

3.4: Conflict

Learning Objectives

1. Explain what conflict is.
2. Explain why positive or constructive conflict can be helpful to a family business.
3. Explain why negative or destructive conflict can damage a family business.
4. Identify sources of negative conflict in a family business.
5. Identify some ways in which negative conflict can be avoided.

All businesses have conflict. It can be a good thing or it can be a bad thing. **Positive or constructive conflict** can be beneficial to a family business when it increases opportunity recognition, produces high-quality decisions, encourages growth, strengthens groups and individuals, increases the learning necessary for entrepreneurial behavior, and increases the levels of commitment to the decisions being made. George Ambler, “Constructive Conflict Is Essential for Creating Commitment to Decisions,” May 15, 2007, accessed October 8, 2011; Kimberly A. Eddleston, Robert F. Otondo, and Franz Willi Kellermanns, “Conflict, Participative Decision-Making, and Generational Ownership Dispersion: A Multilevel Analysis,” *Journal of Small Business Management* 46, no. 3 (2008): 456–84; and Suzi Quixley, “Understanding Constructive & Destructive Conflict,” May 2008, accessed June 1, 2012, www.suziqconsulting.com.au/free_articles_files/_CON%20-%20Constructive%20&%20Destructive%20-%20May08.pdf. An example of positive conflict is a disagreement between family members on the strategic direction of the family business, the result being a much-needed rethinking of the business plan and a new agreed-on vision for the company. “Managing Conflict in Family Businesses,” *Business Link*, 2010, accessed October 8, 2011, www.businesslink.gov.uk/bdotg/action/detail?type=RESOURCES&itemId=1073792653.

By contrast, **negative or destructive conflict** can hurt a business by damaging the harmony and relationships of family members in the family business, discouraging learning, causing ongoing harm to groups and individuals in the business, frustrating adequate planning and rational decision making, and resulting in poor quality decisions. Kimberly A. Eddleston, Robert F. Otondo, and Franz Willi Kellermanns, “Conflict, Participative Decision-Making, and Generational Ownership Dispersion: A Multilevel Analysis,” *Journal of Small Business Management* 46, no. 3 (2008): 456–84; and Suzi Quixley, “Understanding Constructive & Destructive Conflict,” May 2008, accessed June 1, 2012, www.suziqconsulting.com.au/free_articles_files/_CON%20-%20Constructive%20&%20Destructive%20-%20May08.pdf. “The absence of good conflict makes it that much harder to accurately evaluate business ideas and make important decisions...But conflict does not mean browbeating.” Professor Michael Roberto from Harvard Business School, quoted in George Ambler, “Constructive Conflict Is Essential for Creating Commitment to Decisions,” May 15, 2007, accessed October 8, 2011. An example of a negative conflict would be arguments over the successor to the business. Ultimately, the failure to adequately control negative conflict may contribute to the high mortality rate of family-owned businesses. Nigel Finch, “Identifying and Addressing the Causes of Conflict in Family Business,” Working Paper Series: University of Sydney, May 2005, accessed October 8, 2011, papers.ssrn.com/sol3/papers.cfm?abstract_id=717262.

Because of the clash between business and emotional concerns in a family business, the potential for negative conflict can be greater than for other businesses. “Managing Conflict in Family Businesses,” *Business Link*, 2010, accessed October 8, 2011, www.businesslink.gov.uk/bdotg/action/detail?type=RESOURCES&itemId=1073792653. The tension that exists among the personal lives and career pursuits of family members creates an **interrole conflict** (occurring when a family member has simultaneous roles with conflicting expectations) in which the role pressures from work and home are incompatible. Nigel Finch, “Identifying and Addressing the Causes of Conflict in Family Business,” Working Paper Series: University of Sydney, May 2005, accessed October 8, 2011, papers.ssrn.com/sol3/papers.cfm?abstract_id=717262. This conflict is difficult—if not impossible in some instances—to resolve. “Due to the interconnection and frequent contact among family members working in the business with those who are not but may still have an ownership stake, recurring conflict is highly probable in family firms.” Kimberly A. Eddleston, Robert F. Otondo, and Franz Willi Kellermanns, “Conflict, Participative Decision-Making, and Generational Ownership Dispersion: A Multilevel Analysis,” *Journal of Small Business Management* 46, no. 3 (2008): 456–84.

Sources of Conflict

The specific causes of conflict in a family business are many. Because the typical understanding of conflict in family businesses is that conflict refers to negative conflict that is unhealthy and disruptive, negative conflict is the focus of this section.

The PricewaterhouseCoopers Family Business Survey“Making a Difference: The PricewaterhouseCoopers Family Business Survey 2007/08,” *PriceWaterhouseCoopers*, November 2007, accessed October 8, 2011, www.pwc.com/en_TH/th/publications/assets/pwc_fbs_survey.pdf, identified a core group of issues that are likely to cause tension.

Issue Causing Tension	Causes Some Tension (%)	Causes a Lot of Tension (%)
Discussion about the future strategy of the business	25	9
Performance of family members actively involved in the business	19	8
Decisions about who can and cannot work in the business	19	7
Failure of family members actively involved in the business to consult the wider family on key issues	16	7
Decisions about the reinvestment of profits in the business versus the payment of dividends	15	7
The setting of remuneration levels for family members actively involved in the business	14	7
The role in-laws should or should not play in the business	14	7
Decisions about who can and cannot hold shares in the business	13	6
Discussions about the basis on which shares in the business should be valued	12	5
Rejection of chosen successor by other family members	10	5

Add to this the fact that “family firms are prone to psychodynamic effects like sibling rivalry, children’s desire to differentiate themselves from their parents, marital discord, identity conflict, and succession and inheritance problems that nonfamily businesses do not suffer from,”Kimberly A. Eddleston, Robert F. Otondo, and Franz Willi Kellermanns, “Conflict, Participative Decision-Making, and Generational Ownership Dispersion: A Multilevel Analysis,” *Journal of Small Business Management* 46, no. 3 (2008): 456–84. and it’s easy to see how the family business is a fertile field for negative conflict.Michael Harvey and Rodney E. Evans, “Family Business and Multiple Levels of Conflict,” *Family Business Review* 7, no. 4 (1994): 331–48, as cited in Kimberly A. Eddleston, Robert F. Otondo, and Franz Willi Kellermanns, “Conflict, Participative Decision-Making, and Generational Ownership Dispersion: A Multilevel Analysis,” *Journal of Small Business Management* 46, no. 3 (2008): 456–84.

Several other sources of conflict can occur in a family-owned business. A sampling of those sources is discussed here. All have the potential to adversely impact family relationships, business operations, and business results.

- **Rivalry.** Harry Levinson from the Harvard Business School maintains that, “the fundamental psychological conflict in family businesses is rivalry, compounded by feelings of guilt, when more than one family member is involved.”Harry Levinson, “Conflicts That Plague Family Businesses,” *Harvard Business Review* 71 (1971): 90–98. This rivalry can occur between father and son, siblings, husband and wife, father and daughter, and in-laws with members of the family that own the business.
- **Differing vision.** Family members will often disagree with the founder and with each other about the vision and strategy for the business. These differences “can create fear, anger, and destructive attempts to control decisions that are divisive and counter-productive to making and implementing sound decisions.”“Common Sources of Dysfunctional Conflict in Family Businesses,”

RJW Consulting, accessed October 8, 2011, www.rjweissconsulting.com/businessDevelopmentNewsDetail.asp?ID=2. Rivalries that spill into the workplace can get nasty, leading to destructive behaviors.

- **Jealousy.** There is always the potential for jealousy in the family business. It can arise from feelings of unfairness in such things as compensation, job responsibilities, promotions, “having the ear” of the business founder, and stock distributions. It can also arise with respect to the planned successor when there is a difference of opinion about who it should be. If it is not resolved, jealousy has the potential to divide the family and destroy the business. Nigel Finch, “Identifying and Addressing the Causes of Conflict in Family Business,” Working Paper Series: University of Sydney, May 2005, accessed October 8, 2011, papers.ssrn.com/sol3/papers.cfm?abstract_id=717262.
- **Succession.** Succession is always a big obstacle for a family business. In some cases, the founder may feel that his or her children are not capable of running the business. This will cause obvious tension between the parent and the child/children, such that the child or children may leave the business in frustration. Nigel Finch, “Identifying and Addressing the Causes of Conflict in Family Business,” Working Paper Series: University of Sydney, May 2005, accessed October 8, 2011, papers.ssrn.com/sol3/papers.cfm?abstract_id=717262. This, in turn, becomes problematic for succession. “Who gets what type of equity, benefit, title, or role can be major sources of explicit conflict or implicit but destructive behaviors.” “Common Sources of Dysfunctional Conflict in Family Businesses,” *RJW Consulting*, accessed October 8, 2011, www.rjweissconsulting.com/businessDevelopmentNewsDetail.asp?ID=2. It is also true that while the founder of the business wants to continue family ownership and leadership of the business, this may not be true of his or her immediate family or later-generation family members. Peter S. Davis and Paula D. Harveston, “The Phenomenon of Substantive Conflict in the Family Firm: A Cross-Generational Study,” *Journal of Small Business Management* 39, no. 1 (2001): 14–30. This can create substantive conflict during succession planning.
- **Playing by different rules.** This cause of negative conflict “often presents itself as a form of elitism or entitlement that exists simply by virtue of being in a family that owns a business. Examples show up in allowing one or more family members to exhibit deficient standards of conduct or performance that violate sound business practices or important requirements that all other employees are expected to follow. Such behaviors can be divisive and demoralizing to all employees and customers as well as harmful to the reputation of the business.” “Common Sources of Dysfunctional Conflict in Family Businesses,” *RJW Consulting*, accessed October 8, 2011, www.rjweissconsulting.com/businessDevelopmentNewsDetail.asp?ID=2.
- **Decision making.** If roles and responsibilities are not clearly defined, conflict will arise over who can make decisions and how decisions should be made. This will lead to confusion, uncertainty, and haphazard decisions that will put the company at risk.
- **Compensation and benefits.** “This is one of the most frequent sources of conflict, especially among members of the younger generation.” A person’s compensation is inextricably linked to his or her feelings of importance and self-worth. Compound that with the emotions associated with being a member of the family that owns the business, and you have the potential for explosive negative conflict. Clearly, this is not in the best interests of the business. Wayne Rivers, “Top 15 Sources of Conflict in Family Businesses,” *Family Business Institute*, 2009, accessed October 8, 2011, www.familybusinessinstitute.com/index.php/volume-6-articles/top-15-sources-of-conflict-in-family-businesses.html.

Avoiding Conflict

Some measure of family squabbling is expected in a family business. Some of the arguments will be logical and necessary. However, “it’s important that they remain professional and not personal, because squabbling among family members in a work environment can make the employees and customers feel extremely uncomfortable, and can give them grounds for legal claims against the business.” “How Family Squabbling Affects Other Employees—and Customers,” *National Federation of Independent Business*, 2010, accessed October 8, 2011, www.nfib.com/business-resources/business-resources-item?cmsid=52150. The negative effects of family squabbling are as follows: “How Family Squabbling Affects Other Employees—and Customers,” *National Federation of Independent Business*, 2010, accessed October 8, 2011, www.nfib.com/business-resources/business-resources-item?cmsid=52150.

- **Unprofessional image.** Family squabbling conjures up images of children—immaturity and pettiness. This sends a signal to customers and other employees that they are not in a professional environment that focuses on the right things.
- **Uncomfortable environment.** It is embarrassing to witness squabbling. No one likes to be in an awkward atmosphere; squabbling can cost you customers and employees, and it may result in expensive and unpleasant lawsuits. This can affect your bottom line very quickly.
- **Discrimination.** Nepotism is one of the biggest dangers of working in a family business. Arguing with relatives will only reinforce to other employees that they are in a family business. This can quickly lead to feelings of disparate treatment which, in turn, can lead to discrimination charges.

- **Legal troubles.** In the worst cases of family squabbling, disagreements over business can lead to lawsuits. If one family member's role is minimized and his or her authority is restricted, this is violating the person's rights as a shareholder. This can lead to an oppressed minority shareholder suit against the family business. This would be expensive, it would be ugly, and it could lead to the demise of the company.

Avoiding conflict is no easy feat. However, there are several things that a family business should consider. First, there are consultants who engage in conflict resolution for a living. The possibilities should be checked out. If the budget can handle the costs of a consultant, it could be the best choice. A consultant, having no reason to take one side or the other, will bring the necessary objectivity to resolution of the conflict.

Second, emotional reactions should be differentiated from problem-solving reactions. Family members need to take a professional perspective rather than that of an irritated sibling, parent, son, or daughter. "How Family Squabbling Affects Other Employees—and Customers," *National Federation of Independent Business*, 2010, accessed October 8, 2011, www.nfib.com/business-resources/business-resources-item?cmsid=52150. It will probably be difficult to do this, but it is important that it be done.

Third, focus on the professional role instead of the family role. "Make sure it's clear what the expectations and attitudes of all your employees are...Because you're a small business, you might not have as strict a policy as a large corporation, but it would still be helpful to put it in writing, such as in an employee handbook, which carries legal responsibilities to both family and outside employees." "How Family Squabbling Affects Other Employees—and Customers," *National Federation of Independent Business*, 2010, accessed October 8, 2011, www.nfib.com/business-resources/business-resources-item?cmsid=52150.

Fourth, encourage honesty from the beginning. When first starting to work together, it is important that family members sit down together to talk about potential conflicts that might arise. Acknowledging that it will be more difficult to work together because of being family is a good beginning. Treating family members and the professional environment with respect and expecting honesty when someone steps over the line should make for a smoother process. "How Family Squabbling Affects Other Employees—and Customers," *National Federation of Independent Business*, 2010, accessed October 8, 2011, www.nfib.com/business-resources/business-resources-item?cmsid=52150.

Last, the founder should try to keep the conflict constructive. This means stimulating task-oriented disagreement and debate while trying to minimize interpersonal conflicts. George Ambler, "Constructive Conflict Is Essential for Creating Commitment to Decisions," May 15, 2007, accessed October 8, 2011. This will require a fair decision-making process. For people to believe that a process is fair, it means that they must George Ambler, "Constructive Conflict Is Essential for Creating Commitment to Decisions," May 15, 2007, accessed October 8, 2011.

- "Have ample opportunity to express their views and to discuss how and why they disagree with other [family] members";
- "Feel that the decision-making process has been transparent, i.e., deliberations have been relatively free of secretive, behind-the-scenes maneuvering";
- "Believe that the leader listened carefully to them and considered their views thoughtfully and seriously before making a decision";
- "Perceive that they had a genuine opportunity to influence the leader's final decision"; and
- "Have a clear understanding of the rationale for the final decision."

KEY TAKEAWAYS

- Conflict can be either positive or negative. Negative conflict can potentially harm the business.
- There are many sources of negative conflict in a family business. The fundamental psychological conflict in family businesses is rivalry.
- It is important to avoid negative conflict. In particular, family squabbling that is witnessed by others can cause damage to the firm. Employees and customers will feel uncomfortable, and there may ultimately be grounds for a lawsuit.

EXERCISE

1. The founder of XYZ company has decided to retire. He wants one of three children to take over leadership of the business—and he knows exactly who it should be. Other members of the family have their ideas as well. One segment of the family wants the oldest son, Michael, to take over, but the founder thinks Michael is a melon head. The second son, Christopher, is a well-meaning and hard-working part of the business, but he just does not have what it takes to be a leader. Nonetheless, he is favored by another group of family members. Samantha, the youngest child, is as sharp as a tack, with solid experience and accomplishments under her belt. On an objective basis, Samantha would be the best choice for the business. She is the founder's choice to take over the company and has other family supporters as well, although not as many as for Michael or

Christopher. This is a situation tailor-made for conflict. How does the founder finesse the selection of Samantha and minimize the conflict that is bound to occur? Can he win?

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