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# RUNNING IN THE FAMILY – PATERNALISM AND FAMILINESS IN THE DEVELOPMENT OF FAMILY BUSINESSES

**The study focuses on two features of family businesses (FBs), namely familiness and paternalism. These two concepts are inseparable in two ways: inseparable from family businesses and also from each other. Family businesses differ from one another in the degree of family involvement, leadership and management in the business.**

**Paternalism as a leadership attitude is naturally present in FBs, especially in the founding stage of development. This feature provides the solid bases for establishing a strong and proud culture built around the personality and success of the founder. This characteristic however can become a major hindering factor upon succession. Through a review of the literature and the INSIST studies for Central Europe this study aims to identify the supportive and limiting factors of both phenomena and examine the case studies of the INSIST research project for signs of the existence of these supportive and limiting factors.**

**It is found that the degree of familiness in these firms is a sliding scale and a lack of familiness is not a precursor for failure. Paternalism is found to be broken down into authoritarian, benevolent, moral and enlightened. After discovering studies claiming that paternalism is a stage in the process of leadership style changing from participative to autocratic (or vice versa) and that Central Europe and the current era of instability and uncertainty lead to employees preferring a more autocratic or paternalistic style, our findings suggest that there are more driving than restraining forces for family firms adopting a paternalistic style. Furthermore many cases appear to be on the path from an authoritative towards a more enlightened paternalistic leadership style either out of choice in the search to shake off the drawbacks of other types of paternalism or as part of a natural evolution of this particular leadership style within the context of this study.**

*Keywords:* **familiness, paternalism, succession**

*"One day, lad, all this will be yours!*
*What, the curtains?*
*No. Not the curtains, lad. All that you can see,*
*stretched out over the hills and valleys of this land!*
*This'll be your kingdom, lad."*
Excerpt from Monty Python and the Holy Grail (1975)

When the proud founder tells his son or daughter "all this will be yours someday", the first thought may be that of a proud father wanting the best for his family. However, the rationale and actions of leaders of family firms set themselves apart from most other types of organisation. Family firms are often distinguished from non-family firms in terms of governance, purpose, the importance of networking, leadership and career paths, to name but a few. Dyer (2006) identified the factors that could increase or decrease the performance of family firms.

If we consider Table 1 then it can be seen that the family factors have the potential to improve or decimate the performance of family firms. These family factors may be seen within the concept of familiness, which will be considered in greater detail in the following section.

## The notion of familiness

Familiness is seen as a resource that originates from family relationships (Pearson et al., 2008), thus when we consider this concept of familiness, we are assuming that it is a resource relating to family firms consisting of more than one generation of family operating within the firm (Irava – Moores, 2010).

According to Pearson et al. (2008) there are three dimensions to familiness: structural, which involves the construction and maintenance of networks; relational,

*Table 1*

**Family factors and performance in family firms**

| Family Factors Contributing to High Performance | Family Factors Contributing to Low Performance |
|---|---|
| *Agency Benefits* | *Agency Costs* |
| Lower agency costs due to the alignment of principal-agent goals | Higher agency costs due to conflicting goals in the family |
| Lower agency costs due to high trust and shared values among family members | Higher agency costs from opportunism, shirking, and adverse selection because of altruism (i.e., family members fail to monitor each other) |
| *Family Assets* | *Family Liabilities* |
| Human capital: the family has unique training, skills, flexibility, and motivation | Family lacks necessary skills and abilities due to small labor pool, lack of talent, or inadequate training |
| Social capital: the family develops relationships outside the family with employees, customers, suppliers, and other stakeholders that generate goodwill | Family fails to develop social capital with key stakeholders due to distrust of outsiders (i.e., "amoral familism") |
| Family "branding" of the firm or of the firm's goods and services may generate goodwill and a positive image with stakeholders | Family relationships lead to complex conflicts among family that may undermine image and goodwill with stakeholders |
| Physical/financial capital: the family may have physical or financial assets that can be used to support the firm | Family uses firm assets for personal use, thus draining the firm of financial and other resources |

*Source: Dyer (2006, p. 259.)*

which considers relationships in terms of trust, cultural norms, obligations and identification; and cognitive, which relates to aspects such as having a shared vision and business jargon (language).

Some studies separate familiness into different groupings. For example, one part of familiness relates to a combination of informal family-like relationships between non-family and family members and is referred to as *Interorganisational familiness*. This highlights how individuals in a family business share norms and values, often due to a long-term orientation found in family firms (Lester – Cannella, 2006) and the building of trust with customers (Carrigan – Buckley, 2008). Although Interorganisational familiness has been studied per se, in this study we will consider this aspect under the umbrella of familiness as a concept in general.

## The effects of familiness on family firms

Familiness can be seen as having both positive and negative effects on a firm's operations. Habbershon and Williams (1999) found both these sides of the coin when they maintained that family influence can increase resources (familiness as a positive factor) or decrease resources (familiness as a negative factor), and thus familiness can be productive or counter-productive. Similarly, familiness can be distinctive (with a positive influence on the firm's performance) or constrictive (with a negative influence on the firm's performance) (Chrisman et al., 2003, 2005; Minichilli et al., 2010; Zahra et al., 2004).

If we consider the distinction between principals and agents, then in the case of family firms we can see that the distinction between ownership and control is somewhat blurred. Managers may also be owners and thus, not only is the agency perspective negated, but we may also consider this lack of distinction as causing a certain degree of cognitive bias or perhaps resulting in leaders of family firms seeing the business environment, both internally and externally through a very different lens.

When we consider the objectives of organisations, they are often listed as the triple helix: profit; planet (environment); and people. If we consider the context of the family firm then economic prospects appear paramount at first glance, but within the concept of familiness we see that leaders of family firms also have objectives relating to family welfare, which include secure employment for family members, succession of family members and other personal interests such as protection of the 'family wealth'. Arregle et al. (2007) refer to this as *dynastic stability*. Schein (1983) and Dyer (1992) both found that leaders view their family firms as extensions of themselves and this lens pushes


XLVII. ÉVF. 2016. 11. SZÁM/ ISSN 0133-0179 DOI: 10.14267/VEZTUD.2016.11.08

leaders of family firms to not only look at the profit of the firm but also income generation that can be passed across family generations, or as Habbershon and Pistrui (2002) refer to it: *transgenerational wealth*. In a nutshell, leaders of family firms may be seen to “act in ways that protect their vision, family business reputation, and survival or continuation of their business lineage” (Lim et al., 2010, p. 200.). Having covered the objectives of leaders in family firms, the actions of leaders will be considered in the following section in relation to paternalism.

### The notion of paternalism in family firms

Leadership style is seen as achieving sustainable competitive advantage through the balancing of four competing criteria: 1) profitability and productivity, 2) continuity and efficiency, 3) commitment and morale, and 4) adaptability and innovation. This balancing is a competence referred to as behavioural complexity and it was found by Hart and Quinn (1993) that higher levels of behavioural complexity lead to better overall form of performance. However, this does not mean that all leadership styles manage to achieve a suitable balance in their given context.

fers to an individualized concern for subordinates' personal well-being (Pellegrini – Scandura, 2008, p. 567.). Recent research also has broken down paternalistic leadership in family firms into three types: *authoritarian, benevolent* and *moral* (Rivers, 2015). The authoritarian paternalist controls and expects obedience, which is reminiscent of the first part of the definition put forward by Fahr and Cheng (2000), when referring to “strong discipline and authority”. Benevolent leadership means that employees are respected and cared for, their needs are satisfied and support is given. This type certainly exemplifies the more positive aspects of ‘fatherly benevolence’. The moral paternalistic leadership style results in the leader taking the helm with personal values, being seen as superior and leading by example. This third type seems difficult to contextualize in the definition of Farh and Cheng (2000) – seeing values as superior to others certainly appears very authoritative, whereas leading by example is not covered in Farh and Cheng's definition as it doesn't appear overly authoritarian or benevolent, and if anything, seems closer to an authentic leadership style. Aycan (2006) summarises the characteristics of paternalistic leadership styles as follow. (Table 2.)

*Table 2.*

**Characteristics of three types of paternalistic leadership**

| PATERNALISTIC LEADERSHIP | | | |
|---|---|---|---|
| | Benevolent paternalistic leadership | Authoritarian paternalistic leadership | Moral paternalistic leadership |
| Characteristics | The leader demonstrates an individualised, holistic concern for familial and subordinates' personal wellbeing. | The leader asserts absolute authority and control; expects subordinates to display strong performance. | The leader's behaviour does not hinder subordinates' rights and development or harm the organisation. The leader's behaviour demonstrates moral values, superior personal virtues, self-discipline. |

*Source: adapted from Aycan (2006)*

Farh and Cheng (2000) define paternalistic leadership as “a style that combines strong discipline and authority with fatherly benevolence” (Farh – Cheng, 2000, p. 91.). The first aspect of a strong disciplinary and authority figure has been emphasised by Bing (2004), who suggested that a boss is essentially a carbon copy of one's original authority figure: the parent. Leaders of this kind guide both the professional as well as the personal lives of their subordinates in a manner resembling a parent (Gelfand et al., 2007). The second aspect relates to benevolence. This re-

The literature indicates that these types of leadership may be linked to national culture. Paternalism is a strongly opposed leadership characteristic for Western scholars. It has increasingly been perceived negatively in Western management literature, describing paternalism as benevolent dictatorship (Northouse, 1997, p. 39.). Other scholars defined paternalistic leadership as a development stage between autocracy and consultative participative models (Schein, 1981). Likewise, Collela et al. (2005) defined it as a ‘hidden and insidious form of discrimination’. The argument was supported by the findings of Heidrich and Alt (2009), where 'circles of trust' were found in organisations with paternalistic leadership. For those ones who are not in the mutual circle of loyalty, the style left is rather autocratic on the task level and less humanistic on the relation level. Western scholars even question the benevolent intent in paternalistic leadership relations (Padavic – Earnest, 1994, p. 389.). As Uhl-Bien and Maslyn (2005) argue this benevolence is expressed by the leaders because they want something in return and through this benevolence indebtedness and oppression is created. In light of these more oppressive aspects of paternalistic leadership, a paternalistic leader is perceived clearly as an X type leader.

If we consider literature outside the context of family firms then we find a fourth type of paternalistic leadership, referred to as enlightened paternalism. This concept was referred to by Kaufman (2003) in his study of Delta Airlines and related this to high-performance HRM where workplaces adopt a more participative strategy. In fact the term has been in use for some time: Lawrence (1979) referred to this term when looking at the governance of a micro-region in Mexico and found that there was greater participation and autonomy than usually associated with a paternalistic form of leadership. The scope of our study extends to all four of these forms of paternalism and we will examine the cases for evidence of the existence of these types, their impacts upon family firms and familiness.

Since this study is focussed on family firms in Central Europe, the following differences can be perceived between paternalism in the West and in Central-Eastern Europe (Bakacsi – Heidrich, 2011). Firstly, before 1990 the dominant leadership style was the paternalistic (benevolent-authoritative) (Bakacsi, 1988). Furthermore, managers from the Central European region tend to make more autocratic decisions than their Western counterparts (Jago et al., 1993). Central-Eastern European cultures tend to score higher on "Hierarchy" and "Conservativism" (Smith, 1997; Smith et al., 1996). If we consider Power Distance then societal practice has a significantly higher score in Central-Eastern-European cultures (House et al., 2004; Bakacsi et al., 2002) often with the tendency of leading to Self-protective leadership behavior (House et al., 2004). In a national culture context for leadership, GLOBE research revealed low scores for participative leadership (second order GLOBE leadership variable) compared to world cultural clusters (House et al., 2004). GLOBE defines the Participative (second order) leadership variable as follows: "a leadership dimension that reflects the degree to which managers involve others in making and implementing decisions". Bakacsi and Heidrich (2011) maintain that "due to the cultural heritage, the unexpected level of uncertainty on both the social and organizational level, employees are still (or again) in need of a more nurturing, thus less democratic type of leadership", and possibly edging more towards the paternalistic one. If we consider the wider context of this study not only from a cultural perspective but an employee perspective then we can see that since the financial crisis of 2008 (and beyond) crisis leadership, with tight deadlines and the need for fast decision making precipitate the need for an autocratic (dictatorial, ruler) leadership style.

Earlier in this section we considered that paternalistic leadership had two aspects: discipline and authority on the one hand and benevolence on the other. Many of the above factors indicate a strong tendency for firms to adopt a less participative and more authoritarian style of leadership in Central Europe. Furthermore, the current era of uncertainty and the need for nurturing as a part of this region's cultural heritage point to a strong likelihood for leadership behaviours to have a certain degree of benevolence. Finally, Bakacsi and Heidrich (2011) claim that the paternalistic style is merely a stage in a leadership style changing from participative towards autocratic, and thus it seems highly likely, given the arguments presented here, for the paternalistic style to be highly prevalent in this region, and this potential trend includes family firms.

**The effects of paternalism on family firms**

When the proud founder tells his son or daughter "all this will be yours someday", as mentioned in the introduction, this may also be considered as part of reward management (Lubatkin et al., 2007, p. 1025.). Paternalism often results in an attitude of *take it or leave it* in terms of their leadership style towards children. Paternalistic drives result in leaders believing that they know best and even when faced with disagreement, they may continue on the same path as they are acting in the 'children's best interest'. This belief in knowing best and acting with best intentions has been found to result in the use of influence tactics such as calculative, coercive and transactional behaviour (Lubatkin et al., 2007). The knock-on effect of this may well be that the children resent being coerced and manipulated and thereby resist and rebel. This in turn is likely to be viewed by the leader as the 'necessary cost of parenting'. The rebellion and resistance on the part of children of paternalistic leaders was found by Lim et al. (2010) to be directly related to paternalism i.e. "the more driven by paternalism, the more dysfunctional their firms intergenerational relationships become" (Lim et al., 2010, p. 206.).

In terms of familiness, paternalistic leaders in family firms are likely to see the benefits of familiness as a trade-off with formal governance. Lim et al. (2010)

claim that this may particularly be the case in family firms where paternalistic leaders see familiness as the means by which their own values and judgements are passed to their children.

**Familiness and paternalism as resources**

The notion of familiness as a resource-based perspective to understand FBs has been most strongly argued in the works of Habbershon and Williams (1999). According to their point of view familiness is a unique combination of those resources, which derive from the interrelated system of the family, family members and the enterprise, thus providing long term competitive advantage for FBs. On the other hand, Chrisman et al. (2003) define familiness as an interaction of the competences and resources and commitment, which stems from family ownership.

Familiness has its positive and negative impacts on business operations, as well as the short and long term performance of the enterprise. The impact is positive when trust, sincere communication, unconstrained devotion, long term interest are present in the organisation (Klein, 2008; Milton, 2008). However negative influence emerges when the organisation is driven by short term interest, manifested in apathy, rigidity, nepotism and inertia (Bruch – Groshal, 2003; Feito-Ruiz – Menéndez-Requejo, 2010).

If we consider the resources of family firms in terms of capital, then a number of researchers have indicated the types of capital available to family firms. (Table 3.)

If we consider the basic resourced based model then sustainable advantage achieves core capability differentials in firms through skills and assets. If we also take Filep's (2012) detailed breakdown of capital within family firms, then we can merge these two models together to create a strategic resource model for the specific context of family firms. This can be seen in the Figure 1.

*Table 3.*

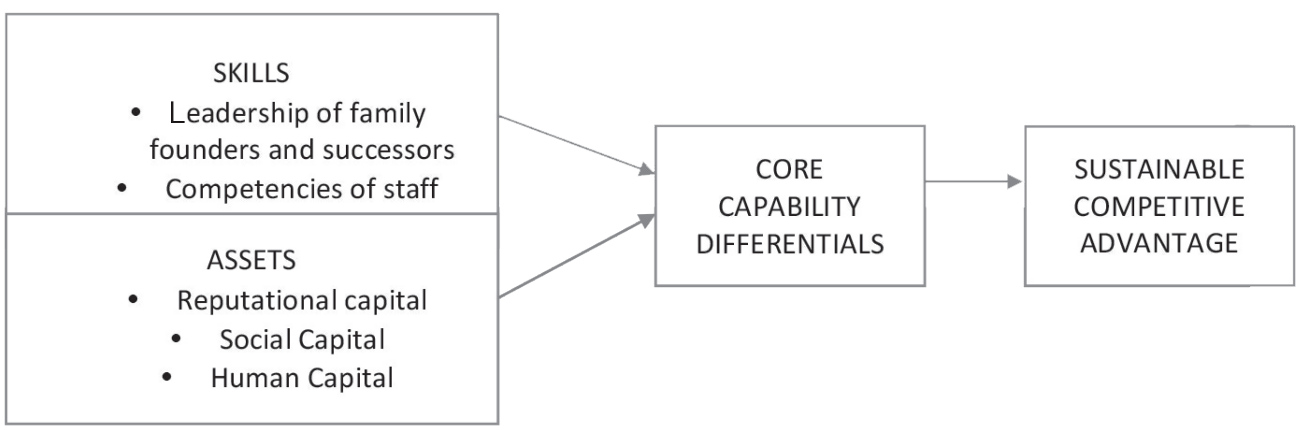
**Types of capital within family firms**

| Author | Types of capital within each model | Focus |
|---|---|---|
| Filep (2012) | Human Capital of family members<br>Social Capital<br>Survivability<br>Patience<br>Governance structures | Internal<br>External<br>Both<br>Both<br>Internal |
| Dyer (2010) | Human Capital<br>Social Capital<br>Financial Capital | Internal<br>External<br>Internal |
| Poza (2007) | Span of responsibility (of managers and owners)<br>Ownership structure<br>Market / customer focus<br>Protection of family name and reputation<br>Relationships between family, owners and management | Internal<br>Internal<br>Internal<br>External<br>External<br>Internal |

Thus we can consider that leadership style as relating to the skills of the founders and successors, whilst familiness relates to the assets of the firm as literature seems to indicate familiness has aspects relating to reputational, social and human capital. These two elements as core capability differentials will be examined with the use of cases from the INSIST project.

*Figure 1.*

**A strategic resource model of sustainable competitive advantage in family firms**




*Source: adapted from Filep (2012)*



XLVII. ÉVF. 2016. 11. SZÁM/ ISSN 0133-0179 DOI: 10.14267/VEZTUD.2016.11.08

## The INSIST project: cases

Project team members carried out desk top analysis based on the existing (national) literature and empirical research in order to provide a detailed picture about the importance of family business in the particular economies, focusing on such issues as the economic weight of family businesses, the socio-cultural and financial-legal environment of family firms, the succession process and some psychological aspects of managing family enterprises. Part of the focus of this study was on company- and family-level micro-mechanisms shaping ownership and management practices. Each participating country had to carry out two company case studies. The company case studies were based on semi-structured, problem-oriented in-depth-interviews with different stakeholders (owners/employers and employees) of family businesses, dealing with issues, like rules of entry and exit, commitment of the next generation, management practices, etc. The Hungarian team compiled three, the Polish team five and the British team two case studies. As this study concerns familiness and paternalism in Central Europe, we will omit the British case studies. The findings from the Polish and Hungarian cases are as follows:

**DOMEX (PL)** (Konopacka, 2015a)**:** The founder, Tomasz inherited two factory buildings and started to run his own enterprise in them in 1989. The company rents apartments, office and commercial space and operates as a developer. Currently the company employs 20 people. They are administrative employees and maintenance team workers. They are all employed with full time contracts. The company helps them gain new qualifications through training and conference participation. The wife and daughters of the doyen are company shareholders, but he also remains a shareholder. His aim is to introduce his family members to running the business so that when he decides to leave the company, they will know how the company works and what projects and issues are of key importance to company success. Aside from her involvement in the company, the doyen's wife has her own business venture – a small bookshop. His older daughter completed a variety of studies and worked for a time at the university, but later opted to join the company. She runs the branch concerned with letting apartments. His younger daughter runs a restaurant located in the company building. She established the restaurant herself and works to develop it further.

**WAMECH (PL)** (Konopacka, 2015b)**:** Prior to establishing the WAMECH Company, Piotr Wąsik worked as a designer in the Centre for Research and Development for Construction of Chemical Installations in Cracow and later, as an engineer in the Tobacco Factory in Cracow. He then moved to the private sector, joining a private developer, where he was responsible for financial issues, customer care, cost calculations and project implementation. The experience he gained prepared him thoroughly for running his own business. The WAMECH Company was founded in 1989. The company manufactures machines, which improve the economics of production processes in accordance with lean manufacturing principles. The main focus of operations is on the design and production of road transport vehicles and industrial trucks used for materials handling. From the very start, the company has operated as a family firm. Piotr's father-in-law is the engineer Józef Kielar, who helped construct the first prototypes. At the beginning, the business was based on Piotr's own work and that of family members. It took quite a while to establish a design team. Piotr's wife, also an engineer, joined the company to look after the company's finances and to support her husband. Piotr and his wife have three children and have always dreamt that one day their children would take over the company. The owner started preparations for the succession process some time ago, but the process had to be speeded up due to his illness. In 2010, his son, Wojciech, became the managing director just as the company celebrated 20 years of operation.

**WITEK Centre (PL)** (Konopacka, 2015c)**:** During Poland's economic transformation, which began in 1990, Karolina and her husband started a trading business. They started with a small shop (20 $m^2$) in the centre of Krakow, in which they sold china and glass crockery. As time went on, they managed to utilize another part of Karolina's parents' property, which extended their business activity. Growing demand for what they were selling encouraged them to rent more and more retail space and their company continued to grow. The last stage of business development involved building a modern retail centre in the vicinity of Krakow, which continues to be expanded and developed. The company is active in the retail sector, selling furniture. Company assets were divided between Karolina and her children at an early stage. Today, each of them runs his or her own business independently, as separate legal entities.

**Pillar (PL)** (Gorowski, 2015): The PILLAR company was set up in the 1980s in Krakow, Poland, as a micro-business offering small refurbishing and construction services. Martin and Helena founded the business at the age of 35. At first the company based its existence on the housing deficits on the Polish construction market, but in the1990s its profile changed into a 'classic' developing business: they bought land and built apartments and commercial premises for sale, mainly in Krakow. At present the company employs 70 people. They are highly qualified specialists, who have been with the company for many years. The owners have two sons working at the firm and the company will be inherited by them.

**Plantex (PL)** (Paszkowska, 2015): Plantex Horticulture Farm has been on the market since 1981, and since its beginning it has been dealing with innovative plant propagation. The company offers high quality products: young, healthy plants for further cultivation in nurseries and on plantations. At present the farm employs 81 people on a regular, full-time basis, and sells around 4 m cultivars per year with 1.5 ha in City outskirts and 3.5 ha in a village. The city plant hosts administration buildings (150 $m^2$), laboratory warehouses (300$m^2$) and 1,500 $m^2$ of glasshouses. The village premises comprises a 1,200 $m^2$ production hall and 7,500 $m^2$ of land under foil. The founders have three daughters. The two elder ones have their own businesses and the youngest one is about to take over the business with her husband.

**Quality Meat (HU)** (Szentesi, 2015)**:** After having become unemployed due to the dissolution of the Farmers' Co-op, the two owners Károly Kovács and his wife decided to buy an old slaughterhouse and meat processing plant from their savings in 1992. The company started to grow and in 2004 a new and modern slaughterhouse was built and the meat processing unit was also revamped. The company's main line of business is meat processing and preservation. Every day an average of 100 to 130 pigs are slaughtered and processed depending on seasonality. The total capacity of the slaughterhouse is 60,000 pigs per year. The couple have two sons who joined the business and gradually took over daily management. The founder only kept control over finances.

**FEIN Winery (HU)** (Gubányi, 2015)**:** The winery was founded by Tamás FEIN, who worked as an economist, vintner, corporate leader, and bank account manager at that time. The FEIN couple decided to develop the wine cellar and press house in 1998. They bought 11 ha field and their estate was broadened to 21 ha in 2002. FEIN Winery was officially founded as Limited Liability Company in 2003. The FEIN family produces traditional, quality wines. The territory of the vineyard is 21 ha. The production results an average of 130 000 bottles per year with a wide range of red and white wines. The FEIN Winery's distribution channels are a wine trade company and its own sales channel. They operate ten shops in Budapest and five in other cities. Their own sales channel organizes wine tastings, dinners and an annual celebration. The founder and manager, Tamás and his wife, Zsófia, have two sons, the elder one is Károly, who will be the successor.

**BI-KA Logistics (HU)** (Kiss, 2015): After graduation, György Karmazin started his carrier at an agricultural trading company as a transport organizer in 1991. He realized that he had both the connections and the knowledge, and he could try to start a business in logistics on his own. Established in 1991, BI-KA Logistics was founded by György with the help of the parents-in-law. The small, family-owned, bootstrapping company has outgrown itself into one of the regional leaders in transport and logistics in the last 23 years. BI-KA Logistics provides domestic and international transport services and transportation, rail transportation, as well as transport of oversized, air, container, marine or hazardous goods, warehouse logistics services, full customs clearance, cargo insurance and consultancy in logistics. The business is exclusively business-to-business in nature and serves its customers in 30 countries, mainly in the European markets. Closing the 2013's business year with a turnover of 16 million EUR, which means a 20.7% growth compared to the previous business year, in 2014, they could increase the turnover by 12%, even if their main partner remarkably cut orders.

## Findings and discussion

The INSIST cases were used to find examples of paternalism and familiness in organisation and look for indications of potential affects and other considerations. As mentioned earlier, we found that familiness relates to shared ownership between family members and the management of the company was found to rest with the founder and / or family relatives, usually the children of the founder. Table 4. highlights this aspect of familiness for the cases within the specific context of Central Europe (Poland and Hungary).

These findings raise further questions rather than reaffirm what has been found in the literature. It seems that familiness cannot be assumed to exist in family firms, or that at the very least familiness is a sliding scale with some family firms being tightly knit amongst relatives and other firms trusting the management and the future of the company to non-family members. DOMEX (Konopacka, 2015a) in Poland seems to be the prime example of familiness with family members all active within the firm and sharing ownership. However, if we consider the example of WAMECH (PL) (Konopacka, 2015b), it was found that there had been decades of self-reliance embedded in the family, the founder supported all the children starting their own business in order to diversify the family holding (Konopacka, 2015). In this way, perhaps familiness is not seen solely in the continuation of the existing family firm but rather the establishment of a family empire with a diversified range of business units existing under the family umbrella. The fact that family members of WAMECH have not continued the original family firm may initially sound like a lack of

*Table 4.*

**Ownership and management of INSIST cases in Central Europe**

| | Ownership/Governance | Management |
|---|---|---|
| DOMEX (PL) | The founder, his wife and his daughter share ownership. The management board of the company consists of the family doyen, his wife and two daughters and a person from outside the family. The board meets every month to deal with on-going business issues. | Shared management between family members. |
| Plantex (PL) | The founder and his wife keep 100% ownership and share neither with family members nor with external stakeholders. | Management is shared between family members with no external partners. |
| PILLAR (PL) | Family ownership with the possibility to involve external investors. The founder passed his ownership gradually to their sons. | Management is shared between family members with no external partners. |
| WAMECH (PL) | Shared family ownership. | The founder's eldest son became the managing director. |
| WITEX (PL) | Ownership is shared between the founder and the children. | Each family member runs their own business within the company group. |
| QUALITY MEAT (HU) | The founders keep 100% ownership and share neither with family members nor with external stakeholders. Next generation has no ownership yet. | Management is shared between family members with no external partners. |
| BI-KA (HU) | The founder keeps 100% ownership and do not share neither with family members nor with external stakeholders. Next generation has no ownership yet. | Founder-owner retired from daily management routines and delegated responsibility to a non-family manager. |
| FEIN Winery (HU) | The founder keeps 100% ownership and does not share neither with family members nor with external stakeholders. Next generation has no ownership yet. | Management is shared between family members and an external partner is planned to be involved in administration. |

familiness, however this occurred as family members were looking to build a dynasty and so familiness was evident but based upon broader horizons than a single family firm. If we now consider the BI-KA case in Hungary (Kiss, 2015), where the founder retired from management at an early age (47 years), and passed the management to a well-mentored non-family member of the management team (Kiss, 2015), then it can be seen that this company may lack the resource of familiness and may be less likely to have adopted a paternalistic leadership style. Despite this fact, the family firm still enjoys success with income improving by 20% and business results by 56% in 2013 (Kiss, 2015:3). Thus whilst familiness and leadership style are classed as resources, it seems that there are other means of success within family firms. In the case of BI-KA (Kiss, 2015), the owner György, was found to display a strong focus on growth with the motto *'if it is not growing, it is decreasing'*. It is plausible that this focus on growth may be the counterweight that allows for not having the benefits relating to familiness. Conversely, the apparent lack of a paternalistic style at BI-KA may arguably mean that the destructive aspects relating to this style are also missing. Further research would be needed to consider these notions further.

If we consider our second variable of paternalism, then the literature indicates a number of types of paternalism: authoritarian, benevolent, moral and enlightened (altruistic) paternalism. The INSIST cases indicate some signs of these typologies in Table 5.

The cases seem to reinforce the findings in previous literature in relation to the types of paternalism as well as extend our understanding of paternalism – such as when the founder of the DOMEX case refers to his behaviour as 'enlightened paternalism' (Konopacka, 2015, p. 5.). It is also interesting to note that the founder of DOMEX is aware of his paternalistic nature and possibly even its modified form as enlightened paternalism. Furthermore, it was found in this particular case that although the founder was rather paternalistic in approach, external consultants were employed as mentors to the future successors (Devins – Marran, 2015). This does not mean that the paternalistic behaviour was simply outsourced as external staff are less likely to adopt a paternalistic style, but that the paternalism was marginalised to some extent and it may well be the case that the negative effects of paternalism may also have been lessened as a result.

If we now consider the adoption of paternalism in relation to the familiness of family firms, then we have a

Table 5.

**Findings from interviews – evidence of paternalism types**

| Paternalism type | Comments from owner of family firms |
|---|---|
| Authoritarian paternalism | "That's why the position of Antoni, *the founder and owner is so strong*. Not only has he built a sound business but the family admire him for enormous professional knowledge, expertise and willingness to share it with the new generation. *His leadership style is strong and individual*, but he has no problems with delegating or sharing responsibilities. If there is any reluctance against undertaking managerial duties it's due to the successors' unwillingness to take over rather than any barriers on Antoni's side" (Plantex, Poland). |
| Benevolent paternalism + Moral paternalism | "For an owner, who is the founder of a private/family business, the company is similar to his/her own children" (BI-KA, Hungary). |
| Enlightened paternalism | "The doyen is the principal manager in the company. He calls his management style *'enlightened paternalism'* – everyone has freedom in his or her field of action and decision making. However, decisions which need to be taken collectively must have his final say. There are no concessions when it comes to such values as reliability, honesty or justice. The company's success and its market position demonstrate that such management policy is effective and worth pursuing" (DOMEX, Poland). |

number of supportive (driving) and limiting (restraining) forces for this adoption. Firstly, two of the driving forces for the adoption of paternalism centre upon the context of our study. It was found in the literature that there is a strong preference for paternalism amongst employees in central Europe. The uncertainty and instability that have emerged since the financial crisis are seen in the literature (Bakacsi – Heidrich, 2011) as driving employees in search of leadership forms that encapsulate certainty, namely the autocratic and paternalistic forms of leadership. Therefore within the context of central Europe and the current recession, there are drives towards paternalism. Bakacsi and Heidrich (2011) also refer to the high levels of In-group collectivism found in Central-Eastern-European cultures. This is particularly interesting as in-group collectivism is "the degree to which individuals express pride, loyalty, and cohesiveness in their organizations or families" (House et al., 2004, p. 30.). The clan-like nature of family firms and the security provided by them was highlighted in the comment by family successors in the cases of WAMECH (Konopacka, 2015b) and FEIN Wein (Gubányi, 2015):

> *"Paul recalls that as a child the sons saw the company staff as 'part of the family', with their father being head of the family and their mother being the 'mother hen' who* ***looked after*** *all the staff." (Wamech)*
> *"She (the daughter of the founder)* ***feels less threats*** *toward dismissal, she does not become lax, she can use time effectively and decide, communicate rapid". (FEIN Wein)*

According to the literature there is an argument that negates the darker side of paternalistic leadership and this is the emergence of enlightened paternalism. This type of paternalism was also found in the case studies when the principal manager of the DOMEX (Konopacka, 2015a) referred to his management style as 'enlightened paternalism'. The negation of restraining forces in the adoption of a paternalistic style represents a strong driving force towards paternalism, if we consider solely this type.

The paternalistic style results in benefits that may be considered as driving forces such as mentoring and guiding family members, and the enforcement of 'familiness' through the passing on of the family owner's values and judgements to the children. The conscious education and training of a successor, regardless of whether they are family- or non-family member was found in the cases (Gubányi, 2015; Kiss, 2015) as well as the encouragement of a formal education for gaining a wide international perspective, as with FEIN Winery (Gubányi, 2015) and also in-company integration throughout the years as in the case of QUALITY MEAT (Szentesi, 2015).

The ideological factors of protection and guardianship, traditions and ownership are also emphasised. The owner may also consider it a driving force that this style enables him or her to maintain control over employees as well as the family wealth. The passing on of family values was found to be heavily emphasised in the case of DOMEX (Konopacka, 2015a):

> *"The doyen has taught his daughters the principles and* ***values passed*** *onto him by his mother, as he believes that they have been the key to his*


XLVII. ÉVF. 2016. 11. SZÁM/ ISSN 0133-0179 DOI: 10.14267/VEZTUD.2016.11.08

*success. His goal is to instill the **'entrepreneurial gene'** in his children, which will smooth the succession process and assure efficient company operations after he leaves. … The doyen's daughters **respect their parents' values**. Bringing up the children, the parents always emphasized such principles as honesty, empathy and positive attitude towards other people."*

If we now consider the restraining forces against the adoption of paternalism in family firms in Central Europe then we are faced with a number of causes of reducing familiness in family firms. Firstly, the paternalistic style may lead to resistance and resentment by family successors. This is a self-defeating aspect of the paternalistic style since it was found in the literature to have been adopted as a means of promoting familiness as found in our list of driving forces. However, our cases seem to indicate that the conflict, resistance and resentment associated with a paternalistic style are not automatic responses and a lot depends on the culture of the firm. In the case of PLANTEX (Paszkowska, 2015) we can see that even generational differences appear to have been handled in a sensitive and concordant way:

*"It happens the members of the young generation go with the problems to Antoni or Marta who try to solve them without anybody losing their face. **Harmony** is one of the most **important values** for Plantex family firm."*

The scope for conflict and resistance due to a paternalistic style has also been reduced in other firms. In the following example from PILLAR in Poland (Gorowski, 2015), it seems that the family successors are given a certain degree of autonomy and respect, which seems indicative of a more enlightened form of paternalism:

*"Management model, where each of the sons is responsible for his departments, and father acts as an **arbitrator** and advisor, especially during frequent meetings and deliberations. Father and each of two sons have the **right to block strategic decisions**, but such situations are very rare."*

The father of the firm appears to have the desire to alleviate the conflict and tension in the firm rather than be the cause of it, as he acts as an arbitrator and has given equal authority to his two successor sons to block his (and each other's) decisions, if necessary.

The anchoring of familiness found with owners adopting a paternalistic style also was found in the literature to potentially result in family inertia, i.e. organisational rigidity and a lack of responsiveness to external factors and an overdependence between family members. This can be seen in this comment by QUALITY MEAT (Szentesi, 2015):

*"The emotional attachment of family members to one another **can affect** the **efficiency** of work, and consequently, the **performance** of the firm."*

Another restraining force against the adoption of paternalism is that it is not a long term choice i.e. it is not sustainable. The literature indicated that after each generation of succession the paternalism decreases in family firms, likewise when external managers are chosen then these external managers are unable to adopt a paternalistic style. Furthermore, successors are likely to have a different mind-set even if they are the children of the founder. All of these factors highlight the unsustainability of a paternalistic style in family firms in the long term. We see the adoption of a different mind-set by family successors in the case of Witek (Konopacka, 2015c):

*"Each member of the family has developed his or her **own style** of business management. Karolina's son has travelled a lot and had periods working abroad. This gave him the opportunity to learn **new management methods**, which he now uses successfully in running his business."*

However, if we look at the cases in relation to external managers being less likely to adopt a paternalistic style, it seems that the familiness of the culture and the values thereby related to familiness, are passed on to newcomers as found in the case of PLANTEX (Paszkowska, 2015):

"The 'newcomers' – daughters' new husbands at the beginning complained that the firm was too dominant element of the family life, but with time they adapted to such family culture. There more involved they become in the family company activities, the more obvious such lifestyle was for them."

It is interesting to note in this case that the newcomers were initially against the familiness of the firm but adapted over time. Further research would be needed to discover if values relating to paternalism are also passed on within this family culture, but certainly this case casts doubt on whether external managers are truly unable to adopt a paternalistic style, if we were to consider cases where the owner has spent considerable time mentoring the manager and reinforcing the values and approaches associated with paternalism.

When we consider the restraining and driving forces for the adoption of paternalism in family firms, there is one particular force that is hard to distinguish based upon our findings. According to the literature a negative aspect of paternalism can be the loss of focus on profit in favour of other aspects such as succession and protecting family wealth. However, the cases seem to indicate that a focus away from profit may not necessarily be a bad thing as can be seen in the following quote from the case of Wamech (Konopacka, 2015b):

> *"As with many family businesses, as the company grew the Woods tended to employ friends and family members to the payroll –* ***most especially those in need*** *(for example employing friends who had been made redundant or their son's wife etc.)."*

It seems that the employment of friends that have fallen on hard times might not be entirely profit focussed. If we consider the triple helix of profit, people and planet then perhaps it could be argued that the adoption of the triple helix or looking beyond simply profit is another example of enlightened paternalism. Further research into this area of what constitutes enlightened paternalism would shed light on this concept and its implications for family firms.

## Conclusions, limitations and future research

Our paper reviews familiness and paternalism in family firms in Central Europe in the hope of shedding further light on these two elements found in family firms. We reviewed existing literature on these two elements and then considered the findings of the INSIST project in this light. We found that familiness cannot be assumed to exist in family firms just because it is a family firm. It also seems that a lack of succession to family members does not negate the existence of familiness as family members may be working on independent projects or businesses with the primary aim of building a family empire in the long term. Furthermore, familiness seems to be a sliding scale rather than simply existing within firms or not. Although familiness is a distinct resource in firms, it does not mean that a lack of familiness results in failure of family firms. The drive and strategies of the owner of family firms seems to counterbalance a loss of familiness, although further research would be needed to confirm this. It is also found that although familiness may result in a lesser degree of focus on profit, the focus towards people or planet in addition to profit does not seem any the less worthy and may in fact highlight that such small and developing firms are able to look beyond profits towards greater sustainability, although further research would be needed to confirm this.

We found a long list of restraining forces for family firms in this region adopting a paternalistic approach, but the list of drives for adoption is even longer. This appears to be due to the range of paternalistic types that was found in the literature and cases. The findings from the INSIST cases developed this line of thought further as we found that enlightened paternalism exhibited in the family firms in examples such as: an owner stepping back into an arbitrary role and leaving successors to make decisions autonomously; reinforcement of values encouraging harmony and approachability; and successors taking on new management methods. Further research is needed into this area, as enlightened paternalism may well be the way that owners of family firms simultaneously accept paternalistic leadership as the most suitable approach for family firms, and yet search for ways to adapt paternalism in order to overstep the hurdles associated with adopting a paternalistic style.

There are a number of limitations in this study which bear consideration. Firstly, the sample was small for this qualitative study but further cases may shed light on certain apparent contradictions between the literature and the cases studied. Furthermore, there is a methodological limitation in that the interviewees, as owners, had been given time to prepare their answers and appear to give a somewhat rose-tinted view. It seems only natural within the concept of familiness to have a degree of pride in showing one's best side, whilst being protective of the family name and its members. Future researchers in this area will need to find ways to avoid this limitation, which has proved rather challenging with the method used in our study.

In summary, the main aim of this study was to understand the two elements of paternalism and familiness and raise issues for further research. Despite the limitations of this study, paternalism has been found in its varying forms in the INSIST cases as well as clear examples of familiness as an asset for family firms. Further research may examine whether enlightened paternalism is the result of a natural evolution (survival of the 'fittest leadership style') or is in fact the Holy Grail of leadership style in family firms in Central Europe that all paternalistic leaders are searching for.

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Article arrived: June 2016.
Accepted: Sept. 2016.