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## CHARACTERISTICS OF THE MANAGEMENT OF ROMANIAN SMALL AND MEDIUM SIZE FAMILY BUSINESSES. A QUALITATIVE RESEARCH

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**Abstract.** *The purpose of this paper is to present the findings of a qualitative study about several characteristics of the management of Romanian small and medium sized family businesses. Several definitions of family business are presented, followed by a review of the specificities of managing a family business, discussing the contribution of family members in assuming various roles in the management and operations of the family business. The research method is qualitative and based on interviews with seven owners and managers of Romanian small and medium sized family businesses. Conclusions are formulated about the challenges and solutions to managing a family company and achieving success.*

**Key words:** *Romanian, family business, small and medium size, family members roles, management.*

### 1. INTRODUCTION

In today's business landscape, family businesses can be found in a wide range of industries and sizes, and they often play an important role in local and global economies. They are characterized by a unique set of challenges and opportunities, such as balancing the needs of the business with those of the family and ensuring continuity and succession across generations. Overall, family businesses can be seen as a valuable and integral part of the business community, contributing to economic growth and stability.

„Family businesses play a significant role in the global academy, but not much academic research has been conducted until 2000” [1, p. 339]. Nowadays, the situation is different because it is an actual subject. The role family plays in the family business are highly influenced by the internal dynamics of the family itself which is creating and maintaining special aspects of entrepreneurial behavior.

The success of a family business is enabled by several factors such as the family resources in terms of money, material resources, skills, and knowledge of the business area and skills needed. Family members are also an important source of unpaid or even paid work for the family business [2]. An important motivation to

start a business is to earn enough money to cover the needs of the family. In addition, the desire for wealth accumulation and subsequent lifestyle for the entrepreneur and his family are powerful motivators, too.

Important synthetic data about family companies (family businesses) in Romania are presented by the report of Ernst & Young [3], and Price Waterhouse Coopers report (PWC) 2021 [4], as well as PWC report 2023 [5]. Key priorities for Romanian family businesses were medium term (2023) were 82% expansion and/or diversification, 80% digital, innovation and technology, 65% evolving/new thinking and only 39% sustainability and or local community.

About their digital capabilities and priorities, 19% declared strong, and no longer a priority, while 29% declared not strong and not a priority. About the role of their family business in today's world, about delivering sustainable business practices 55% want to lead the way and 36% are “unlikely to lead, but will play their part when required”, while 30% declared that “it is the role of the government to lead the way” in delivering benefits for the planet and humanity” [4].”

Family businesses are not analyzed or included in Romania's official statistics, being classified as small and medium enterprises (SMEs)” [6, p. 1715]. Their number is not known precisely; however, estimates indicate

that they are representing 65% of the total number of SMEs in Romania [6, 7].

## 2. LITERATURE REVIEW

A family business is a company that is owned and operated by members of the same family. There are several definitions of a family business, such as it is a "business based on ownership, and management run by an entrepreneur/founder or his family members, holding more than 50% of the voting rights of the company, with at least one person holding a managerial position, together with the completion, or in the process of the business succession intra or intergenerationally" [8, p. 43].

Reviewing various definitions of a family business, the researchers found that there are several ways to approach this concept. First, since there are no public interests in legally defining such a business entity, researchers did not find a legal point of view about defining it [6]. An integrative and operational definition is the following "A family firm is one in which the members of a single family have a sufficient participation in the capital to dominate the decision-making of the owners' representative body, whether this is formal (or legal) or informal in character, and in addition there is a desire or intention for the business to remain in the hands of the succeeding generation." [9, p. 483]. A different and much more accepted definition of a family business is given by [10] stating that a family business can be defined as such even if it among its shareholders/ owners and /or top management there are not belonging to the family in any form. "All the family team is involved in the success of the firm" [10, p. 14 - 15].

In this paper, the researchers adopted the definition that a family business is an enterprise owned by minimum one of family members having control and hierarchical power in the company, and managed by at least one member of the family, with family members having most of the company ownership (social capital or shares, demanding on legal form of the company).

Academic literature includes a wide variety of studies on the management of family

companies. However, studies on family companies in Romania are relatively rare and deal with business philosophy and the performance and sustainability of the family company ([6], the main factors blocking the development of family companies in [11], cultural aspects of management and succession process in family SMEs [11 - 13], innovation and change management [14], entrepreneurial learning by approaching the communities of practice [15], consumer perception about family companies [16], regional distribution of family companies in Romania [17], internationalization of Romanian family companies [18].

There are several critical roles in small family businesses that are important for the success and sustainability of the business. These roles include a) the family council; b) the owner/shareholder; c) the general manager; d) managers; e) employees; f) future generation [19].

The family council is a forum for family members to discuss and make decisions about the family business and other family matters. It can help to ensure that all family members have a voice, and that communication is open and effective. Second, in a family business, the owners or shareholders are often also family members. They have a vested interest in the financial success of the business and may also have a say in important business decisions, such as the appointment of directors, the issuance of new shares, and the distribution of dividends. In addition, family members may also serve as managers or employees within the company. As managers, family members are responsible for the day-to-day operations of the business, and for making decisions that affect the company's performance. As employees, family members may be responsible for specific tasks or projects, and for working towards the overall goals and objectives of the company.

Third, the general manager (CEO/President) is responsible for the day-to-day operations of the business and for making decisions that affect the company's performance. It is important for the general manager to have the support and trust of family members. Fourth, family members may also serve as managers within the company. As managers, family members are responsible for the day-to-day operations of the business,

and for making decisions that affect the company's performance. Fifth, family members may work as employees without managerial responsibilities, doing specific tasks or projects, and working towards the overall goals and objectives of the company.

Another critical role is for the next generation consisting of family members who will be responsible for leading the business in the future. It is important for them to be prepared for this role through education, training, and hands-on experience in the business.

Family businesses often have multiple layers of ownership, management, and governance, and there can be a lot of overlap between family and business roles. When it comes to management, family businesses often have a dual structure, with both family and non-family members in leadership roles. This can create unique challenges, such as balancing the needs of the family with those of the business and ensuring that the business is being run in the best interests of all stakeholders. To address these challenges, family businesses often establish a clear separation of roles and responsibilities between family and non-family members, and they may also establish a formal governance structure to ensure that the business is being run in an objective and professional manner [20].

The structure of the ownership is also important. It is usually divided between family members, and sometimes is a mix of family and non-family shareholders. This complexity can make it difficult to make decisions and manage the business, so it is important for family businesses to have a clear and transparent ownership structure that is understood by all stakeholders.

In terms of governance, a family business should have a clear and transparent governance structure that is understood by all stakeholders, including family members, shareholders, employees, and other stakeholders. This structure should be in place to ensure that the business is being run in the best interests of all stakeholders, and to provide a framework for decision-making, communication, and accountability [21].

However, from a decision-making point of view, we can state that "Most family businesses,

especially new ones, have one Controlling Owner (stage 1). The controlling owner has effective personal power over ownership decisions as (s)he has 51 percent or often 100 percent of the voting family business or with each other" [19, p. 35].

The leadership style is also paternalistic meaning that the general manager/ owner behaves as a father for all his employees, who are considered members of the family. Also, such a manager attempts to create and maintain a friendly work environment for all employees [22]. It is also characteristic that each employee considers coworkers as members of his family, too. The paternalistic leader is highly attentive to the needs of all employees. In return, they expect total obedience, loyalty, and trust from employees. He is authoritarian, enforces discipline at work and requires employees to implement his decisions. They show benevolence and take personal interest in the well-being of their followers and exemplify a life of superior personal virtues, selflessness, and integrity [23].

Sometimes, mostly in medium and large companies, members of the family cannot manage all the company's activities alone. Consequently, they often require external services for better quality of their product or services. "Advisors can provide an external, neutral look at intricate situations and help reflect on possible ways to solve them. In choosing advisors, families should pay attention to three aspects: a) the level of expertise and experience, b) absence of conflict of interest, and c) mutual appreciation and trust" [19, p 74].

Therefore, management and governance are important aspects of any business, but they can be particularly complex in family businesses. These companies often have a dual governance structure, having family and non-family members in leadership roles, and a complex ownership structure, with multiple layers of ownership and control. Therefore, it is important for family businesses to establish clear separation of roles and responsibilities, a formal governance structure, and a clear and transparent ownership and governance structure to ensure that the business is run in the best interests of all stakeholders.

Several researchers such as [10, 24, 25] have found that family businesses have an important strength that is the strong personal commitment of family members towards the company owned by the family. In addition, many researchers such as [26], [10] highlighted the fact that non-family employees are also influenced by the values, behavior and work of family members and therefore contribute to the performance of family businesses.

Several researchers underlined that the family business' culture is based on important cultural values and norms such as: respect of all employees, being fair and providing help, acting in a responsible manner to provide an example for the others, communicating in open and honest ways, being polite and ensuring transparency in every activity, and others. [10], [27], found that the goals and values of the family are major factors for the success of family firms. Another finding is that family businesses are characterized by a competitive culture that encloses loyalty, reputation, trust, beliefs, long term strategy, control, and inimitability. Family firms react faster against environmental changes.

Sometimes, in a family business there are differences in position and interests, other personal issues that generate various problems between family members. This is because there is a strong connection between family life on one hand and work life in their own business, which does not exist in non-family businesses. Such differences, if not dealt with properly between family members, could escalate into destructive conflicts and negatively affect the performance of the family business. "Therefore, every member should be responsible and should care about the relations with all the members to avoid conflicts and increase commitment toward the family and the business" [10, p. 16).

### **3. RESEARCH METHODOLOGY**

Researchers have undertaken descriptive research because it allows me to describe the current situation of some main specificities of family businesses management and to elaborate information about these issues.

Researchers decided to use qualitative research because the focus of the study is a

qualitative phenomenon and allowed to get better insights into the qualitative aspects of the study phenomenon. Therefore, researchers used the interview as a research instrument. A comprehensive and original list of questions was prepared by the researchers based on the literature review aimed to get the opinions about the existing situation in Romanian family businesses focusing on the characteristics of management of small and medium size family companies. The list of questions had 39 items, inquiring demographic data about the respondent and its business, founders and year of founding, ownership structure, the meaning of a family, of a family business, the role of family members, values of the family business, link between family and business, contribution of family members to the business success, transfer of ownership from one generation to the next, long-term and short term goals, main challenges facing the business, decision making process, communicating, giving orders and controlling, leadership style, motivating family and non-family employees, conflict solving.

The next step was to identify owner-managers of Romanian family businesses and interview them. The researchers employed the face-to-face interview method: live, on-line using Zoom and the written questions and answers from the interviewee, when the person was not available for a direct discussion.

Researchers gathered information from seven family businesses. Because the respondents wanted to remain anonymous, their names and the name of their company were replaced by researchers with letters. The data obtained was analyzed, compared, and synthesized.

### **4. FINDINGS**

The researcher did 7 interviews with owners and managers of Romanian family businesses. Because respondents required me not to make public their names and the names or any other identification information, researchers allocated respondents alias names based on letters A, B, C, D, E, F and G, and also allocated to their companies' alias names from S, T, U, V, X, Y and Z.

The companies are active in fields of activity such as: software design (company S),

wholesale grains and agricultural products (companies S and Z), international transport (companies U and Y), wholesale grocery (company X) and international transport brokerage (company V).

The respondents were six male and one female (A), which indicates a bias in our sample. According to their age category, one respondent is over 65 years old (G), two are between 45 and 65 years old (A and H), and four are between 35 and 45 years old, the conclusions being that they are at maturity age. Two respondents have high school level studies (A, F), three have bachelor studies and two have master studies. The researcher concludes that they are well educated persons as knowledge and skills.

All seven respondents have prior work experience, and all have previously worked for various durations of time in their current company. Four respondents have a quite long experience working in their own company: respondent B 14 years, E 18 years, respondent F 23 years and respondent G 29 years. The other three worked for less than 10 years. First, this indicates that they have a strong knowledge of the company, and second, it indicates that their companies were successful over a long period of time.

It is highly interesting that six respondents worked in the same field as the business they are currently working in, mainly in operational jobs such as salesperson. Only 1 reported having experience as manager (respondent C).

The sample was made up of 7 small size family businesses and two medium size family businesses (company U and company Z).

All the seven companies employ family members, the five small companies employ family members between 33% to 100% of their total number of employees. For the other two medium-sized companies (U and Z) the family members employees occupy only top management positions. Six companies reported profit in 2022, with the highest profitability rate 72% for company T (active in the web design industry), followed by company S (active in the wholesale of grains) with 23,8%, company Z with 17,6% (wholesale of grains and beans), and one company Y (active in international transportation which reported a loss for 2022).

Regarding their founding year, (see Appendix 5), three companies were founded in the 1990, immediately after the Romanian revolution and market economy laws were issued, thus existing from 29 to 32 years (companies U, X and Z). Two of these companies did the generational transfer from founders to their children (company U and X). There is interesting to notice the fact that after the execution of the transfer, the founders did not get involved anymore in the business of the family.

Two companies were founded in 2000 (company Y) and in 2009 (company T), while the other 2 were founded more currently, in 2016 (company S) and in 2022 (company V, which is a new company founded as a spin-off from a much older and larger business).

The researcher has asked them who do they consider to be members of their family. The dominant opinion is that they are the nuclear family (father, mother, sons, daughters) with addition such as first level relatives (grandfather, grandmother, grand sons and granddaughters in the case of respondent G, and in the case of respondent F also sister-in-law). Consequently, the researchers concluded that the dominant form is the nuclear family, and not the extended family as in the case of traditional societies.

About the owners of the companies, in six cases they are members of the nuclear family (husband, wife, sons, daughters, sister-in-law) and in one case (company U) there is mixed ownership (60% husband and wife, 40% owners from outside the family). Based on the ownership data presented above, the researcher concludes that all the 7 companies are family businesses.

In addition to that, the researcher inquired the respondents about the number and roles have family members in the company. In all seven companies, family members have the role of the general manager of the company, in company Z, the second family member is the production manager. In all the other six companies' family members also have operational roles. Next, data related to the opinions of the respondents about their family business is presented.

The first question was: what a family business means for you? The answers were

extremely diversified and pointed out important aspects of defining a family business. For example, respondent E from company X stated, “a business in which family members are involved”. Respondent G from company Z was very precise” Ownership and management belong to family members” and respondent C from company U declared “Management is done by family members”. Finally, respondent B from company T answered, “full control of business decisions, and unity”. This indicates that respondents appreciate the advantages of a family business related to the unity of management and control of the business, while enjoying the family feelings and attitudes both at work and in their private life.

The researcher has asked several questions to identify the main characteristics of the management of Romanian family businesses. The first set of questions referred to the values of the company and its motto, if any, and to the business goals for the short and long term (2-3 years). The reason behind these questions was to address the issue of the family business culture and the strategic intent of these businesses [28]. In synthesis, the values of each company are very diverse, ranging from professionalism, honesty, rapidity, sincerity, flexibility, transparency, quality, always doing a good job. They also correlate with their good financial results and long-term existence.

Six respondents also quoted their company's motto. For example, company S motto is “To be better every day”, company T “unique solutions tailored to our customers' needs”, company U motto is “A team is reaching a target which a number of individuals will never achieve”, company V motto is “success is not a final destination, it is a continuous journey”, company Y motto is “Let's choose quality of the well done job” and the motto of company Z is “Seriousness, quality and efficiency”.

When analyzed these answers are analyzed in connection with the declared values, there is a strong link between these values and the motto of the family business.

When asked about their short and long-term business goals, the respondents gave very precise goals such as buy a warehouse for storing cereals, digitalization, opening business in other countries: Spain, Italy, and in several

cases quantitative business goals such as turnover growth, client number, profitability. Respondents have established clear short term (year 2023) and long-term (year 2024-2025) business goals and strategies to achieve them.

The same is reflected by the answers they gave when asked about which the most important challenges are facing their business, which indicated they are aware of the reality and are preparing to face it through decisive actions. The challenges are business specific such as: lack of qualified employees, lack of drivers, higher costs due to higher fuel and insurance prices for transportation companies, volatility of the economy, difficulties in getting paid by customers, fluctuations of market demand, volatility and complexity of the social, legal and political context, high competition based on low price and lower quality services.

Next, respondents were asked about important management functions, such as decision making, communication process with family and with other employees, giving orders, solving tensions at work, work behavior of family members, solving work-related conflicts between family members and other aspects of the managerial work.

About the specific aspects related to the decision-making process in Romanian family businesses, based on the answers of six respondents out of seven, is that the most important and the strategic decisions are first discussed in the family mostly at home, around the kitchen table. The participants are family, wife, husband, brother, sister, sister-in law, sons and daughters, when already involved in the business, no matter if they are owners or not. Respondent A from company S state “we discuss important decisions in family even when eating at the kitchen table and we agree”, respondent E from company X stated, “with family, usually with my brother”, respondent F from company Z declared “with family members after a thorough documentation”, respondent E from company Y stated, “in the family council”.

However, in company U, which is a medium-sized company, there is a separate meeting of the general manager, who is also the owner, and the other the owners and another meeting with the department managers of the company. The general manager acts as a liaison person between

owners, most of them family members, on one hand, and on the other hand, the managers of the company.

About the communication process, the results of the interviews indicate two main aspects. First, communication between family members is mostly direct, face to face, verbal, informal. Second, aspect is about communicating with other employees who are not family members, the communication is more formal and direct, face to face, mostly verbally. In conclusion the communication process is specific to small businesses, as five of the companies are small businesses. When giving orders during work to family members and other employees, all seven respondents emphasized the fact that every employee is treated in the same manner, family member or not, in a polite and transparent manner. For example, respondent E from company X stated, "No difference, the rules are respected by everybody, including family members", respondent F from company Y declared "Decisions are communicated in the same manner to everybody" and respondent A from company S stated, "everybody is treated equally, in the same manner, the purpose is the same".

When asked about how they influence employees to work effectively and efficiently, the respondents gave a variety of responses covering the multiple aspects of motivation of employees: reward accordingly to carefully and clearly measured work done (company S), closely monitoring their work based on clear tasks and planned activities (company T and V), providing appropriate incentives to each employee according to their preference (company U), using bonuses for better results (company Y and X), and also by the power of the personal example given by owners at work (company Z).

Another question referred to the very important issue of the link between work in the family business and family life. Five of respondents has expressed the opinion that there is a strong link between the two, for example respondent e from company X stated, "quite a lot, we are very close at work as in family life", while respondent C from company U declared "I keep them separated, however business requires

a lot of time". A different opinion was expressed by respondent D from company V who stated "10%, quite a little", indicating that he can keep separate the two worlds.

This is specific to family businesses that the link between work life and family life is very strong, and that this has been reflected in some other answers given by the respondents.

## 5. DISCUSSION AND CONCLUSIONS

All the seven companies investigated are family businesses. In all the companies, family members have the role of the general manager of the company, in company Z, the second family member is the production manager. In all the other 6 companies family members also have operational roles. The above data confirms and reinforces the conclusions that all the seven companies are family businesses, since the family members have management roles and have operational roles in the business.

The second conclusion is about who respondents consider to be members of their family. The dominant opinion is that they are the nuclear family (father, mother, sons, daughters) with addition such as first level relatives (grandfather, grandmother, grandsons, and granddaughters in the case of respondent G, and in the case of respondent F also sister-in-law). Consequently, the researchers formulated the original conclusion that the dominant form in Romanian family businesses is the nuclear family, and not the extended family as in the case of traditional societies.

Another conclusion is about what a family business means for the respondents. Their answers were extremely diversified and pointed out important aspects of defining a family business. Respondents appreciated the advantages of a family business related to the unity of management and control of the business, ownership belonging to family members, also some family members should work in operational roles, while enjoying the family feelings and attitudes both at work and in their private life. This confirms the results of [29, 30]. Next, about the reasons the respondents consider their company to be a family business. The researcher identified that there are two main

categories of reasons. The first is about the ownership and management which belongs to family members, and the second category is about the fact that strategic, major decisions are made by the members of the family, working or not in it. This conclusion is in tune with academic definitions of family businesses such as [6, 8, 9, 10].

The researcher has asked several questions to identify the main characteristics of the management of Romanian family businesses. The first set of questions referred to the values of the company and its motto, if any, and to the business goals for the short and long term (2 to 3 years). The reason behind these questions was to address the issue of the family business culture and the strategic intent of these businesses.

The conclusion is that the values of each company are very diverse, ranging from professionalism, honesty, rapidity, sincerity, flexibility, transparency, quality, always doing a good job. They also correlate with their good financial results and long-term existence, confirming the research of [30]. Also, when company motto was analyzed in connection with the declared values, there is a strong connection between these values and the motto of the family business.

Another conclusion is that respondents have established clear short term (year 2023) and long-term (year 2024-2025) business goals and strategies to achieve them, indicating their good planning skills, while identifying with high clarity the main challenges their companies are facing [31 - 32]. The main conclusion about the decision-making process is that in a Romanian family business the most important [33]. The participants are family, wife, husband, brother, sister, sister-in law, sons, and daughters, when already involved in the business, no matter if they are owners or not.

About the communication process inside the family business, the conclusion is that the communication between family members is mostly direct, face to face, verbal, informal. Communication with non-family employees is mostly the same direct, face to face, verbal, more formal [32]. My conclusion is that the communication process is specific to small businesses, as 5 of the companies are small

businesses. When giving orders during work to family members and other employees, all the seven respondents emphasized the fact that every employee is treated in the same manner, family member or not, in a polite and transparent manner.

The conclusion referring to the ways they influence employees to work effectively and efficiently, is that the family businesses use a variety of instruments to stimulate the motivation of their employees: reward accordingly to carefully and clearly measured work done, monitoring their effectiveness, providing appropriate incentives fitting individual each employee, using bonuses for better results, and owners being personal example at work [32, 34]. Next conclusion is that members of family businesses tend to avoid divergences about business issues, and when such situations appear then they solve them by dialogue, by compromise when is needed and by searching together to identify the best solutions for the family business.

Another original conclusion is that the high quality of the support of the family for the family members involved in the business in another specific characteristic of Romanian family businesses.

Based on the above, the researchers consider that further exploration through a mixed research method, quantitative and qualitative, is much need to identify the influence of the characteristics of the management of Romanian family firms on their business performance. Future studies will consider the findings of [35, 35] for improving the research approach.

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### **Caracteristicile managementului firmelor de familie românești mici și mijlocii. O cercetare calitativă**

Scopul acestei lucrări este de a prezenta rezultatele unui studiu calitativ referitor la multiple caracteristici ale managementului firmelor de familie românești mici și mijlocii. Mai multe definiții ale firmei de familie sunt prezentate, urmate de o recenzie critică a specificului procesului de management a unei firme de familie, discutând contribuția membrilor familiei referitoare la asumarea diverselor roluri atât în managementul cât și în operațiile firmei de familie. Metoda de cercetare este calitativă și este bazată pe interviuri cu șapte proprietari și manageri ai firmelor mici și mijlocii de familie din România. Mai multe concluzii sunt prezentate cu privire la provocările și soluțiile manageriale folosite în firme de familie pentru a realiza succesul dorit.

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