Toward a Paradox Perspective of Family Firms: the Moderating Role of Collective Mindfulness of Controlling Families

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Introduction

Despite numerous attempts to establish the link between family involvement and firm performance, research findings are alarmingly inconsistent. Some researchers, mostly drawing from traditional economics, depict a very pessimistic picture, suggesting that family involvement is a source of fundamental inefficiency because of owner-owner agency conflicts, resource constraints, and family utility maximization that detracts from firm value maximization (Dharwadkar, George, & Brandes, 2000; La Porta, Lopez-De-Silanes, Shleifer, & Vishny, 2002; Morck & Yeung, 2003; Peng & Jiang, 2010). Other researchers, however, referring to reduced owner-manager agency conflicts, concerns for long-term organizational prosperity, and the provision of unique resources such as patient financial capital, suggest that family-owned firms outperform nonfamily firms (Anderson & Reeb, 2003; Barontini & Caprio, 2005; McConaughy, Walker, Henderson, & Mishra, 1998; Villalonga & Amit, 2006). This favorable perspective has found support in a recent meta-analysis of studies on family firm performance in the U.S. stock market, which indicate a systematic outperformance of family firms (Carney, Gedajlovic, & van Essen, 2011). While inconsistent empirical findings on fundamental questions are not uncommon in management research, the theoretical inconsistencies are particularly worrying and raise fundamental concerns about the adequacy of our linear reasoning on the (in)efficiency of family involvement. What is noteworthy is that the concerns for tensions and theoretical inconsistencies have been very prominent in earlier family business writings (e.g., Tagiuri & Davis, 1996; Whiteside & Brown, 1991). Unfortunately, however, and most likely in consequence to a shift towards empiricist research methodologies that are best suited to uncover linear relationships, the attention of academics over the last years has moved away from how family firms deal with tensions and competing forces.

Paradox as a fresh lens to investigate the efficiency of family involvement
Whether one adheres to the negative or positive view as depicted, we must acknowledge that the linkage between family involvement and performance may be less straightforward than expected. Both views hold some level of incontestable truth, reflected in succinct theoretical reasoning and wide empirical evidence. When taken alone, these two perspectives are fundamentally juxtaposed and incompatible. When taken together, however, they form a tradition of theoretical discourse potentially richer than either perspective by itself. Building on paradox and systemic management research, I suggest that linear approaches, such as those advocated by agency theory (heightened principal-principal conflicts versus reduced owner-manager conflicts), are biased toward consistency, thereby overlooking the management of tensions, paradoxes, and inconsistencies (Achtenhagen & Melin, 2003; Cameron, 1986; Farjoun, 2010; Gibson & Birkinshaw, 2004; Leonard-Barton, 1992; Luhmann, 1992; March, 1991; Miller, 1993; Smith & Lewis, 2011; Sundaramurthy & Lewis, 2003; Van de Ven & Poole, 1995).

Paradox thinking has a long tradition in management theory and has been applied to dilemmas such as stability and change, exploration and exploitation, centralization and decentralization, short-term and long-term focus, and structural determination and purposive action, for instance (for an overview refer to Poole & Van de Ven, 1989; Smith & Lewis, 2011). The paradox perspective assumes that tensions persist within complex and dynamic systems. It shifts attention asked by contingency theorists from identifying the conditions under which organizations are more driven by certain factors (e.g., stability versus change orientation; family versus business interests) to examining how firms engage in these competing factors simultaneously (Smith & Lewis, 2011). It moves away from the original meaning of paradox (i.e., simultaneous existence of incompatible dimensions), whereby managers are urged to overcome disjunctions, and toward seeking synergies between the dimensions and striving to harness efficiency advantages arising from complexity.
The necessity and promise of a paradox perspective

The paradox perspective seems to impose itself on the study of family firms, for two reasons: (1) the inextricable and axiomatic tie between family and firm that defines the very nature of this type of organization, and (2) the challenge related to the combination of such seemingly competing demands for unconditional love, long-term focus, stability (often attributed to the family sphere) and meritocracy, short-term focus, and adaptation (often attributed to the business sphere). Recent family business studies have started building on this perspective (Basco & Perez-Rodriguez, 2009; Frank, Lueger, Nose, & Suchy, 2010; James, Jennings, & Breitkreuz, forthcoming; Litz, Pearson, & Litchfield, forthcoming; Nordqvist & Melin, 2010; Plate & von Schlippe, 2010; Schuman, Stutz, & Ward, 2010; Stewart & Hitt, 2010; Zellweger, Nason, & Nordqvist, forthcoming-b; Zellweger & Nason, 2008). I adhere to Smith and Lewis’s (2011, p. 382) definition of paradox: “contradictory yet interrelated elements that exist simultaneously and persist over time. This definition highlights two components of paradox: (1) underlying tensions—that is, elements that seem logical individually but inconsistent and even absurd when juxtaposed—and (2) responses that embrace tensions simultaneously.” This perspective of paradox alludes to the recent writings by Farjoun (2010) on duality which emphasizes the simultaneous existence of two essential elements (doubleness), which are contradictory and complementary at the same time, where one enables the other and is a constituent of the other. Without overstating the compatibility of the aforementioned demands of the family and business spheres, and following Whiteside and Brown (1991), I propose four critiques of this dual systems approach to family firms and advocate a paradox perspective to overcome the resulting limitations.

First, there seems to be a largely overlooked common ground between family and business systems. While certain social rules and norms, such as support, commitment, cohesiveness, and interdependence are particularly pronounced in the family context, they are neither absent nor incompatible with the efficient functioning of the business sphere. Indeed,
relationships characterized by these norms are often depicted as highly desirable in the business context. For instance, the literature on affective commitment and team building depicts a very favorable picture of humane interactions which stand out from mechanistic tit for tat relationships (Allen & John, 1990; Menz, 2011). Just as importantly, certain attributes that are ascribed to the business sphere, such as efficient use of resources, are found in familial norms such as parsimony (Carney, 2005) and the family’s provision of economic goods such as shelter and education. Many family firm studies are undermined by flawed ontological assumptions about the nature of family and business social systems, because each is defined as the opposite of the other. This juxtaposition of family and business systems is misleading, because even stability-providing systems, a role often attributed to families, are essential grounds for organizational change (Feldman & Pentland, 2003). Neglecting these findings assigns a negative and inertial role to families, thereby disregarding the role of families in not only absorbing, but also enabling, change. Consequently, I suggest that family and business systems are not orthogonal and that the incompatibility of social norms in family and business spheres is overstated.

Second, the overwhelming relevance of family firms in economies across the world, both emerging and otherwise (Shanker & Astrachan, 1996), challenges the trade-off perspective between family and business goals. If most family firms pursue socioemotional goals accruing at the family level, such as dynastic control, benevolent ties, positive affect, and reputation (Berrone, Cruz, Gomez-Mejia, & Larraza-Kintana, 2010; Gomez-Mejia, Cruz, Berrone, & De Castro, 2011; Gomez-Mejia, Haynes, Nunez-Nickel, Jacobson, & Moyano-Fuentes, 2007; Zellweger, Kellermanns, Chrisman, & Chua, forthcoming-a), it is impossible that these nonfinancial goals only detract from financial performance. Otherwise, the family firm would have disappeared long ago. The combined family business system is thus not inevitably undermined by the seemingly opposing goals of the subsystems. On the contrary, and as tentatively addressed in Tagiuri and Davis’s article (1996) on bivalent attributes of
family firms, there must be “economies of synergy” between socioemotional and financial
goals, which have been largely overlooked to date.

Third, and as epitomized in the owner-owner agency writings alluded to previously,
families do not uniformly deprive their firms of necessary resources. As depicted in the
familiness literature, families often provide unique resources to their firms, such as patient
capital, survivability capital, and tacit knowledge, which serve as the basis for competitive
advantage (Habbershon & Williams, 1999; Sirmon & Hitt, 2003). Also, because not only
financial but also socioemotional wealth is at stake in many family firms, it seems unlikely
that families systematically exploit the firm’s resource base. In addition, because family firm
owners are concerned not only about money but also about resources such as reputation and
social capital, the family and the firm do not systematically compete for the same resources.
Thus, families cannot be seen as systematic resource “extractors,” but as critical resource
providers to their firms.

Fourth, and on a more general basis, a dual systems approach that assigns a defective
role to the family sphere advocates a simplified, mono-dimensional approach to management
that systematically excludes the family. Such a reductionist approach to the management of
family firms neglects the opportunities related to the combination of family and business in
avoiding dysfunctionalities that undermine organizational effectiveness. In fact, Bateson
(1973, 1979) and Cameron (1986) suggest that without the tension that exists between
simultaneous opposites in organizations, entropy and unproductive schismogenesis occur,
whereby schismogenesis is defined as a “process of self-reinforcement where one action or
attribute in the organization perpetuates itself until it becomes extreme and therefore
dysfunctional” (p. 546). According to Cameron, (1986) it is not the presence of mutually
exclusive opposites that makes for effectiveness, but the creative leaps, the flexibility, and the
unity made possible by them that leads to excellence. Interestingly enough, family business
practitioners have started to actively explore the benefits of a paradox perspective. For
example in their recent book, emblematically entitled “Family Business as Paradox”, Schuman, Stutz and Ward (2010) present the case of Beretta, an Italian family firm founded in 1526, which seeks to maintain systematic creativity by managing paradoxes. At Beretta paradox thinking is ingrained in corporate culture and is for example perceptible in the company’s motto: “prudence and audacity”. Prudence thereby represents wisdom in practical matters, audacity stands for fearlessly daring. This line of thinking alludes to the ongoing debate about the synchronous pursuit of explorative and exploitative actions (Gavetti & Levinthal, 2000; Gupta, Smith, & Shalley, 2006; March, 1991). These streams of research converge on the idea that resolving all simultaneous contradictions and pursuing logical consistency may, in fact, inhibit excellence by eliminating the creative tension that paradoxes produce.

**Collective mindfulness of the controlling family**

From a theoretical standpoint, the promise of such a paradox perspective applied to the management of family firms largely depends on our ability to define the mindset and behaviors required for paradox thinking. I suggest that collective mindfulness, defined as the controlling family’s ability to use of paradox thinking to seek synergies between family and firm, plays a decisive role in the positive or negative effectiveness consequences arising from family involvement (Farjoun, 2010; Levinthal & Rerup, 2006; Weick & Roberts, 1993; Weick, Sutcliffe, & Obstfeld, 1999).

In partial adaptation of and extension to existing mindfulness writings, collective mindfulness of controlling families comprises an awareness of the bivalent nature of many aspects of family involvement, such as those described by Tagiuri and Davis (1996). For instance, Tagiuri and Davis (1996) mention the issue of shared identities of family and firm, and shared identities of family members being involved in the firm. While this may create a stifling sense of being overwatched and resentment toward family and business, it may at the
same time imply heightened family and company loyalty and a strong sense of mission. Similarly, a lifelong common history between family members may imply that family members can point out weaknesses. Also, early disappointments can reduce trust in work interactions. At the same time however, because of a common history relatives can draw out relatives’ strengths and complement their weaknesses. And it may form a strong foundation to weather adversity. Mindful families are hence reluctant to simplify interpretations; they appreciate multiple interpretations and perspectives and are open to ambiguity stemming from the family and business interaction (Farjoun, 2010; Langer, 1989). As a consequence of the greater reluctance to simplify, mindful families hesitate to separate the humane from the mechanistic, and are hesitant to assign strict priority to the family or to the firm. Mindful families thus resist pressures to implement generally accepted quasi-solutions such as business first or family first and follow their own uniquely successful way to combine family and business. To a certain degree, such families deinstitutionalize the solution to the paradoxical situation, and disregard the force of habit, history, and tradition being either respective of the family or business domain (Oliver, 1992). Trapped in previously created categories, less-mindful families easily confuse the stability of their emotionally rigid, rule-based assumptions with stability in the world, thus obtaining a false reading of their surroundings (Langer, 1989).

Building on Miller’s (1993) suggestions on threats posed by simplicity and automatism, collective mindfulness is just as much preoccupied with failure and affordable loss as it is concerned about success (Fiol & O’Connor, 2003; Sarasvathy, 2001). I suggest that collective mindfulness of the controlling family is also characterized by a concern for reliability and effectiveness of the firm, and hence about going concern as well as commitment to resilience and hence the capability to rebound from setbacks (Wildavsky, 1991). Also, collective mindfulness in the context of controlling families considers the long-term perspective. The family would not put its own interests behind those of the firm as
suggested in stewardship writings; but the firm, in particular its future prosperity, is an integral part of the family’s utility function. In consequence, mindful families will be less likely to seek immediate financial return and more willing to accept a future and, hence, more uncertain payback (Bazerman, Tenbrunsel, & Wade-Benzoni, 1998). They are less likely to fall prey to fallacies such as inappropriately high discounting of future returns (Loewenstein & Thaler, 1989). This includes the absence of a sense of entitlement vis-à-vis the firm. Instead, mindful families are more likely to develop a sense of responsibility and will care about the firm’s long-term success.

My theorizing on collective mindfulness of controlling families could be considered a moderator that splits family involvement in a firm into an upside and a downside (Fiol & O’Connor, 2003). These considerations on possible components of collective mindfulness among controlling families and its moderating impact on organizational effectiveness are depicted in Figure 1.

Some considerations about measurement
Recent case study evidence suggests that what I bulkily label collective mindfulness of the controlling family may be a very natural way for families to manage their business activities (see for example the case studies in Nordqvist & Zellweger 2010). Controlling families may “simply have it”, consciously or unconsciously. It is perhaps rather we as researchers who have made things more complex – respectively too simplistic in light of our respective research traditions. Nevertheless, empirical evidence and ultimately measurement will become an issue if we want to examine the usefulness of the paradox perspective and in particular the concept of collective mindfulness of the controlling family. Given the
theoretical novelty of the concepts, qualitative case study research seems appropriate to untangle the processes and structures that are put in place to deal with dilemmas such as unconditional acceptance (born) and conditional acceptance (hired), socialistic and capitalistic regimes, cooperative and competitive behavior, emotionality and rationality, equality and merit, to mention a few.

At the same time, however, I believe there is space to quantitatively explore the effectiveness of a paradox perspective. To this end researchers could adhere to the empirical methodologies applied in ambidexterity literature. One way of advancing along this path is to investigate how various degrees of family emphasis—measured via the presence of the first elements in above dilemmas—combined with various degrees of business emphasis—measured, for instance, via the presence of the second elements in above dilemmas—affect the effectiveness of the controlled firm(s). Just as we proposed in Zellweger, Nason and Nordqvist (forthcoming-b), researchers could investigate how a dominant family coalition that scores high on both logics affects value creation, in which case the product (family emphasis * business emphasis) would be a good proxy for collective mindfulness. Alternatively, a family may be regarded as ambidextrous if it displays relatively equal emphasis on both logics. In this balanced approach, one would have to take the difference (family emphasis – business emphasis) as the proxy for collective mindfulness. In this case, even a firm that puts low emphasis on both dimensions would be classified as ambidextrous (Andriopoulos & Lewis, 2009; He & Wong, 2004; Raisch & Birkinshaw, 2008).

Conclusion

I have tried to advance our thinking beyond the dualism perspective of family firms by drawing attention to the power of anomalies and paradoxes. The fundamental assumption here is that the combination of family and firm, through the management of paradoxes ingrained in the collective mindfulness of the family, can generate a positive outcome. Collectively
mindful families display an ongoing wariness of the synergies between family and firm and move away from one-dimensional representations, simplifications, and inertial tendencies, and try to uncover the double-sided nature of family and business practices and their conjoint operations, complementarities, and, ultimately, synergies. This strand of thinking is underlined by the simple observation that in family firms a one-sided specialization on either family or business is illogical, because – for the good and the bad – these systems coincide in family organizations. In light of this observation I suggest that the stronger the collective mindfulness of the controlling family, the more likely the firm will exhibit effectiveness advantages arising from family involvement. The question then becomes how best to combine competing demands and to “live” collective mindfulness, not as a matter of necessity but as a matter of opportunity. I hope that the present text makes a small step toward answering this important question and has raised readers’ interest in an underexplored strand of family business research.

REFERENCES


**Figure 1: Components of collective mindfulness in Family Firms**

- **Collective mindfulness of controlling family**
  - Consciousness of bivalent attributes of family involvement
  - Reluctance to simplify
  - Hesitation to pick a family or business first perspective
  - Avoid rule-based assumptions about the environment
  - Wariness about biased perspectives on circumstances
  - Concern for affordable loss
  - Concern for resilience
  - Concern for reliability
  - Sense of responsibility for the firm
  - Long-term perspective

- Supporting organizational effectiveness
- Detracting from organizational effectiveness
- Family involvement