

# TOWARDS THE CONSTRUCT OF PATERNALISM TO INVESTIGATE CONTROL IN FAMILY BUSINESS GOVERNANCE

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## Abstract

The aim of this study is to adopt the construct of paternalism to understand control in family business governance. In particular, we want to investigate the concept of paternalism as mechanism of control in family firms. The theoretical reflections we here present first try to challenge the main theories used in family business literature, with a discussion about their limitations and boundaries of validity. Then, we present the construct of paternalism as a mechanism of governance and control that influences the decision making process, and in particular the succession processes. The construct of paternalism still needs sound methodological as well conceptual work, but we argue that it may be a starting point for building a rigorous and relevant research stream. This endeavour may help the family business research field to gain legitimacy in the broader academic arena.

**Keywords:** Family Business, Paternalism, Governance, Control

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## 1 Introduction

Literature about family business is growing extremely fast in view of the number of published articles and scholars who are involved in researching this field. Nevertheless, the depth of understanding on each topic has remained shallow, lacking specific theoretically-based frameworks (Bird et al., 2002). Since its start, the field of family business has borrowed from other disciplines, including psychology, sociology, economics and law (Wortman, 1994).

Leading scholars claim that reanalyses of theories from sister disciplines in the context of family business constitutes a desirable starting point (Zahra & Sharma, 2004). However, a strong effort should be done to give feedback to enrich these sister disciplines from the insights developed in family firm investigation. This endeavour will thus help the family business research field to gain legitimacy in the broader academic arena (Elsback et al., 1999). In this paper, we present the construct of paternalism defined as the interference of an individual with another person, without his/her consensus, that in turn will be better off or protected from harm. Moreover we analyse its potential to understand family business logic and governance.

### 1.1 Definition of family business

Many authors claim that there is no family business definition that is fully established and widely accepted within the scientific community (Ward & Dolan, 1998; Astrachan et al., 2002; Sharma, 2004), and according to Flören (2002), "there are as many definitions for 'family enterprise' as there are researchers in the field".

Sharma and Zahra (2004) state that the family business field still lacks coherence and discipline regarding the use of definitional operationalizations. Astrachan et al. remark that "there is no clear demarcation between family and non-family businesses." In addition, "[...] artificially dichotomizing family vs. nonfamily firms [...] creates more problems than it attempts to solve" (2002, p.46). However, defining a family business is described as a main challenge of the family business field (Handler, 1989; Wortman, 1994; Flören, 2002; Mustakallio et al., 2002; Klein, 2000; 2003; Sharma, 2004; Sharma & Zahra, 2004). Possible reasons about the difficulty for researchers to find a commonly accepted definition of a family business are the heterogeneity of these firms regarding size, industry, age and structure (Handler, 1989; Birley, 2001; Sharma, 2003). Also the

involvement of a family as a complicating factor is mentioned (Flören, 2002).

The definitional ambiguity makes it difficult to define the source of distinctiveness of the whole research field (Hoy, 2003; Sharma, 2004). As Wortman (1994, p.4) puts it: "no one really knows what the entire field is like or what its boundaries are or should be". One of the major consequences is a lack of comprehensive conceptual investigations and insufficiently explained family business behaviours (Smyrnios et al., 1998).

The definition of family business that we adopt in this paper is as follows: a business is defined as a family business when family members are involved in the ownership ("one or two families hold the voting control") and in the governance and/or in the management level (Calabrò and Mussolino, 2011; Corbetta, 1995). The coexistence of two interdependent subsystems in the business should be emphasized: the family that influences the business and the business that influences the family. It is the interaction between two sets of organizations, family and business that establishes the basic character of family business and defines its uniqueness (Donnelly, 1964). This definition embraces firms that differ in many ways, they are very heterogeneous in terms of size, industry, degree of family involvement, besides the common label 'family business'. However, the family business literature still often assumes implicitly that family businesses form a homogeneous group of firms and compares them to non family firms. From our point of view, it seems reasonable to argue that there are great differences between large publicly listed family controlled firms and small or medium sized non-listed family owned firms (the 'mum and pop' business around the corner, for example).

The heterogeneity of family businesses creates two main concern: on one hand, regarding empirical studies, the problem is whether it is possible to generalise findings to the population of all family businesses; on the other hand, concerning theoretical reflections, it is necessary to build a conceptual framework that explain the family business dynamics, considering the different typologies of family businesses and their functioning. The research paths towards a "theory of family businesses" need to take into account this heterogeneity. We believe that the construct of paternalism (Mussolino and Calabrò, 2012), with its conceptual refinement and operationalization, could offer a comprehensive view for the family business field.

## 2 The construct of paternalism

There is ample evidence that paternalism is a complex and interesting construct in management and organizations studies to understand leader – follower relationships, styles and "techniques" of managing people and organizations. Bing (2004) suggests that a boss is essentially a mutated replica of one's original

authority figure: the parent. An example is provided by the movie director Francis Ford Coppola, since he creates a family of his cast members, like a "Papa" or "Godfather" (2008).<sup>1</sup> The role of the "superior" is to provide care, protection and guidance to the "subordinate" both in work and non-work domains, while the "subordinate", in return, is expected to be loyal and deferential to the superior. After Farh and Cheng (2000) review, research conducted since Silin's (1976), define paternalism as a style that combines strong discipline, authority and power of control with fatherly benevolence and moral integrity couched in a personalistic atmosphere (Pezzillo et al., 2013).

Most studies that define paternalism are conducted in sociology, political science, and philosophy.

Philosophy researchers define paternalism as any action that benefits a person independent of his wishes and that intends to provide good or to protect (Kultgen, 1992); the usurpation of one's choice of good by another, which decreases an individual's ability to chose (Archard, 1991); and the refusal to allow individuals to make choices for reasons of their own good (Cox, 2001; Wray, 1996).

Sociology research defines paternalism as an ideological persuasion used as a means of control within relations of inequality (Jackman, 1994) and a form of rule where power is held by the patriarch and administered through personal staff (Biggart, 1990; Weber, 1947). Organizational studies view paternalism as a way of controlling employees through family imagery where the manager acts as a caring and protective head of the industrial household (Kerfoot & Knights, 1993); and as an asymmetrical power relationship, which is a form of personalization (Padavic & Earnest, 1994).

Paternalism is defined as a system or practice of managing individuals that combines control, authority, and decision-making power with benevolence (Uhl-Bien and Maslyn, 2005); it seeks to promote the good or to benefit another, by regulating behaviours in order to achieve the goals of the enterprise (Martinez, 2003). Paternalism is an ideological persuasion used as a means of control within relations of inequality. From a social exchange perspective, paternalistic leaders offer supportiveness and welfare provision for employees' job related needs and for their personal and family needs outside the organization, which in turn creates a sense of indebtedness by employees that is manifest in trust, loyalty, commitment, and flexibility given to the employer by employees (Martinez, 2005).

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1 "Paternalism" comes from the Latin word pater, meaning a system, principle, or practice of managing or governing individuals, a business or nation in the manner of a father dealing benevolently or intrusively with his children [24]. This definition implies that paternalism occurs in a dyadic and hierarchical relationship between "superior" and "subordinate" and they have different role.

Political science researchers define paternalism as the interference of a state or an individual with another person, without his/her consensus, and justified by a claim that the person interfered with will be better off or protected from harm (Thaler and Sunstein, 2003).<sup>2</sup>

In other words, to be paternalistic means to protect people from their own foolish mistakes, acting as some sort of stern parent giving "fatherly" advice to them. Paternalism is appropriate when age or mental impairment justifies forcing one's moral judgments or self-righteousness upon another (Thompson, 1967).

The analysis of paternalism involves at least some kind of limitation on the freedom or autonomy of some agent for particular reasons, but determining the exact boundaries of the concept is a contested issue. A debate suggests the following conditions (Ackers, 2001; Brittan, 1988) as an analysis of *X acts paternalistically towards Y by doing (by omitting) Z*:

1. Z (or its omission) interferes with the liberty or autonomy of Y;
2. X does so without the consent of Y;
3. X does so just because Z will improve the welfare of Y (where this includes preventing his welfare from diminishing), or in some way promote the interests, values, or good of Y.

Condition 1. is one of the trickiest to capture. Clear cases include withholding information that the person has a right to have or imposing requirements or conditions (Ackers, 1998). But tricky cases don't seem to be an interference with the person's liberty not on his autonomy: for instance, a father, skeptical about the financial acumen of a child, instead of bequeathing the money directly, gives it to another child with the instruction to use it in the best way for the first child. The first child has no legal claim on the inheritance, but it doesn't seem a limitation of his liberty (O'Leary, 2003).

Condition 2. is supposed to be read as distinct from acting against the consent of an agent. The agent may neither consent nor disagree. He may be unaware of what is being done to him. There is also the distinct issue of whether one acts not knowing about the consent of the person in question or when a person in fact consents but the paternalist doesn't know it (Khatri and Tsang, 2003).

Condition 3. assumes that the paternalist thinks he/she the only one who knows what is the best for the others (Litrico, 2007; Greene et al., 2001). The traditional father-child relationship on which the term is based was a moral framework that credited the

father with an unquestionable understanding of the needs and best interests of his children. Fathers were presumed to have genuine benevolent intentions toward their children, even as they exercised absolute authority over them (Jackman, 1994; Cox, 2001).

There are some distinctions in conceptualizing paternalism (e.g. Thaler & Sunstein, 2003; Domanski, 2004; Warren, 1999).

In organizational studies, paternalism is seen as an instrument of managerial control, it has been extensively researched as a mode of organizing the employment relationship in firms. Strictly speaking, the term paternalism derived from the word patriarchy, meaning fatherly protection in return of loyalty and obedience. In a broader sense, managerial paternalism is a way of organizing the employment relationship along the lines of a parent/child configuration of authority (Fleming, 2005).

### 3 The paternalistic behaviour

Even with a limited number of empirical studies, conceptual ambiguities and contradictory empirical findings, some scholars have analyzed some common paternalistic practices implemented in the firm (Fleming, 2005; Aycan et. al, 2000; Kim, 1994; Padavic & Earnest, 1994). They could be categorized as follows:

1. *The presence of the paternalist.* The owner and the CEO are seen as a benevolent father figure who gives employees participatory discretion and look after them when they cannot do it themselves. The paternalist gives fatherly advice to subordinates in their professional *as well as* personal lives. When workers have this perception (the "boss" will take care of things), it is created a paternalistic atmosphere within the firm;

2. *Family.* In a familiar environment, a paternalistic management style substitute a formal work relation with a trusting and kindred one; the paternalist tends to establish close and individualized relationships with subordinates: establishing close relations with every subordinate individually, knowing every subordinate in person (personal problems, family life, etc.), is genuinely concerned with their welfare, takes a close interest in subordinates' professional as well as personal life.

3. *Recruitment and training.* A paternalistic organization has got specific rules to recruit employees, in order to own a more homogeneous and coherent workforce;

4. *Getting involved in the non-work domain.* It is easy to find in a paternalistic management style tempts to manage both work and non work lives of employees. For instance, it could be planned special sessions between team leaders and followers to discuss personal problems, behaviours and general habits. Not surprisingly, this operates as a policing situation in which attitudes, emotions and feelings of workers are monitored. Team leaders behave as

<sup>2</sup> The issue of paternalism arises with respect to restrictions by the law such as anti-drug legislation, the compulsory wearing of seatbelts and in medical contexts by the withholding of relevant information concerning a patient's condition by physicians. At the theoretical level it raises questions of how people should be treated when they are less than fully rational.

solicitous siblings. Or a common practice is to attend important events (e.g., wedding and funeral ceremonies, graduations, etc.) of the other firm members, as well as their immediate family members, providing help and assistance (e.g., financial) to subordinates if they need it, acting as a mediator between an employee and their spouse if there is a marital problem.

5. *Creating a family/kindergarten atmosphere in the workplace.* Paternalistic organizations aim to create a cultural and physical environment, that is fun and inspiring for workers.

6. *Expecting loyalty:* loyalty and commitment are perhaps the most important benefits of paternalism for employers. They expect loyalty and commitment from subordinates, expect employees to immediately attend to an emergency in the company even if this requires employees to do so at the expense of their private lives. On the other hand, employees give their best to the job not to lose face for their beloved managers. This is almost the only possible way of reciprocating the benefactor's care, protection, and nurture. Employees derive their sense of identity as members of "one big family" (Warren, 1999).

7. *Maintaining authority/status:* giving importance to status differences (position ranks), and expecting employees to behave accordingly; believing that the paternalist knows what is good for subordinates and their careers; not wanting anyone to doubt his/her authority.

Two studies have mainly analyzed the dimensions of paternalism, claiming for a multidimensional approach. Farh, Cheng and colleagues (Farh & Cheng, 2000; Farh et al., 2006) proposed a model of paternalistic leadership as consisting of three dimensions: authoritarianism, benevolence, and morality. Authoritarianism refers to leader behaviors that assert authority and control and demand unquestioning obedience from subordinates. Benevolence refers to leader behaviors that demonstrate individualized, holistic concern for subordinates' personal and family well-being. In return, subordinates feel grateful and obliged to repay when the situation allows. The third dimension, morality, depicts leader behaviors that demonstrate superior personal virtues (e.g., does not abuse authority for personal gain, acts as an exemplar in personal and work conduct) which lead subordinates to respect and identify with the leader. Based on these dimensions, Farh and Cheng (2000) define paternalistic leadership as "a style that combines strong discipline and authority with fatherly benevolence and moral integrity".

Aycan (2006) distinguishes among different leadership approaches and suggests that paternalism is not a unified construct and it is not equal to authoritarianism as portrayed in the Western literature. On the basis of two dimensions, the behavioral occurrence ("generosity and care" versus "control and

authority", for the paternalist; "loyalty" versus "dependence", for the subordinate) and the underlying intent ("genuine concern" versus "organizational outcomes", for the paternalist; "reciprocity" versus "calculative" intent, for the subordinate), she distinguishes benevolent paternalism from authoritarian paternalism. In benevolent paternalism, the overt leader behavior is "care and nurturance" and the paternalist has a genuine concern for employee welfare and the employee shows loyalty and deference out of respect and appreciation for employer's care and protection. In authoritarian paternalism, the overt leader behavior is "control" and the paternalist exploits rewards and punishments to make subordinates comply, demanding unquestioning obedience.

With this model, she argues that paternalism is not a unified construct and that it is not equal to authoritarianism as has been portrayed in the Western literature.

The overt leader behavior shared by benevolent and exploitative paternalism is "care and nurturance". In benevolent paternalism, the leader has a genuine concern for employee welfare and the employee shows loyalty and deference out of respect and appreciation for employer's care and protection (Aycan, 2006). In contrast, the overt leader behavior in exploitative paternalism is also care and nurturance, but it is provided solely is to elicit employee compliance to achieve organizational objectives. Employees in exploitative relationships show loyalty and deference primarily because the leader is capable of fulfilling their needs as well as depriving them from critical resources (Aycan, 2006).

The overt leader behaviour shared by authoritarian and authoritative leadership is "control". What distinguishes the two styles is the underlying intent. In authoritarian management, the leader exploits rewards and punishments to make subordinates comply. In other words, subordinates show conformity in order to receive rewards or avoid punishment. In contrast, authoritative leaders also exercise control, but the underlying intent is to promote subordinate's welfare (i.e., benevolence). Subordinates know that the rules are for their benefit and respect the leader's decisions and willingly comply with the rules (Aycan, 2006).

Several studies analyse how the concept of paternalism influences the process of succession in FFs and assert that problems occur when family firm leaders are desirous of retaining family control past their tenure (e.g. Astrachan et al., 2002), as well as recognize the pivotal role played by relationships between different group of individuals (e.g. Cicellin and Mussolino, 2013).

Moreover researches underlie that the centralization of ownership and control through paternalism also tends to create highly personalized relationships (e.g. Vinton, 1998). Top decision making is often focused on the founder or his successor, rather

than consensual among the board members (e.g. Buchholz & Crane, 1991). In addition, empirical practices have shown as “*priority is given to relatives when an owner engages a staff of employees*” and that the substance of kinship obligations gives an ideal image of how superiors and subordinates should interact in a firm (Wong, 1993).

### **3.1 Governance and Control in Family Business**

Many theorists consider governance, planning and formal control systems a tool to align interests of the management with the ones of the shareholders. It is a way to avoid opportunistic behaviors of agents (Jensen & Meckling, 1976; Fama, 1980). In other words, the introduction of governance and control methods, such as those defined by Thompson (1967) as “organisational positions with a high level of discretionary capacity”, appears to be an essential element, among other things, in avoiding the emergence of potentially destructive conflicts between ownership and management.

Enterprises formal systems to control agency costs are less necessary when few people own the property and there is an overlapping between management and shareholding. In this sense, according to the mainstream literature (e.g. Fama & Jensen, 1983), family firms (FFs) would represent an interesting context to minimise agency problems, especially because of the involvement of the family in the shareholders, management and governance.

However, some peculiar features of FFs and especially the presence of asymmetric altruism, help to increase agency costs, through actions of free-riding and entrenchment. In the opinion of Lubatkin et. al. (2005), altruistic bond between parent and child is generally stronger and more enduring than that between unrelated individuals: this compulsion can lead to agency problems, because it can cause parents to threaten their children with moral hazard. Parents are thus faced with a “Samaritan’s dilemma” (Buchanan, 1975) in which their actions give beneficiaries incentive to take actions or make decisions that may ultimately harm their own welfare. The Samaritan’s dilemma is representative of class of agency problems associated with the exercise (or lack) of self-control by the principal. Implicit in Buchanan’s theorem is the notion that altruism can bias a parent’s perceptions of their children, which, in turn, hampers their ability to monitor and discipline them. Family managers can behave in order to maximize their profit taking business critical resources away from firm development. Additionally there is typically an excessive decisional centralization in the hands of few people and the processes of selection and appraisal of family managers are often based on emotional considerations more than on the results achieved. As a consequence, there could be conflicts between relatives involved in the management and the ones

who are only involved in the shareholding (Daily & Dollinger, 1992). These conflicts can at least ruin the peculiar features of FFs success, such as mutual altruism, collaboration and information exchange (e.g. Martinez et al., 2012).

For instance, these aspects are founded in the succession process, that crucially characterize FFs. In fact, in family firms, emotional factors in the outgoing-incoming relationship and complex social ties with the family constitutes profound challenges in assuring effective succession (Lansberg, 1999; Miller et al., 2003). Many studies on succession assert that problems occur when family firm leaders are desirous of retaining family control past their tenure (Astracha et al., 2002), as well as recognize the pivotal role played by relationships between different group of individuals (De Massi et al., 2008). Morris et al. (1997) assert that relationships within the family have a greatest impact on successful transitions and that some levels of control are a prerequisite for the transition to have a significant impact of subsequent performance.

As far as these arguments are concerned, some studies (e.g. Harveston 1997; Harvey and Evans 1995; Kets de Vries, 1996; Schein; 1983) suggest that paternalism is an important mechanism to control the decision making process in FFs. Moreover paternalism and the paternalistic leadership have a great impact on the succession process due to a centralized authority and high involvement that influence the incoming generation, with a consequent effect of generational shadow.

### **3.2 Paternalism as a mechanism of control in Family Business Governance**

Leading scholars in family business literature have claimed for the lack of a specific theoretically- based frameworks (Zahra & Sharma, 2004). Major problems stem from the disagreement on the definition of family firm and the heterogeneity of the field. Agency theory is the most used framework for family business governance. Stewardship theory and altruism have been used to supplement or substitute agency theory in recent studies of family firms. The main frameworks have showed some limits to fully explain family firm functioning. Therefore, we believe that construct of paternalism, as it has been presented above, has a potential to understand family business governance and control.

Paternalism as logic and as an ideology has been introduced in few studies in family business literature.

It has been argued that paternalism is the ideology distinguishing a family business from other businesses. In this line, Johannisson & Huse (2000) referred to the construct of paternalism, when assuming that all family businesses have to host the three ideologies of entrepreneurialism, paternalism and managerialism, in order to remain a “viable enterprise”.

*Paternalism as it appears in a business setting presents itself as a clan structure where the hierarchy is structured by seniority and kinship ties... The meaning of business life is a safe domicile for the family... In this context everyday life becomes as important as maintaining traditions and building a future for generations to come. The competencies needed for this endeavour are deeply embedded in the personal histories of the family members and of further confidants inside the firm. Keeping the business within the family is the dominant objective within the family* (Huse & Johannisson, 2000).

An organisation is not only an instrument to reach the goals shared by all members of the organisation. It is also an arena for emotions and politics (Nordqvist, 2005). In a family business, there are needs to balance the interests of both family and the business, which makes this type of company an arena for competing ideologies.

In paternalism, comparing to entrepreneurialism and managerialism, the strong ideological factors are protection and guardianship; family institution; traditions; and ownership (Sorenson, 1999).

Scase and Goffee (1982) use the term 'paternalism' to describe paternalistic leadership style in owner-managed firms. In general, a paternalist is a person who believes in the policy of controlling other people in a fatherly way by providing them with what they need. In a family business, a paternalist is inclined to take the decisions for the people he governs or employs and to take away their own personal responsibility. The ideology of paternalism is protective and dominating (Koiranen, 2004).

In 1986, Dyer published a study that has become a classic in family business literature. Dyer's study provides insights into the types of leadership prominent in family businesses. Dyer's description of each culture portrays a different form of management behaviour. According to Dyer (1986), the most prominent type of family business culture is paternalistic. In a paternalistic culture, relationships are arranged hierarchically and there is a strong governance control system. Family leaders retain all key information and decision-making authority, and managers closely supervise employees, giving subordinates little discretionary leadership (Hunt et al., 1978). Autocratic leadership best describes the management behaviour in this type of organization.

Following this direction, some scholars have analysed the management practices in Eastern family owned firms, and they found that these businesses are organised in a paternalistic way. Farh et al. (2006) suggest that paternalistic leadership is an effective strategy in Chinese family-owned businesses since it may help maintain control over the employees as well as the family wealth. Some studies assume that management control in archetypal Chinese family firms is often exercised through nepotism, obligation networks, and paternalism (Yeung, 2000), better still management processes of Chinese family firms are

characterized by (a) paternalism, (b) nepotism, (c) personalism, and (d) fragmentation (Redding, 1990; Chau, 1991; Chen, 1995; Kets de Vries, 1996).

Another research has underlined that the centralization of ownership and control through paternalism also tends to create highly personalized relationships (Vinton, 1998). Furthermore, paternalism tends to reinforce organizational rigidity in Chinese family firms when the patriarch of the family takes up full control of the firm. Top decision making is often focused on the founder or his successor, rather than consensual among the board members (Buchholtz & Crane, 1991).

Finally, it is assumed that the patriarchs are also engaged in extensive cross-border networks of personal and business relationships that characterize their paternalism and personalism.

In addition, empirical practices have shown as "priority is given to relatives when an owner engages a staff of employees" and that the substance of kinship obligations gives an ideal image of how superiors and subordinates should interact in a firm (Wong, 1993). "The same principles used in family organisation are applied in the business unit...and the acceptance of the established order made it possible for people of different background and origin to fit into the family pattern" (Chau, 1980).

Conceptual reflections on paternalism to understand family business governance require an analysis of dimensions and characteristics of the construct and their correspondence to the specific features of the family firm field.

The welfare of the family, even an extended family, is the core issue in paternalism, whereby the care and well-being of the employees and other stakeholders are emphasised. Family businesses have history, values and tradition and their internal mechanisms rely on a the same dimensions of paternalism where strong and traditional family norms, family roles and the religious precepts have strong influence (Pellegrini and Scandura, 2008). The cultural context is the underpinning of paternalism: traditional value of family and a strong emphasis on patriarchal relationship within the family unit fit well with the dynamics of paternalistic behaviour.

Paternalism is most likely to occur in cultures also high on affectivity vs. emotional neutrality (Khatri and Tsang, 2003) and the relationship between the paternalist and the other member of the firm is a heavily emotional one. The emotional bonding is so strong that often times both parties go beyond their role boundaries to help and nurture one another. In this context, the emotional nature of the paternalistic relationship is contrasted with Western professionalism (Kotey and Folker, 2007).

Care, protection, and affection in the paternalistic relationship may easily create an organizational culture in which low performers are protected and tolerated (Rademakers, 1998). This is a typical feature that characterizes a family business. The emotions

often drive strategic choice of the firms, more than purely economic objectives (Habberson et al., 2006). In this line, cultural differences between family firms in different countries could be also considered. For

example, Switzerland as a culture (in particular, the canton 'A') might be more paternalistic than Italy (Chirico, 2007).

**Table 1.** Dimensions of paternalism and family business features.

	<b>Dimensions of paternalism as a construct</b>	<b>Feature of family business</b>
<i>Core issue</i>	Welfare of family	Welfare of family
<i>The influence of cultural contexts</i>	Positive or negative connotations	Values, tradition, concept of family
<i>Explicit assumption on the principal</i>	The presence of the paternalist	The principal has hearth and face
<i>The "boss" assumption</i>	He/she thinks he is the only one who knows what is the best for the others	He/she is the father
<i>Decision making process</i>	The paternalist doesn't delegate. He/she makes the decision	The father/mather makes the decision
<i>Role integration</i>	Role integration as a manager and as a father	Role integration in the family and in the business
<i>Type of relationships</i>	Long-term and personal	Family ties; Long-term and personal
<i>Different level of research</i>	Individual, group, organizational	Individual, group, organizational, societal
<i>Over time</i>	Paternalism may change over time	Family business governance may change over generation
<i>Different degree</i>	Benevolent, authoritarian, authoritative, exploitative	Heterogeneity of family firm typologies
<i>The seven practices of paternalistic behaviour:</i>		
<i>The presence of a specific figure</i>	The paternalist	The owner has face and heart
<i>Family</i>	Family environment	Family
<i>Recruiting and training</i>	Specific rules	Specific rules
<i>Getting involved in the non-work domain</i>	Personal and professional life	Family and business
<i>Creating a pleasure atmosphere</i>	Kindergarten atmosphere	Family atmosphere
<i>Expecting loyalty</i>	From the employees	From family and non family members
<i>Maintaining authority</i>	He/she is the boss	He/she is the founder

Differently from agency theory, where the principal is an investor and the assumption about the principal are implicit, in paternalism principals have "faces" and "hearths". By "faces", we mean that the identity of the owners is known, and by "hearths", we mean that the owners may make decisions based on values other than pure profit maximisation for the business (Huse, 2007).

Moreover, underlying the definition of paternalism is an implicit assumption that the paternalist believes that he/she is the only one who "knows what is best for the others" and therefore he/she is invested to influence and control other family members behaviour, most of all those of the new incoming generation. The assumption of the paternalist's superiority in the decision making process is ascribed by the virtue of his/her position, age and experience, and therefore his/her power and authority is legitimated. In family business, the

founder, for example, brings key, positive personal traits and values to the business, often displaying incredible drive and energy, force of personality and the desire to run things on his/her way (Giddings, 2004). Differently from agency theory, that assume that the agents make the decision, paternalism provide a better explanation about the decision making process in family business governance, assuming that the "boss take care of things".

Paternalism transcends boundaries. The paternalist is more than an employer or a manager in his role. He/She is involved in employees' personal lives, and he/she has the right to expect personal favors from them. This raises the issue of invasions of privacy, where the extent and justification of boundary-crossing is constantly questioned. These seemingly conflicting and yet coexisting roles that parents and managers assume are at the root of paternalism. In this line, we could assume that a core

element in paternalism is role integration. As well in family businesses, decision-makers may integrate roles related to the business with other roles, for example roles related to the family (e.g. Macneil, 1980). Let's take the example of clans and family firms where contract last for generations (Ouchi, 1980).

The special features of relational contracts are how they characterized by relational norms as role integration, preservation of the relation, harmonizing of role conflicts and supracontract norms (Macneil, 1980). This will imply certain governance mechanisms where various governance roles are partially and fully integrated.

The decision-makers may integrate roles related to the business with other roles, such as roles related to the family. In paternalism, the paternalist assumes a dual role of both control and care. This will imply governance mechanisms in which the various governance roles are integrated. Empirically, this is shown by the manner in which boards in small family business not only have control tasks but also may undertake executive or service tasks (Huse, 2007). For instance, board members typically are people in the family, but there may also be some board members from outside the family. Often outside board members have had a long-term relationship with the family, as their lawyer, consultant, etc. Board members in family businesses are rarely independent. The paternalistic logic emphasises that interactions and structures are related to family values and norms.

Agency theory assumes that agents may act opportunistically and the principal doesn't trust the agent. As a consequence, some governance mechanisms, both internal and external, need to be implemented to align manager's and owners' objectives. In paternalism, the paternalist doesn't trust the beneficiaries, in the sense that he/she believes that they don't know what is the best for them. So, the paternalist does not delegate the decision making process and the governance mechanisms he/she uses to maintain the relationship with the beneficiaries are their respect, their loyalty and their concern "not to lose face for their beloved boss".

Finally, as we have presented above, some scholars have identified seven common practices of the paternalistic behaviour. Each of this issue fits well in the family business governance and dynamics.

1. *The presence of the paternalist.* The founder of a family firm, who usual is the CEO as well, is the father / mather who has the control and the care role at the same time, both in the family and in the business. Even non family members could have the perception of "the boss will take care of things" (Aronoff and Ward, 1993);

2. *Family.* Family firm could present both informal and formal relationships. As well, in the business, formal work relation is substituted by trusting and kindred one; the paternalist tends to

establish close and individualized relationships in the firm, a part for his/her family ties;

3. *Recruitment and training.* Especially, with family pacts, family business tends to have specific rules to recruit family and non family members;

4. *Getting involved in the non-work domain.* As we have explained above, the main feature of family business is the overlap between the two subsystems, the family and the business. As a consequence, important governance mechanisms are Christmas party, as well as wedding ceremonies and graduations. Another examples is the family council that help family members to discuss personal problems, behaviours and general habits.

5. *Creating a family/kindergarten atmosphere in the workplace.*

6. *Expecting loyalty:* the founder of a family business expects the next generation to be involved in the business and to run the business according to his/her values and tradition. The choice of a son/daughter to exit from the ownership of the firm usually gives a feeling of betrayal to the whole family.

7. *Maintaining authority/status:* the founder is usually emotionally attached to the business and he/she believes it is his/her own child. As well for his/her age and experience, he/she strongly want to keep the authority of the firm.

#### 4 Comments and conclusion

This paper is about governance in family firms. Previous studies have only partially explored the field of family business governance and our understanding of the topic has remained shallow. In this paper we lean on the construct of "paternalism" to understand governance in family firms. In particular we try to investigate how paternalism could be a mechanism of control in family firms.

Literature on family business lacks one specific theoretically- based framework; hence family firms are explored and studied using concepts from "sister-disciplines". We present paternalism in relation to the main theories used in family business literature, with their limitations and boundaries of validity.

Few constructs in the management literature are as intriguing, complex and controversial as "paternalism". Paternalism is benevolence combined with control (Uhl-Bien and Maslyn, 2005) and it is defined as the interference of an individual with another person, without his/her consensus, and justified by a claim that the person interfered with will be better off or protected from harm.

The construct of paternalism is an emerging and fascinating new area for research, but its nature is hard to capture, and yet almost every discussion about it (due also to different cultural context, Western versus Eastern scholars) is loaded with controversy as well as ideological and moral overtones.

As we have presented in the paper, paternalism could have both positive and negative connotations, as



well as different approaches due to cultural context, the paternalist's behaviour and the underlying intent to act paternalistically (Aycan, 2006). In the same way, we have discussed about family businesses, about the different configurations they could assume and the heterogeneity as their specific feature. We believe that the framework of paternalism could help to explain the heterogeneous field of family business and, specifically, "benevolent paternalism" may be generalized across cultures (Pellegrini and Scandura, 2008) and across firms.

Moreover, researches about the construct of paternalism can be built at different level: the individual level, investigating paternalistic leadership; the group level, analyzing the relationship between the paternalist and the beneficiaries, the trade-off between the loyalty of the beneficiaries, their respect, their dependency, their frustration to be confined in a childlike role and emerging conflicts; the organizational level, where the paternalistic organizational culture and practices are the main focus. In an assessment of the current status of the family business research, Sharma (2004) shows as the FB literature is organized according to the same levels of analyses, individual, interpersonal or group, organizational, and societal.

Since the construct of paternalism needs sound methodological as well conceptual work to build a rigorous and relevant research stream, we believe that a strong effort should be done to give feedback to enrich this construct from the insights developed in family firm investigation. This endeavour will help the family business field to gain legitimacy in the broader academic arena.

In our understanding paternalism may give a chance for better understanding governance in family firms and the mechanisms that drives choices and decision-making patterns in the process of succession in family business, while economic theories based on rational expectations are less likely to occur. This research takes a first step for a theoretical contribution, since it tries to open up a different perspective in the academic debate.

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