

Knowledge Dynamics and *Phronesis* in Performing Family Business

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Abstract: The purpose of this paper is to analyze the role of *knowledge dynamics* and *phronesis* in performing family business and show that both constructs constitute core competencies for these specific organizations within the Romanian economic environment. Knowledge dynamics have different interpretations depending on the metaphorical thinking used in conceptualizing knowledge. We based our research on the energy metaphor and the theory of knowledge fields, adopting a thermodynamics perspective. Rational, emotional, and spiritual knowledge interact continuously, and each form of knowledge can be transformed into another form, like in thermodynamics. Aristotle introduced *Phronesis* when he explained that knowledge manifests in one of the following fundamental forms: *episteme*, *techne*, and *phronesis*. *Phronesis* represents prudence or practical wisdom in making decisions. Aristotle remarks that *phronesis* is concerned with action about good or bad things for the human being, underlying the spiritual characteristic of this form of knowledge. Today, there is a significant trend in the knowledge management research reflecting the need to better understand the role of knowledge dynamics and *phronesis* in developing wise organizations (see for instance, the recent book published by Ikujiro Nonaka and Hirotaka Takeuchi, and the works published by Raysa Rocha and Paulo Pinheiro). The present research focuses on the role of knowledge dynamics and *phronesis* in the family business, considering that relations between the family members differ from employees' relations in a company, from emotional and spiritual points of view. We performed qualitative research based on a series of interviews with members of such a family business. We processed the qualitative data based on the grounded theory. Findings demonstrate that knowledge dynamics and *phronesis* play a significant role in the process of decision making and achieving a competitive advantage in the business environment.

Keywords: knowledge dynamics, phronesis, grounded theory, family business

1. Introduction

The family business represents a significant component of the emerging economies and constitutes a very specific domain of research from a managerial point of view. The main differences between the generic business and family business come from the ownership structure and the manifestation of human relationships (Anderson et al., 2003; Fletcher et al., 2012; Lee & Marshall, 2013). The family business is owned by the family members, who also perform the managerial tasks in most of cases. Human relationships represent a blending system between family structure and the managerial hierarchy (Arrondo-Garcia et al., 2016; Gomez-Mejia et al., 2011). Therefore, their content and intensity have different knowledge dynamics than the manager-employees relations in a company where the focus is on rationality and economic performance (Daft, 2005; Robbins & DeCenzo, 2005).

Knowledge dynamics (Bratianu & Bejinaru, 2020; Nonaka & Takeuchi, 1995) is powered by emotional and spiritual knowledge in the family business, while rational knowledge remains the economic measure of all managerial decisions. Rational knowledge is the dominant force in command and control management, and the decisional framework is based exclusively on economic metrics. In the family business, emotional and spiritual knowledge create a new decisional framework (Bratianu et al., 2021; Motoc, 2020). The concept of *phronesis* was introduced by Aristotle (1999) to connote prudence or practical wisdom in making decisions in a concrete social context. "Prudence is a state of grasping the truth, involving reason, concerned with action about things that are good or bad for a human being" (Aristotle, 1999, p. 89). In the family business, *phronesis* becomes a driving force in promoting the family interests and support for sustainable development (Fletcher, Melin, & Gimeno, 2012). Performing an extensive literature review in Web of Science, Scopus, Google Scholar and Research Gate, we found very few papers to address the role of knowledge dynamics and *phronesis* in decision-making in the family business, although the process is significantly different than decision-making in companies where the profit maximization represents the basic principle. In the family business the psychological climate is different and in the decision-making process dominant are emotional knowledge and spiritual knowledge. Thus, we found a knowledge gap between the literature dedicated to family business and the real life based on a powerful knowledge dynamics. Due to the scarcity of papers dealing with the importance of knowledge dynamics and *phronesis* in performing family business, our research question is the following:

RQ: What is the role of knowledge dynamics and phronesis in performing family business in the Romanian economy?

The structure of the paper is as follows. After this short introductory part, there is a literature review aiming at understanding the role played by knowledge dynamics and *phronesis* in the family business. Next, we present the methodology used in this research, followed by discussions. In the last section, we present some synthetic conclusions, limitations, and further possible directions for research.

2. Literature review

Family firms are usually characterized by high family involvement in ownership, management, and governance (De Massis et al., 2016), giving the family owners the authority and mechanisms to determine their goals and strategies (Chrisman et al., 2016; Lambrechts et al., 2017; Nordqvist et al., 2014). Based on the degree of family engagement in management, the authors suggest three family business configurations: 1) Operator Firms (OFs), 2) Supervisor Firms (SFs), and 3) Investor Firms (IFs). In addition to going beyond the pure dichotomy of whether non-family members are present in management, these configurations take into account the positions held by family members (rather than just the ratio of family members), better reflecting the complexity of the family engagement and the knowledge entropy of the firm (Bratianu, 2019). Depending on the company's generational stage, management may be concentrated by the founder, siblings, or a few influential family members. If the founder controls the business, it is likely to be dominated by the views of that owning manager, and a formal management body may be unnecessary. However, the business can be successful in this context if the founder has the necessary managerial competencies.

Operator companies controlled by siblings will require some type of management structure, such as top management, to deal with conflicting goals among family members. Nonetheless, informality will be preferred, and family members are anticipated to occupy significant managerial roles in top management. Family members are the best nonlinear integrators of the organizational capital (Bratianu, 2013), because the emotional knowledge is the glue for such a context.

In the case of supervisory firms, the top management will be made up of a mix of family and non-family individuals. Because non-family members participate more in top management and occupy certain significant responsibilities in top management, including the CEO, the degree of family engagement is likely to be lower than in operator businesses. Aside from enhanced diversity, top management composition will represent a higher level of formality and professionalization to suit the needs of both family and non-family top management members. In the case of the investment business, family members often have little or no involvement in top management, while critical roles like as CEO are held by non-family managers (Nordqvist et al., 2014). As a result, the management style of an investment firm will be quite similar to that of a non-family organization. In that sense, formality and professional management style are the norm, and control within senior management is disproportionately skewed toward non-family members. The decision-making process is dominated by the rational knowledge because the managers use the economic metrics. *Phronesis* is almost non-significant because the organizational culture is set up on economic values and mostly on short-term time horizon.

In the family business controlled dominantly by the family members, the tendency is to focus more on wellbeing than on economic goals (Berrone et al., 2012; Chrisman et al., 2015). That is possible by managing knowledge dynamics and creating a specific Ba and knowledge spiral (Nonaka & Takeuchi, 1995). Going beyond the SECI – Socialization, Externalization, Combination, and Internalization – cycle, knowledge dynamics based on the theory of knowledge fields (Bratianu & Bejinaru, 2020) can explain this tendency much better toward wellbeing (Chirico & Salvato, 2008; Motoc, 2020). A significant role is played by inter-generational learning, knowledge transformation from the emotional field into the rational field, and trust (Bratianu et al., 2011; Fletcher et al., 2012; Lee & Marshall, 2013; Motoc, 2022). Emotional knowledge is associated with the degree of family relations, while rational knowledge is associated with economic rationality and performance metrics. Also, the family business develops a powerful spirituality that influences decision-making and knowledge management (Rocha & Pinheiro, 2021) in concordance with the founders' value system and the behavior of wise teams and firms (Bratianu & Vasilache, 2009; Katzenbach & Smith, 2003; Nonaka & Takeuchi, 2019). As remarked by Nonaka and Takeuchi (2019), members of such a wise firm “should share feelings, emotions, and perspectives with each other, intuitively understand the contexts facing them, and take appropriate actions” (p. 5).

Wise companies cultivate *phronesis* and strategic thinking. Nonaka & Takeuchi (2019) emphasize that “*Phronesis* is experiential knowledge that allows people to make prudent judgments in a timely fashion, and to take actions guided by values, principles, and morals” (p. 25). Aristotle (1999) defines the knowledge framework in terms of *episteme*, *techne*, and *phronesis*. *Episteme* represents scientific or rational knowledge. *Techne* refers to the craft knowledge or the knowledge needed for production. *Phronesis* represents prudence or practical wisdom in making decisions. This framework is congruent with the theory of knowledge fields because *episteme* reflects rational knowledge, *techne* reflects emotional knowledge, and *phronesis* reflects spiritual knowledge. However, *phronesis* includes also spiritual intelligence being close to the construct of practical wisdom, which is wisdom applied in a concrete context. Pinheiro and Rocha (2020) underline that the integration of individual wisdom into organizational wisdom depends on the knowledge sharing and leadership competencies of decision-makers. The family business has many features of a wise firm, such that understanding the *phronesis* role in decision-making will contribute directly to the long term perspective of knowledge management and business development (Motoc, 2022; Rocha et al., 2021; Shatter & Tsoukas, 2014).

Phronesis is closely related to the working spirituality that influences the employees’ behavior. Rocha and Pinheiro (2021) remark that working spirituality “is related to employee well-being, sense of meaning and purpose, interconnectedness, and community sense” (p. 109). That is in concordance with several studies which show that well-being is more important in the family business than profit maximization (Berrone et al., 2012; Fletcher et al., 2012; Gomez-Mejia et al., 2011). *Phronesis* manifests in both operational and strategic management. In operational management the role of *phronesis* is embodied in the working spirituality, while in strategic management *phronesis* is embodied in the vision and mission of the family business.

3. Methodology

This article's epistemology and its chosen ontological perspective are based on the social constructionism paradigm. Interactions with other people, the environment, and the behavioral characteristics of individuals all contribute to the understanding of these perspectives on the same reality. Metaphorical thinking and language influence how people communicate their experiences (Esterby-Smith et al., 2018; Lakoff & Johnson, 1999). The construct of knowledge is based on the energy metaphor and the theory of knowledge fields and knowledge dynamics (Bratianu & Bejinaru, 2020).

The study used Glaser and Strauss's (2017) grounded theory research design, which is characterized by an ongoing comparison of incoming data and literature. The grounded theory approach opposes the use of hypotheses and explicit research questions as research beginning points (Khan, 2014). It is founded on the meticulous examination and study of data and the foundation of all knowledge on the data. As a result, grounded theorists use a social constructionist approach that emphasizes the importance of maintaining an open mind (Khan, 2014). Traditionally, research designs are classified as quantitative, qualitative, or mixed. The grounded research design used in this study was qualitative in nature, as it classified concepts and categories as factors affecting the role of knowledge dynamics and *phronesis* in the decision-making process of family businesses. The in-depth responses are necessary for fully appreciating the study's phenomenon. This means that the study will rely on non-numerical data, such as spoken words and language, in order to gain a comprehensive understanding of the problem. In terms of temporal frame, cross-sectional research was chosen. This kind of research is a 'snapshot' of a particular period, including a variety of research items (Saunders et al., 2019).

Glaser and Strauss (2017) state that the grounded theory process entails concurrent data gathering and analysis, which is also iterative. The investigation was done using data gathered via semi-structured interviews. The interview instrument used in this study followed Carmichael and Cunningham's (2017) principles for purposeful interview guides in grounded methods. The study's aims guided the development of the research instrument. As grounded methodology theorists indicated, the interview guide was open-ended and included items derived from the study objectives. Eleven family-owned firms in a variety of industries were discovered and contacted (Table 1). This research included a total of 16 interviews. Purposive sampling was used in this study since it was based on a qualitative research methodology and a specific research issue (Esterby-Smith et al., 2018). The study's objective is to collect data on knowledge management processes from Romanian family firms. It is vital to acquire accurate and dependable data. Only a small handful of family company employees can supply accurate information. More precisely, from family members involved in decision-making, strategy development, and administration of the family company. This group of members is acutely aware of the firm's core

competencies and what role does knowledge play. Collecting data from individuals who do not fall into this category may result in inaccurate or misleading results.

Following the collection of empirical evidence via interviews, grounded analysis was chosen to be the most appropriate method for evaluating the data (Bryman & Bell, 2015). Easterby-Smith et al. (2018)'s stages for doing the grounded analysis were followed. The first stage in the procedure was to transcribe all recorded interviews. Both Word and Sonix.ai were utilized to enhance the transcription process. Following that, the data were translated from Romanian to English. Following each interview, data were collected, transcribed, and categorized carefully. After all, interviews had been conducted and all data had been collected, transcribed, and categorized, the analytic phase began. The coding process has been evolving in several phases as data was processed. Figure 1 illustrates the main phases of the coding process.

Table 1: Interviews details

No	Company	Country of origin	Family ownership	Industry	No. of employees	Role	Background	Duration
1	A1	RO	100%	Design/Furniture	12	CEO	Family	58 min
	A2					PR manager	Family	43 min
2	B1	RO	100%	Architecture	8	CEO	Family	48 min
	B2					Financial	Family	39 min
3	C	RO	100%	Transport	6	CEO	Family	60 min
	D1					CEO	Family	60 min
4	D2	RO	100%	Manufacturing	9	Head of product	Family	45 min
	E					CEO	Family	50 min
5	F	RO	100%	Manufacturing	13	CEO	Family	55 min
	G1					CEO	Family	60 min
6	G2	RO	100%	IT	11	Development	Non-family	47 min
	H1					CEO	Family	50 min
7	H2	RO	100%	Manufacturing	18	Head of product	Non-family	40 min
	I					CEO	Non-family	45 min
8	J	RO	100%	Chemicals	47	CEO	Family	60 min
	K					CEO	Non-family	55 min
9		RO	100%	Vehicle service	36			

4. Results and Discussion

The willingness to work diligently and give oneself totally to an activity demonstrates the presence of motivation within an individual, which results in commitment (Chirico & Salvato, 2008). Not every family member can demonstrate the same level of devotion and interest in the family business, which can create difficulties during the knowledge-sharing process. The family ties are described as strong, with an emphasis on the easygoing and carefree atmosphere that impacts the language utilized. This enables them to openly express their thoughts and feelings, which benefits their process of knowledge sharing. This is accomplished primarily through verbal communication and physical demonstration. The psychological barrier of communication is very low and the incentive for knowledge sharing is high. The following terms, which other respondents shared, best demonstrate the cultural component and openness surrounding family businesses and promoting knowledge transfer:

"Everyone should be able to express themselves freely, regardless of whether they are family members or not. Here, regardless of the last name, all employees are treated similarly, and everyone's viewpoint is valued equally." - Company A1

Despite the fact that all firms rate their knowledge levels as good, it was discovered that a significant portion of existing information and knowledge belongs to individuals, such that their distribution is largely uneven, which decreases the knowledge entropy of the whole organization (Bratianu, 2019). In our interpretation, knowledge entropy does not refer to organizational ignorance (Albrecht, 2003), but to the probability distribution of the organizational knowledge fields. This is a risk that all businesses face, as this type of individual-based knowledge vanishes the day the knowledge carrier leaves the company. As a result, this risk occurs in all businesses, as positions are highly specialized and broad knowledge of the organization is concentrated among family

members. According to one administrator and confirmed by the non-family member interviewed, knowledge distributions are uneven and extremely individual dependent.

It has emerged that there is a large amount of tacit knowledge, while the explicit one is lacking across family businesses. The most prominent procedure for the transfer of knowledge is social interaction and intergenerational learning. This is linked to the culture family companies have, is clearly expressed that the working atmosphere allows ideas and knowledge interaction to occur unconstitutionally. However, this kind of familial feeling invoked may also be present in non-familial companies of the same size. The difference comes from the family members who are unable to separate themselves from the professional role, impacting the knowledge transfer and the places and time this takes form. A prominent source of this transfer is identified as morning coffee meetings where employees exchange experiences, which are said to be a critical component of the socialization process that assists them in their daily tasks and helps set the business's trajectory.

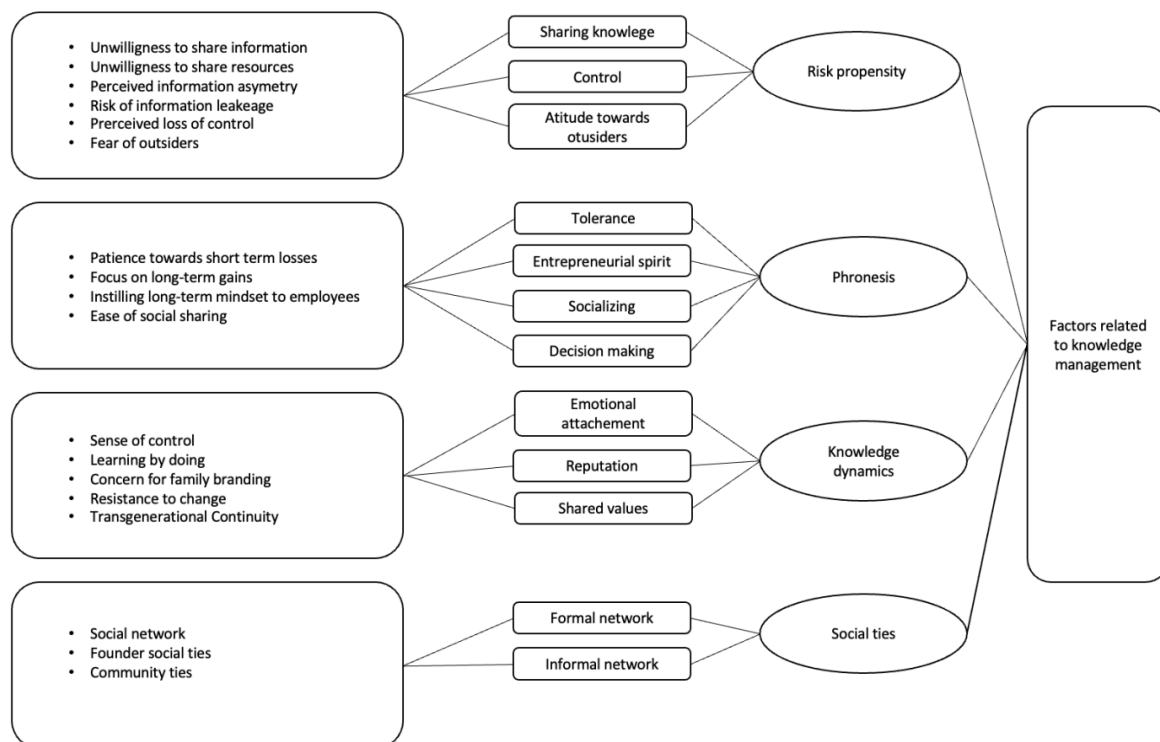


Figure 1: The codification processes

Externalization refers to the process of transforming tacit knowledge into a more concrete and intelligible form (Nonaka & Konno, 1998; Nonaka & Takeuchi, 1995). The results of this process are used in the next stage of knowledge dynamics which is a combination. It contributes directly to the construction of organizational knowledge through its rational component and to the organizational culture through the emotional and spiritual components. The family context stimulates combination and contributes to the knowledge spiral's development.

Despite possessing a long-term orientation, these procedures are mostly absent from the firms interviewed, with no personally developed documented instructions or information addressing various work-related scenarios being present or utilized. Despite the prospect of developing them and understanding of the risk associated with an absence that could have been managed by other employees who could have the knowledge if concretized, still, no efforts in this area are being taken or envisioned. The general argument is that they lack the motivation to codify their knowledge because their size and proximity facilitate knowledge transfer through socializing. Because they have not encountered any case requiring written documentation, this procedure has been usually omitted.

Between the firms analyzed, a prevalent method of incorporating new knowledge into an individual's knowledge base is through learning-by-doing. That shows an increased role played by emotional knowledge, as tacit knowledge. Although the availability of manuals or other forms of codified knowledge is frequent and

advantageous for employees, our interviews indicate their absence in most family businesses analyzed; instead, employees are encouraged to take a more practical approach. Employees are urged to take a more pragmatic approach, with daily duties providing a regular opportunity for exercise and knowledge acquisition. The organizations interviewed do not have any well-documented information that is readily available and quickly accessible to all personnel, who are constantly on hand to supply information. This also varies by industry, as some may require well-documented data. Thus, while the individual level of knowledge is relatively high, the organizational level is relatively low.

"We do not store data, and when we want to implement something new, we share it with the appropriate parties, discuss it, and then implement it. We are available to answer and resolve your inquiries and concerns." - Company F.

"While templates and other technical material are available in paper format, we rely on our staff's experience, as they have been with us since the beginning." - Company C.

The interviewed companies argued for an increased emphasis on action learning, internships, and mentoring, advocating that these are the most suitable processes that prepare the employees or successors for unexpected events at the business. To cultivate and develop practical wisdom, they argue for intensive face-to-face and hands-on interaction, along with a range of experiential activities, and apprenticeship is another way to foster *phronesis*. *Phronetic* leadership can be learned via experience, and role models that demonstrate this manner of thinking and doing are critical. Despite not being a clearly established and well-documented process, through the nature of a family business, it creates an environment within which people can build mutual trust and empathize with others, which is in line with the creation of *Ba* (Nonaka & Takeuchi, 1995).

"My daughter had learned this since she was a child. She was and is always near me when I'm working."
- Company B1

"We believe that the family's history together with the embodied perceptions and subjective factors are just as critical for managing the business as the rational and objective principles of the market." - Company H1

The assumption that knowledge flows from units with a high degree of knowledge intensity to those with a low level of knowledge intensity is emphasized by discrepancies in the knowledge field of family businesses. Contrary to the common belief that knowledge transfer occurs from the incumbent towards the successor, the empirical data shows that the vice-versa is common and highly impacts how business is conducted. This is attributed to the new technological advancements and digitization, which are considered to be significantly more accessible and understandable to the successors. Additionally, access to a higher level of formal education and job experience in large multinational corporations provides a source of information that many incumbents lack.

Furthermore, by correlating the empirical data with the theoretical aspects and metaphors proposed by Bratianu and Bejinaru (2020), it emerged that emotional and spiritual knowledge transformations occur more frequently. The values and ethical principles governing a family company, together with the common living aspirations and motivation between family members and further transferred to non-family members, have the power to stimulate thinking beyond individual interests and achievements, which shows a high level of *phronesis* (Rocha & Pinheiro, 2021; Rocha et al., 2021). The interviewed family businesses are not making profit maximization their primary objective, family members valuing their common wellbeing and the condition of their employees. These are greatly attached to the family company, becoming an extension of themselves, thus confirming the importance of spiritual knowledge over the family organization. The company's culture governs the dynamics between emotional and spiritual knowledge (Bratianu & Bejinaru, 2020). Understanding this process is very important as it determines the family companies' decision-making processes and the weight emotional and spiritual knowledge have compared to rational knowledge (Bratianu et al., 2021).

5. Conclusions and limitations

Family business distinguishes from the generic business because the work relationships are superposed over family relationships which intensifies knowledge dynamics and creates a specific *phronesis*. The present research aims to reveal some of these properties and their influence on the family business decision-making. For knowledge dynamics we adopted the theory of knowledge fields developed by Bratianu and Bejinaru (2020)

which enlarges the perspective considered by Nonaka and Takeuchi (1995, 2019). The research is based on the grounded theory of Glaser and Strauss (2017). The authors performed and analyzed 13 interviews with members of 11 business families and used the iterative codification process to extract from the initial qualitative data ideas for understanding the phenomena of knowledge dynamics and *phronesis* within the framework of the family business. In Figure 1 we can see how knowledge dynamics and *phronesis* appear in the third phase of analysis, confirming the existence of synergy between work and family relationships. Also, there is a drift from purely rational and economic objectives to practical wisdom where there is a balance between rational, emotional, and spiritual fields of knowledge. These findings can be used in practice to enhance the advantages of the family business over other companies. Also, these findings show the importance of knowledge dynamics and *phronesis* in the family business.

In addition, since the family members have a closer relationship at a personal level, the source's trustworthiness is not disputable and influence substantially the recipient's behaviour in the knowledge transfer process. Even though some employees are not family-related, receive and generate the same level of trust as the family members. Similarly, the availability and desire to transfer knowledge have to be taken into consideration. The researched family business owners' main goal is that their children take over and grow the company therefore they tend to push their siblings into learning faster and accumulate knowledge from within the company at a younger age, later through academic and working outside the company in order to improve the chances of survival on the long term on the family company. In non-family organizations, this may not happen since there are high staff turnover and agency problems. The family acts as a reference system of well-defined values, behaviors, and norms that are unconsciously transmitted from the incumbent towards the successor from birth. These have the role of capitalizing on the traditions acquiring and increasing knowledge to further integrate and apply it in the business. The level of commitment is affecting the effectiveness and quality of the knowledge transfer, accelerating or impeding it.

The research has two main limitations. The first one refers to the relatively small number of interviews, and the second one is created by the exclusive use of online platforms due to the COVID pandemic and many administrative and social restrictions. However, we hope to exit this pandemic crisis and extend our research basis with new face-to-face interviews and a quantitative research component.

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