	(0.025)	(0.231)	(0.171)
Age	−0.015	−0.008	−0.015	−0.008	0.000
	(0.314)	(0.357)	(0.342)	(0.343)	(0.952)
Level of Education (Ascending)	0.004	0.003	0.005	0.006	0.028
	(0.971)	(0.960)	(0.962)	(0.915)	(0.535)
In a Relationship (d)	0.082	−0.402**	0.081	−0.414**	−0.386**
	(0.657)	(0.013)	(0.667)	(0.010)	(0.045)
Chi^2-Value	22.53	45.35	22.54	45.72	77.36
P > Chi^2-Valued	0.004	0.000	0.007	0.000	0.000
Observations	51	115	51	115	115

Coefficients correspond to the marginal effects for the independent variables calculated at the mean levels of the remaining variables. The dependent variable takes on the value of one if the candidate who achieved the highest company ranking was subsequently hired, and zero otherwise. (d) denotes a dummy variable.
* $p < 0.1$.
** $p < .05$.
*** $p < .01$.

probabilities.[10]

The positive coefficient for leadership is affected by family firms hiring individuals who possess ratings above the mean on leadership and tending to pass over individuals who possess slightly below mean ratings on it. Non-family firms are less likely to hire individuals with very pronounced leadership skills. For performance orientation, both family and non-family firms avoid individuals with below mean ratings; however, only family firms hire individuals who rank very high on performance orientation.[11]

4.2. Robustness checks and post-hoc analysis

Columns 1 and 2 of Table 3 report the individual coefficient estimates derived from the seemingly unrelated regression specification, Column 3 reports the marginal effects on the joint probability of being recommended for hiring and being hired.

The coefficient for functional competence, one of the managerial skills, is significant for both the hiring recommendation and the hiring decision (ß = 0.328; $p < 0.1$ and ß = 0.359; $p < 0.05$ for the firm and the consultant, respectively). Combined, these two coefficients imply a 10-percentage-point increase in the probability of being recommended and hired. Similarly, leadership skill is positively predictive for both the hiring recommendation and the joint probability of being recommended and hired (ß = 0.494; $p < 0.1$ for the consultant). Overall, this translates into a 13-percentage-point increase in the probability of being recommended and hired. In summary, we can conclude that the external consultant recommends candidates with strong managerial skills and leadership ability, two traits that are also strongly predictive of the hiring decision of the client family firm.

Above, we note that leadership skills are more highly sought after in family firms than in non-family firms. Generally, the prior literature suggests that, given their less hierarchical structures, promotions in family firms are less likely. Since initial analyses indicated that the studied family firms, measured by the number of employees, are substantially smaller than their non-family equivalents, we also estimated a set of regressions using the size of the firm – i.e., the natural logarithm of the number of employees of the firm – as a potential moderator of the relationships between managerial skills, leadership ability, and performance orientation and the probability of being hired by family firms.[12] Results are reported in Table 4.

We found a positive moderating effect of firm size on the relevance of leadership skills for family firms (ß = 0.088; $p < 0.05$). At the same time, functional competence was less likely to be a factor for hiring decisions in family firms as family firm size increases. The coefficient for the interaction term was negative (ß=−0.078, $p < 0.1$). While this

[10] We checked whether the coefficient for market knowledge differs significantly between very high values and lower values of market knowledge. We did not find that the coefficient is statistically different, but we found that the confidence intervals around the coefficient are much wider for very high values of market knowledge. This could result from a lower number of observations (also depicted in Fig. 1). Hence, it might be that uncertainty surrounding the true competence of this type of skill is more pronounced for family and non-family firms, which in turn might lead both types of firms to forego candidates that rank very highly on this dimension.

[11] Based on the graphs, we also tested whether the marginal effects of unit changes in the Likert scale variables are significantly different. We did a median split the sample and carried out the "suest" estimation in Stata 13. For functional competence, the coefficient for family firms is larger than for non-family firms ($p<0.1$) for low values of functional competence but not for large values of functional competence. For market knowledge, the test reveals no significant differences between coefficients. For leadership skills, the coefficient for family firms is larger than the coefficient for non-family firms ($p<0.01$) for high values of leadership skill but not for low values of leadership skill. For performance orientation, the coefficient is larger for non-family firms than for family firms ($p=0.11$) for high values of performance orientation but not for low values of performance orientation.

[12] We are grateful to an anonymous reviewer for suggesting these extensions.

Table 3
Seemingly Unrelated regression – Hiring Probability of Hiring for Family Firms.

	(1)		(2)
	Seemingly Unrelated Regression		Joint Marginal Effects
	Pr [Hired] = 1	Pr [Recommendation] = 1	Pr[Hired] = 1; Pr [Recommendation] = 1
Functional Competence	0.328*	0.359**	0.102**
	(0.061)	(0.031)	(0.023)
Market Knowledge	0.056	−0.003	0.009
	(0.707)	(0.983)	(0.815)
Leadership	0.365	0.494*	0.127*
	(0.189)	(0.069)	(0.078)
Performance Orientation	1.181***	0.722***	0.289***
	(0.000)	(0.003)	(0.000)
Male (d)	0.500	−0.028	0.081
	(0.284)	(0.945)	(0.406)
Age	−0.014	−0.023	−0.005
	(0.535)	(0.290)	(0.349)
Level of Education (Ascending)	0.017	−0.183	−0.023
	(0.911)	(0.200)	(0.548)
In a Relationship (d)	−1.033**	−0.248	−0.187
	(0.010)	(0.481)	(0.105)
Chi^2-Value	40.06		40.06
P > Chi^2	0.001		0.001
Observations	115		115

Table 2 reports a seemingly unrelated equation model. The model employs the probability to be ranked highest by the HR consultant as the dependent variable of Column 1 and the probability to be finally hired by the client as the dependent variable for Column 2. Each equation is a valid logistic regression; the error terms of each equation are assumed to be cross-correlated. Columns 1 and 2 of Table 3 report the individual coefficient estimates, Column 3 reports the marginal effects on the joint probability of being recommended for hiring and actually being hired. (d) denotes a dummy variable.

* $p < 0.1$.

** $p < .05$.

*** $p < .01$.

Table 4
Regression individual candidate assessment – company size interactions on hiring decision.

	(1) Family Firms	(2) Family Firms	(3) Family Firms	(4) Family Firms
Dep. Variable: Hired				
Functional Competence	0.484**	0.141**	0.149**	0.140**
	(0.015)	(0.040)	(0.035)	(0.041)
Market Knowledge	0.009	−0.030	0.020	0.017
	(0.861)	(0.850)	(0.710)	(0.745)
Leadership	0.218*	0.211*	−0.134	0.211*
	(0.061)	(0.066)	(0.454)	(0.067)
Performance Orientation	0.412***	0.405***	0.425***	0.488
	(0.000)	(0.000)	(0.000)	(0.109)
No. of Employees * Functional Competence	−0.078*			
	(0.052)			
No. of Employees * Market Knowledge		0.010		
		(0.759)		
No. of Employees * Leadership Ability			0.088**	
			(0.048)	
No. of Employees * Performance Orientation				−0.018
				(0.776)
No. of Employees (log)	0.435*	−0.075	−0.451**	0.081
	(0.063)	(0.683)	(0.041)	(0.819)
Male (d)	0.167	0.147	0.176	0.153
	(0.160)	(0.254)	(0.157)	(0.226)
Age	−0.009	−0.008	−0.007	−0.008
	(0.298)	(0.352)	(0.392)	(0.325)
Level of Education (Ascending)	0.004	0.005	−0.008	0.004
	(0.936)	(0.928)	(0.886)	(0.937)
In a Relationship (d)	−0.492***	−0.406**	−0.464***	−0.415**
	(0.002)	(0.013)	(0.005)	(0.010)
Chi^2-Value	49.49	45.82	49.37	45.80
P > Chi^2	0.000	0.000	0.000	0.000
Observations	115	115	115	115

Coefficients correspond to the marginal effects for the independent variables calculated at the mean levels of the remaining variables. The dependent variable takes on the value of one if the candidate who achieved the highest company ranking was subsequently hired, and zero otherwise. (d) denotes a dummy variable.

* $p < 0.1$.

** $p < .05$.

*** $p < .01$.

generally supports the notion that family firms seek different skills than do non-family firms, the strength of the relationship is likely to be conditional on family firm size.

We also explored whether the role of a candidate's performance orientation might be related to the other skills that family firms and non-family firms seek. Hence, we interacted performance orientation with the other skills and abilities that were assessed. Results are summarized in Table 5. Performance orientation becomes more important for family firms when a candidate ranks high in functional competence (ß = 0.27, $p < 0.1$), but becomes less important when a candidate ranks high in leadership ability (ß=−0.648, $p < 0.1$). A candidate's performance orientation is less important for non-family firms when functional competence is high (ß=−0.553, $p < 0.05$) and when market knowledge is high (ß=−0.320, $p < 0.05$).

5. Discussion

5.1. Summary of findings and contribution

Our empirical study analyzes the different criteria family and non-family firms incorporate in their decisions about hiring external managers. We shed light on heterogeneity in candidate characteristics that positively affect hiring decisions in family and non-family firms. Empirically, we report three main results. First, we find that functional competence is more important for the hiring decisions of the family firms in our sample, while market knowledge is more important for the hiring decisions of the non-family firms. We, therefore, find mixed evidence in favor of Hypothesis 1, as the coefficients of the two factors exhibit different signs, and preferences differ between family and non-family firms.

Second, we investigated whether the leadership skills of potential candidates are more important for the hiring decisions of family firms than for the hiring decisions of non-family firms. Our results support the reasoning stated in support of Hypothesis 2, suggesting that the leadership ability of potential candidates is a strong predictor for candidates chosen by family firms but not for non-family firms. Supplementary regressions show that leadership skills are even more highly sought after by larger family firms, even compensating for other factors such as a shortcoming in functional competence.

Lastly, our results show that some hiring criteria are equally important for family and non-family firms. Hence, we do not find evidence in favor of Hypothesis 3. Rather, we find that both the family firms and the non-family firms in our sample search for candidates with strong

Table 5
Regression individual candidate assessment interactions on hiring decision.

	(1) Non-Family Firms	(2) Family Firms	(3) Non-Family Firms	(4) Family Firms	(5) Non-Family Firms	(6) Family Firms
Dep. Variable: Hired						
Functional Competence	3.123***	−1.368*	0.081	0.027	0.143**	−0.063
	(0.010)	(0.091)	(0.232)	(0.827)	(0.041)	(0.286)
Market Knowledge	0.156**	0.033	1.802**	1.226	0.018	0.136*
	(0.041)	(0.536)	(0.024)	(0.106)	(0.733)	(0.090)
Leadership	0.054	0.167	0.161	0.237	−0.293	3.678*
	(0.658)	(0.148)	(0.158)	(0.196)	(0.793)	(0.052)
Performance Orientation	3.811***	−1.084	2.176***	1.523**	−0.021	3.665*
	(0.008)	(0.182)	(0.009)	(0.048)	(0.982)	(0.050)
Functional Competence * Performance Orientation	−0.553**	0.270*				
	(0.011)	(0.066)				
Market Knowledge * Performance Orientation			−0.320**	−0.188		
			(0.026)	(0.152)		
Leadership * Performance Orientation					0.090	−0.648*
					(0.653)	(0.052)
No. of Employees (log)	0.047	−0.018	−0.003	0.009	−0.019	0.036
	(0.237)	(0.586)	(0.924)	(0.830)	(0.571)	(0.227)
Male (d)	0.213**	0.092	0.169	0.208*	0.155	0.163*
	(0.040)	(0.550)	(0.123)	(0.066)	(0.225)	(0.094)
Age	−0.014	−0.003	−0.005	−0.014	−0.008	−0.006
	(0.139)	(0.751)	(0.535)	(0.312)	(0.328)	(0.381)
Level of Education (Ascending)	0.015	0.036	0.005	0.012	0.003	0.067
	(0.830)	(0.523)	(0.929)	(0.896)	(0.952)	(0.277)
In a Relationship (d)	−0.028	−0.342**	−0.361**	0.072	−0.411**	0.088
	(0.848)	(0.045)	(0.028)	(0.672)	(0.010)	(0.227)
Chi^2-Value	29.45	49.71	51.81	24.31	45.93	34.12
$P > Chi^2$	0.001	0.000	0.000	0.007	0.000	0.000
Observations	51	115	115	51	115	51

Coefficients correspond to the marginal effects for the independent variables calculated at the mean levels of the remaining variables. The dependent variable takes on the value of one if the candidate achieved the highest company ranking was subsequently hired, and zero otherwise. (d) denotes a dummy variable.

* $p < 0.1$.
** $p < .05$.
*** $p < .01$.

performance orientation. Ancillary analyses reveal some differences, though. The interaction analysis shows that performance orientation becomes more important for hiring decisions in family firms when candidates are rated high in functional competence; no such effect can be found for candidates who are rated as possessing strong leadership abilities. In contrast, performance orientation becomes less important in non-family firms when candidates are evaluated as having strong managerial skills in terms of both functional competence and market knowledge.

5.2. Theoretical implications

The literature on human resource management practices in family firms suggests that hiring decisions made in family firms are more complex than in non-family firms because of the social environments in which they take place (Hamilton, Cruz, & Jack, 2017; Waldkirch, 2020). Family firms are often considered to be at a disadvantage when it comes to accessing and vetting outside managerial skills and leadership skills that would facilitate their professionalization (Lien & Li, 2014; Stewart & Hitt, 2012). Our results offer some preliminary findings about the skills and abilities that family firms and non-family firms emphasize when hiring managers through an external HR consultant.

As predicted by our hypotheses, family firms seek different managerial skills and leadership skills than do non-family firms. In this way, we contribute to the literature on family firm evolution by showing that family firms choose a distinct path when they professionalize (Chua et al., 2009; Daspit, Long, & Pearson, 2019; Madison et al., 2018). They perceive a stronger need for functional competence than non-family firms do. Involving an external HR consultant allows them to search for appropriately qualified candidates. Our research framework helps to explain variations in family firm professionalization paths by uncovering their stronger preference for particular managerial skills (Daspit et al., 2019).

Our results also inform the debate about the impact of different social exchange mechanisms within family and non-family firms. We extend prior work involving social exchange theory by extending our understanding of formal and informal governance mechanisms in family and non-family firms (Johansson et al., 2020; Zellweger & Kammerlander, 2015). The current literature drawing on social exchange theory suggests that family and non-family firms will employ different forms of governance (Hayward et al., 2021; Kandade et al., 2020). Family firms generally rely on informal, internal governance. Reaching out to work with a recruitment consultant is an unusual situation where the firms rely on an external expert and external assistance. It is likely to reflect a perceived need to professionalize, in the sense of becoming more similar to non-family firms. In contrast to our expectation, we found that when hiring externally, family and non-family firms equally prefer employees who have performance orientation. This finding indicates that the social exchange system within family firms is potentially dynamic and may change. Future research might even explore this finding further, by investigating the type of performance orientation and making a more granular distinction between financial and non-financial orientation (or a combination thereof).

To shed further light on this conjecture, we examined both family firms' and non-family firms' focus on hiring strongly performance-oriented candidates and found that it varies with the demand for other executive characteristics. Family firms appear to hire executives who bring in new expertise. For that reason, they may accept more formal modes of governance such as quantifiable performance compensation. Hiring criteria for family and non-family firms may involve superordinate relations: Skills and abilities come first, and the hiring company's choice of formal or informal governance depends on the assessment of the hiring candidate's abilities and skills. In other words, family firms first identify their need for skills by identifying which abilities they currently perceive as lacking. Next, with the help of the external HR consultant, they search and find suitable candidates.

Most existing research on the professionalization of family firms has identified complementary relations among candidate skills and abilities. Yet several theoretical contributions also discuss the possibility of substitutive relations (Pittino et al., 2016). Interestingly, as an antecedent to being hired by a family firm, possessing performance orientation is more important for individuals with higher functional competence; in other words, the influence of performance orientation is of secondary importance for the hiring decision relative to managerial skills and leadership skills. We believe that this interpretation might inform future research and carries important implications for human resource managers who develop and supervise newly hired employees.

5.3. Practical implications

Our data come directly from a recruitment consultant's files. Employee selection, especially for executive recruiting processes, provides a prime example of a case where employers rely on external advice to overcome their limitations in information, knowledge, and/or experience (Reyt, Wiesenfeld, & Trope, 2016). In surveys, client firms frequently report that they engage external recruiters because they seek such expert advice – a reason reported only slightly less often than the intention to reduce the cost of the recruiting process (Dapper, 2013; Savino, 2016). Although likely sample-specific in its details, our empirical analysis clearly shows that the hiring preferences of the family firm differ from those of non-family firms. Consequently, recruitment consultants have to carefully explore the particular goal set of the family firm client in order to provide adequate advice; recommending a course of action that is in the interest of the family firm involves a profound understanding of the family firm's idiosyncrasies. The theme of person-organization fit should be discussed explicitly between the client firm and the advisor to improve the congruence between recommended hires and actual hires.

5.4. Potential limitations and avenues for future research

The conclusions of the empirical work in our study are subject to limitations and should be interpreted with these in mind. First, the context is limited to SME client firms, most of which are in Central and Eastern Europe (CEE). In contrast to other European regions, the CEE business environment is characterized by numerous small firms and only a few larger corporations (Herrero & Hughes, 2019). Clearly, this limitation raises the question of whether or not our findings may generalize. Future empirical research should, therefore, examine differences in hiring decisions beyond the countries in our study, though gaining access to such data might prove difficult.

Second, our sample included many different industries, which may attest to the possibility of generalizing our results. Yet this benefit may come at the expense of having to accept less accuracy regarding domain-specific skills. For instance, it would be interesting to examine the role of functional capabilities or market knowledge for different industries in which both family and non-family firms operate. In particular, another possible explanation for family firms' preferences to hire managers with more general managerial skills may be that family firms often serve niche markets where industry-specific knowledge is needed (Audretsch et al., 2021). Hence, family firms may focus on internally developing talent with more idiosyncratic industry experience.

More generally, future research on the role of hiring characteristics for family and non-family firms might gain from investigating the complex interdependencies between an executive's internal fit – i.e., the fit between his or her characteristics and the internal firm environment – and his or her ability to successfully cope with the firm's external environment, i.e., the external fit (Blettner, Chaddad, & Bettis, 2012; Siggelkow, 2002). Such work appears necessary to contextualize the role of managerial skills and leadership skills within a framework that simultaneously considers the complex family relations and the appropriateness of skills within different industry environments (Hambrick & Quigley, 2014). Again, the needs of the family business might be different here. Family firms need managers who understand family dynamics and are comfortable dealing with family members in the business. Yet, individuals who bring these skills are rare, which may potentially explain the abroad hiring approach where individuals can be groomed internally subsequently. Theoretically, when tracking individuals over time, one may also explore how firm-person fit affects performance of those hired and how those not chosen have performed in different environments (Folke & Rickne, 2020). [13]

Third, family and non-family firms may turn to executive search consultants for entirely different motives. Recent work has pointed out that giving hiring advice that is in the interest of the hiring firm requires a strong focus on that firm's needs (Fabel, Hopp, & Speil, 2020). However, assessing a candidate's person-organization fit might be rather difficult for external consultants who advise family firms. Also, Ryan and Ployhart (2014) point out that academic research and the consulting profession still lack adequate tools to assess culture and person-organization fit. Hence, future research may also be directed at collecting more detailed information on the hiring companies, such as the number of family members in the management (Minichilli, Corbetta, & MacMillan, 2010), the gender of the managers making the hiring decisions (Kay & Schlömer-Laufen, 2016), the organizational culture and its dimensions (Zahra, Hayton, & Salvato, 2004), or the organization's lifecycle stage (Gersick, Davis, Hampton, & Lansberg, 1997). This might help to (a) determine the extent to which family firms follow a hired consultant's advice and (b) identify instances in which the person-organization fit outweighs a lack of managerial skills and leadership skills in such firms. Studying such complex patterns of family firm characteristics would also require more elaborate analyses (Stanley, Kellermanns, & Zellweger, 2017).

Because we were dealing with executives, we did not have an opportunity to elicit whether or not the individuals had a personal preference to work for family or non-family firms. As the literature on employer branding suggests, individuals differ in their working preferences. This might affect the generalizability of our results and presents an interesting avenue for future research, especially when delineating preferences among junior or more senior hiring candidates when preferences may be subject to life-circumstances (Block, Fisch, Lau, Obschonka, & Presse, 2019). Lastly, our approach implicitly assumes that multiple hiring decisions of a firm are independent of each other, each implementing a rank-order tournament that is based on objective and quantifiable information. While rank-order tournament analysis typically is used for promotion decisions within a firm's internal hierarchy level (Lazear & Rosen, 1981), our findings point to the need to elucidate the outcome of hiring tournaments for the client companies in more detail (Farah, Elias, De Clercy, & Rowe, 2020; Schepker, Kim, Patel, Thatcher, & Campion, 2017). In hiring tournaments, potential future followers choose prospective leaders (Bastardoz & Van Vugt, 2019; Wong, Ormiston, & Haselhuhn, 2011). Research has studied how naïve personality judgments about leadership govern which candidate is judged to perform best (Graham, Harvey, & Puri, 2017; Rule & Ambady, 2008).

Related research shows that individuals who are perceived as more charming or more attractive might also be judged as having higher competence or higher leadership potential (Olivola, Funk, & Todorov, 2014; Todorov, Olivola, Dotsch, & Mende-Siedlecki, 2015; Tskhay, Zhu, & Rule, 2017). While charm, attractiveness, and the like remain hidden from our study, the present research might open an interesting avenue to explore the role of such perceptions on differences in family and non-family firms' hiring decisions.

Reinforcing this interest, recent work shows that top managers of

[13] We thank an anonymous reviewer for suggesting these extensions.

public corporations are increasingly being regarded as public figures and playing significant roles as ambassadors of their companies (Lovelace, Bundy, Hambrick, & Pollock, 2018; Quigley, Crossland, & Campbell, 2017). Data that would allow testing for the role of naïve perceptions on formal assessments of personality characteristics and skills of candidates chosen by family and non-family firms would have to be less anonymous, and reach beyond the information that we were able to collect for this study.

6. Conclusion

In this paper, we studied differences in hiring preferences between family and non-family firms. To juxtapose preferences in the respective hiring criteria, we exploited data comprising hiring decisions made through an external HR consultant. We found that family firms seek to hire managers with pronounced functional competence and leadership ability. In contrast, non-family firms focus more on market knowledge when hiring new managers. Both types of firms hire performance-oriented candidates. When accessing and vetting managerial talent, family firms face a delicate trade-off in meeting the internal demands of the family and the external requirements of the market. It is important to understand how family firms meet these different requirements and how they can safeguard their socio-emotional wealth despite the increasing pressure to stay competitive. We hope that our study will encourage more research into these hitherto underexplored areas of inquiry.

CRediT authorship contribution statement

Oliver Fabel: Conceptualization, Methodology, Formal analysis, Investigation, Resources, Writing - original draft, Writing - review & editing, Project administration. **Dana Mináriková:** Conceptualization, Methodology, Formal analysis, Investigation, Writing - original draft. **Christian Hopp:** Conceptualization, Methodology, Investigation, Visualization, Writing - review & editing.

Appendix A

Table A1
Overview of variables employed in empirical analysis.

Dependent Variable	*Operationalization*
Hiring Decision	Dichotomous variable taking on the value of one for those individuals who were hired and zero for those who were not.
Explanatory Variables	
Family Firms	Dichotomous indicator, with the variable taking on the value of one for family firms and zero for non-family firms. Family firms are defined and classified in line with Chua, Chrisman, and Sharma (1999: 25).
Functional Competence	Aptitude "to deliver on tasks assigned", anchored on a seven-point Likert scale
Market Knowledge	Competency to "recognize […] business opportunities", anchored on a seven-point Likert scale
Leadership	Average of six items: a) Team Leadership: "permits leaders to focus, align and build effective groups", b) People Management: "collaboration and influencing […] in working with peers, partners, and others who are not in the direct line of their command to positively impact business performance", c) People Development: "developing the long-term capabilities of others in the organization", d) Intercultural sensitivity:" inter-personal and inter-cultural skills that are gaining in importance for executives in an increasingly globalized economy", e) Change Leadership: "leading people in an effort to transform and realign an organization", f) Strategic Orientation: "enables leaders to think beyond the pressing issues of the day, and beyond their own sphere of responsibility". All items are measured on a 7-point Likert scale (α = .79).
Performance Orientation	Average of two items: a) Client Orientation is "demonstrated by the drive to make money", b) Results Orientation refers to the candidate's commitment to "invest in resources according to expected result." All items are measured on a 7-point Likert scale (α = .54).
No. of Employees	The employment data was collected from the records of the consultant and the publicly available information in the commercial register. The number of employees is measured as the natural logarithm.
Male	Dichotomous variable taking on the value of one if the candidates were male and zero otherwise.
Age	Age of the candidates at the time of the interview.
Level of Education (Ascending)	The highest educational level was classified into four categories: school-level or vocational qualifications only; bachelor's degree (BA or BSc); master's degree (MA or MSc); advanced academic degrees (Ph.D.).
In a Relationship	Dichotomous variable taking on the value of one if the candidates were either married or in a partnership and zero otherwise.

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