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THE IMPACT OF CONFLICTS ON THE PERFORMANCE OF FAMILY BUSINESS

Abstract

Conflicts are considered an inevitable part of the family business. Aside from their positive impact, conflicts remain as one of the challenges to family business performance. This research aims to analyze conflicts and their main impacts on family business performance. The method of content analysis is conducted to collect data, which included books with a focus on the family business field and conflicts as part of it, as well as analysis of research articles from various scholars, journals, and countries. The findings show that conflicts have both positive and negative effects on family business performance. At this point, relationship conflict has a negative effect, whereas task conflict and process conflict have a positive effect on the performance of a family business.

The research has limitations because it can be considered using only secondary data based on other scholars' research results, it needs to analyze the systematic literature review and apply the quantitative approach to the particular study on the impact of task and process conflicts on family business performance. This research will demonstrate the importance of aspects to be processed, which are: the concept of family business and conflict; types of conflicts; positive and negative effect of conflicts and effective strategies application.

Keywords: Family business, conflicts, performance, strategies

INTRODUCTION

The importance of this research is to demonstrate the impact of conflicts to family business performance. It touches upon many areas, be it economics, sociological, management, law and psychological.

Family business is a segment of micro economy that has big impact not only in economic growth but also in the alleviation of unemployment. As such, we can mention some of the companies like Samsung, Fiat, Ford Motor Company, Peugeot, BMW and Hyundai as the largest and most successful family businesses in the world. As part of family business beneficiaries are not considered only individuals, family members, society but also the global economy.

This is best illustrated through facts from Conway Center for Family Business where family businesses account for 64 % of U.S. GDP and generate 62 % of the country's employment. In addition, according to the Osunde (2017) study results, family businesses have a significant impact on the economy, such as showing higher profitability in the long run, paying a significant amount of taxes, and having a more focused strategy.

It is not always easy to run a family business. For various reasons, many families are not successful in increasing business performance. One of the challenges of family businesses is conflict. Not all of conflicts are easy to manage because they require a strategy for effective resolution. For this, it is important to know how one individual can be aware of and also overcome these conflicts to contribute positively to family business performance.

Caputo et al. (2018) study results underline the importance of conflicts in family firms, especially in three fields: maintaining entrepreneurial and innovative orientation, balancing multi-generation involvement, and counterbalancing the excessive power of family coalitions.

THEORETICAL APPROACH

What do “family business” and “conflict” mean? In literature, we come across different definitions related to these questions, and some of those definitions are shown below. Chua, Chrisman, and Sharma (1999) are some of the scholars who have defined family business based on behavior and have taken into account the inclusive theoretical definition. According to them, “The family business is a business governed and/or managed with the intention of shaping and pursuing the vision of the business held by a dominant coalition controlled by members of the same family or a small number of families in a manner that is potentially sustainable across generations of the family or families” (Chua et al., 1999: 25). Furthermore, “...Family business considers family business to constitute the whole gamut of enterprises in which an entrepreneur or next-generation CEO and one or more family members significantly influence the firm. They influence it via their managerial or board participation, their ownership control, the strategic preferences of shareholders, and the culture and values family shareholders impart to the enterprise” (Poza 2010:5).

On the other hand, there are also various definitions on conflicts, as well. Boulding defines it

as: “Conflict is an awareness on the part of the parties involved of discrepancies, incompatible wishes, or irreconcilable desires” (1963 cited in Jehn and Mannix 2001:238).

During the literature analysis, it is found that conflict within the family business area has been presented by different authors and scholars from different perspectives, as well as research evidence, which shows positive and negative effects on family business performance depending on conflict types. Most of the findings show three types of conflicts (relationship, task and process) which will be presented in result part.

Relationship conflict “...exists when there are interpersonal incompatibilities and disagreements that typically include tension, animosity, and annoyance.”(Nosé et al., 2017: 29).

Task conflict means “...an awareness of differences in viewpoints and opinions pertaining to a group task.” (Jehn and Mannix 2001:238).

Process conflict focused on how tasks would be accomplished (Jehn 1997).

Although in the past, conflict management has not been treated as it should be by being considered as damaging, over time, this view has changed. Effective management involves understanding the nature of conflicts and providing appropriate mechanisms for resolving them. In this context, employees must be encouraged to address conflict and seek solutions rather than avoid it. Hence, conflict that occurs in family businesses requires constructive resolution. Preventing and overcoming the possible conflicts are values of family businesses. Constructive and open communication and cooperation amongst employees and management should be promoted and strengthened. In other words, “A good plan for conflict resolution includes anticipation of sensitive issues, agreed-upon conflict-resolution mechanisms, and an appreciation of the importance of addressing conflict to build trusting relationships.” (Carlock and Ward 2001:89).

In the literature, there are various conflicts management strategies (Sorenson 1999), or approaches that are most recognized (Robbins 2005) as shown below:

- Competition (win – lose)
- Accommodation (lose –win)
- Avoidance (no winners/no losers)
- Compromise (lose some –win some)
- Collaboration (win - win)

From all the above strategies, collaboration is perceived as the most effective strategy. “Because the solution sought is advantageous to all parties, collaboration is often thought of as a win-win approach to resolving conflicts” (Robbins 2005:198). Furthermore, based on the research results, collaboration is indicated as the only strategy that is significantly correlated with business outcomes, which therefore suggests that family businesses that are interested in business success could benefit from it (Sorenson 1999).

Taken as a whole, to perpetuate the strong and successful family business, there are two things that should be taken into consideration. At this point, Ward (2004) considers: first, to keep the business strong and healthy enough to last into the next generation—during an era of such rapid change; and second, to continue a healthy family into the next generation.

METHODOLOGY

The purpose of this research is to analyze the conflicts and their main effects in family business performance. The following research questions are as shown below:

- How do conflicts impact the performance of the family business?
- Which type of conflicts has negative effect on the performance of the family business?
- Which type of conflict has positive effect on the performance of the family business?

The method of content analysis is used, which includes books with a focus on the family business field and conflicts within it, and analyses of research articles from different scholars, journals, and countries.

Family business, conflicts, and performance were used as keywords, but in some cases, they were combined, e.g., “conflicts” and “family business” for easier access to resource-related topics. Checking the list of references within scientific articles has helped me find other sources of interest on this topic. Also, Google Scholar as a search engine is used to find articles. Moreover, special attention has been paid to the year of publication of the references used in this research, which should not be too old. In this regard, the period of publication belongs to the years from 1995 to 2018. In terms of geographical scope, it is focused on a number of countries, including the Northeastern USA, the Republic of Northern Macedonia, Austria, Texas, Pakistan, etc.

The unit of analysis was the articles, whereas the sample size of this research consisted of 18 revised articles published in 16 international journals such as: *Entrepreneurship Theory and Practice* (2 articles), *Administrative Science Quarterly* (2 articles), *Int. J. Transitions and Innovation Systems* (1 article), *Journal of Family Issues* (1 article), *Journal of Business Research* (1 article), *Family Business Review* (1 article), *Journal of Business Venturing* (1 article), *International Journal of Conflict Management* (1 article), *Journal of Family Business Management* (1 article), *Academy of Management Journal* (1 article), *Journal of Intercultural Management* (1 article), *Research Journal of Recent Sciences* (1 article), *Journal of Entrepreneurship & Organization Management* (1 article), *Family Relations* (1 article), *J Bus Fin Aff.* (1 article) and *Conflict in family business* (1 article).

RESULTS

Some key findings results will be presented based on reviewed article scholars related to the research in question (See: T -1).

T-1: Finding results from reviewed articles scholars

Author(s), year	Methods	Types of conflicts	Positive/negative Impact	Findings results related to the research in question
Arifi (2018)	Quantitative		Negative	Conflicts negatively impact family business performance and family relationships
Nosé et al. (2017)	Quantitative	Relationship	Negative	Relationship conflict has a negative effect on firm satisfaction and firm performance
Fahed – Sreih (2017)	Literature review	Relationship Task Process	Negative Positive Positive	Relationship conflict has a negative impact on business, whereas task and process conflicts have a positive impact.
Frank et al.(2011)	Systematic literature review	Relationship	Negative	Relationship conflict has a negative effect that reduce performance of family firm.
Eddleston & Kellermanns (2007)	Quantitative	Relationship	Negative	Relationship conflict is negatively related to family firm performance
Kellermanns& Eddleston (2007)	Quantitative	Cognitive Process	Negative Positive	Cognitive conflict was found to be negatively related to family firm performance. Process conflict was not found to be significantly related to the performance
Kellermanns& Eddleston (2004)	Qualitative	Relationship	Negative	Relationship conflict does not only have a devastating effect on a family firm's performance but also prevents task and process conflict from having a beneficial effect on performance

Jehn (1997)	Qualitative analyses	Task Relationship	Positive Negative	Task conflicts had a greater positive impact on performance, whereas relationship conflicts had a greater negative impact on performance.
Jehn (1995)	Multiple methods	Relationship Task	Negative Negative	Relationship and task conflicts were negatively associated with individuals' satisfaction, liking of other group members, and intent to remain in the group.

Adapted source: (Jyrek 2018: 51 – 55)

As it can be observed from T - 1. finding results show existence of conflicts and effects of three types of conflicts.

Research conducted with family businesses showed that 88% of surveyed family business representatives claimed that they had conflicts, whereas 66% of them claimed that these conflicts negatively impacted their family business performance as well as 29% claimed that conflicts had a negative impact on family relationships. (Arifi 2018).

According to Nosé et al., (2017), relationship conflict has a negative effect on firm satisfaction and firm performance. Also, they found that adaptability as one of the family climate dimensions (adaptability, cohesion, and open communication) was significantly related to firm performance. Similarly, another study result indicates that relationship conflict is negatively related to family firm performance, where altruism was found to significantly reduce relationship conflict and enhance a participative strategy process (Eddleston & Kellermanns, 2007).

Previous research results by Kellermanns & Eddleston (2004) argued that relationship conflict does not only have a devastating effect on a family firm's performance but also prevents task and process conflict from having a beneficial effect on performance. In this regard, the effects of process conflict on performance are inconsistent in that only low-to-moderate levels of process conflict improve performance.

Furthermore, the negative effect of relationship conflict has been stated by other authors (Frank et al., 2011; Piper et al., 2013; Fahed-Sreih, 2017). Thus, Frank et al., (2011) indicate that relationship conflict has a negative effect that reduces performance. Pieper et al. (2013) indicate that relationship conflict decreases the performance and satisfaction of all parties in a family business. Fahed-Sreih (2017) indicates in his article that relationship conflict has a negative impact on business, whereas task and process conflicts have a positive impact.

Cognitive (task) conflict was found to be negatively related to family firm performance. While the process conflict was not found to be significantly related to the performance except when used in conjunction with a moderator, it did exhibit a performance effect (Kellermanns & Eddleston 2007).

The research results showed in organizational groups that a low level of process conflict positively impacted group performance, whereas a high level negatively impacted group

performance. Regarding the task and relationship conflicts, it was found the importance of the conflict enhanced its effects on performance. Hence, it is noted that task conflicts had a greater positive impact on performance, whereas relationship conflicts had a greater negative impact on performance (Jehn 1997). Whereas in the other previous research by Jehn (1995), results indicated that conflict was beneficial depending on the type of conflict and the structure of the group in terms of task type, task interdependence, and group norms. Moreover, according to these results, relationship and task conflicts were negatively associated with individuals' satisfaction, liking of other group members, and intent to remain in the group.

Furthermore, the findings of Khan (2015) suggest that conflicts and stress are positively correlated among employees. In this research, it is examined that work-family conflicts reduce an employee's performance and will affect the overall performance of an organization.

DISCUSSION

In general, all literature analysis including study results indicate the presence of conflict. In this context, family businesses are also seen as fertile environments for conflicts (Fahed 2017; Yurek 2018). The findings showed that conflicts negatively and positively impacted family business performance. In the research done on organizational groups, negative effects of relationship conflicts were also found. For this, it is much more important to know the factors who reduce the conflict. Altruism and adaptation have been found to be key and relevant factors in reducing relationship conflict.

Apart from the negative impact of relationship conflict, task and process conflict were found as conflict types that positively impacted on performance. However, not all research shows that the conflict of task and conflict of process always have a positive impact. Furthermore, other research results indicate that the type of task group members perform affects whether conflict helps, hinders, or has no significant impact on individual and group performance (Jehn 1995).

With other words, there is an interrelation between conflict types as an integrated role as well as influencing each other in practice, although in theory, they appear separated.

CONCLUSION

Considering the conflict as an inevitable part, the family business should develop and promote its own strong mechanisms to resolve successfully. Conflict resolution between family members is one of the added values for successful families to their business, in addition to active business leadership, strategy support, main transparency, making the environment hospitable, and deep understanding of the business (Motwani 2016). In other words, giving the access in educational, social and recreational activities (trainings, celebrations, excursions, retreat, etc.) as well as use of win-win solutions will have a positive impact on the relationship strengthening.

In conclusion, it is clear that conflicts affect the functioning and effectiveness of the family business including overall performance. In this way, families should successfully manage them, indicating their business performance increasing.

Through this research, it has been attempted to provide a modest contribution to future research in the family business area.

This research needs to be studied more thoroughly by analyzing the systematic literature review and applying the quantitative approach to the particular study on the impact of task and process conflicts on family business performance.

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