ORGANIZATIONAL DESIGN, FAMILY BUSINESS AND “GOOD” CONFLICT: A THEORETICAL MODEL

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Abstract

The main purpose aim of the paper is to develop a theoretical model concerning the relations among some variables of organisational design and the level, type and nature of the conflict in family firms. The conflict is analysed as a dependent variable with respect of: altruism, decisional power/decisional concentration (founder centrality), formal governance mechanisms (strategic planning) and generational involvement. The study examines how these four family and business characteristics ultimately affect the functioning of a family firm, discussing the expected effect of these variables on task, process and relationship conflict in family firms. The main implication is that if family firms manage to overcome relational conflict and exploit positively task and process conflict, they can grow and flourish across generations, providing more jobs, prosperity, and innovation to the economy.

Keywords: Family Business, Organizational Design, Conflict, Governance, Altruism, Generational Involvement
1. Introduction and aim
The aim of the paper is to develop a theoretical model concerning the relations among some variables of organisational design and the level, type and nature of the conflict in family firms. The conflict is analysed as a dependent variable with respect of: altruism, decisional power/decisional concentration (founder centrality), formal governance mechanisms (strategic planning) and generational involvement. The study examines how these four family and business characteristics ultimately affect the functioning of a family firm. The paper discusses the expected effect of these variables on task, process and relationship conflict in family firms. We attempt to demonstrate a relationship between these variables (altruism, power concentration, formal governance mechanisms and generational involvement) and the level and the type of relationship, task and process conflict in family firm. The assumption is that the level and the typology of conflict affect the firm’s performance; specifically relationship conflict diminishes the positive effects of task and process conflict.

The main implication is that if family firms manage to overcome relational conflict and exploit positively task and process conflict, they can grow and flourish across generations, providing more jobs, prosperity, and innovation to the economy.

2. Conceptual Background
2.1 The unique content of family business conflicts
Very few family firms survive to the second (Beckhard & Dyer, Jr., 1983) or third generation (Applegate, 1994). Common explanation of this phenomenon include lack of planning for the next generation (Ibrahim et al., 2001), the neglection of the expectation of the next generation (Handler, 1989; Ward, 1997), and failure to effectively manage conflict (Beckhard & Dyer, 1983).

A review of the literature shows that conflict seems to be a prominent characteristic of family business. As argued by Sorenson (1999), the inclusion of family in a business makes conflict unique in a variety of ways.
First, family adds complexity to conflict. Family tasks and values are often placed in opposition to those of the business (Whiteside & Brown, 1991); there is a tendency to consider the family as a system that impedes the functioning of the business (Benson, Crego, & Drucker, 1990; Ward, 1987). Family is often labeled as the emotional arena and business labeled as the rational arena.

The overlap of family and business goals can jeopardize the business as well as strengthen it; family businesses can, in fact, be lost through destructive levels of tension between family and business goals (Sharon, Danes, Zuiker, Kean, Arbuthnot, 1999).

To maintain relationships in the family, family businesses must accommodate issues important to the immediate family and, in some cases, extended kin. This is especially true when family members are involved in some way in the business as owners, managers, employees, or even non-participating stockholders.

Family-related issues may take precedence over business concerns (Dunn, 1995). For example, a family in business must address issues such as the role carryover between business and family, primogeniture, family-member voice, equal treatment of family members, triangulation struggles, sibling rivalry, nepotism, work-family conflict, and succession (see Boles, 1996; Correll, 1989; Dumas, 1989; Lansberg & Astrachan, 1994).

As pointed out by Danes et al. (1999), the unique content and goals of family business conflicts fall into five areas: justice conflict (problems of compensation and quality of treatment along with allocation of resources), role conflict (confusion and disorientation among roles when family members work together or around the inside/outside phenomenon when the family business employs others who are not part of the family), work/family conflict, identity conflict (gender conflicts, sibling rivalry, and parent/child interrelationships), and succession conflict.

Second, family norms for resolving conflict set the tone for conflict management norms in the business (e.g., Dyer, 1986). The owner of the business usually establishes norms for interaction in the business (Sonnenfield & Spence, 1989).
These norms include how decisions are made and conflicts resolved (Dyer, 1986; Kets de Vries, 1993). Family norms have even more influence when multiple family members work in the business (Kaye, 1991). Conflict management norms within the family can foster contention within the business. For example, different family members might develop competing coalitions with employees to promote personal agendas.

Third, the dynamics of power in family businesses are unique. In most family businesses, family members have access to key information and retain decision authority (Dyer, 1986). Because of their family connections and access to “insider information,” even family members without high formal positions can wield informal power in the business. Power exerted by family members can overshadow the authority vested in roles and positions within the business organization. Moreover, unlike organizations in which the CEO has final decision authority, in family businesses, family members outside the actual business management can exert influence in high-level business decisions.

2.2 Conflict Typologies

Prior research on family firms has described conflict as the “root” of all evil and as one of the main reasons for failing organizations (Beckhard & Dyer, Jr., 1983; Dyer, Jr., 1986; Gersick et al., 1997). Because conflict appears to be inevitable and occurs frequently, it is important to identify the source of conflict and to manage it effectively given the limitation of organizational infrastructure in many family businesses.

Based on work-groups conflict literature (e.g., Jehn, 1995, 1997), three types of conflicts have been conceptualized: task (disagreement on what tasks should be accomplished), process (disagreement on how to accomplish the tasks), and relationship (based on interpersonal incompatibilities about values, attitudes, etc.). Task conflict is an awareness of differences in viewpoints and opinions pertaining to the group’s task. It pertains to conflict about ideas and differences of opinion about the task, similar to cognitive conflict (Amason & Sapienza, 1997). A moderate level
of task conflict has been found to increase group performance in cognitively complex tasks as it allows groups to benefit from different opinions and avoid group thinking (Janis, 1982). Process conflict is defined as an awareness of controversies about aspects of how task accomplishment will proceed (Jehn, 1995). More specifically, process conflict pertains to issues of duty and resource delegation such as who should do what or how much should one get. For example, when group members disagree about whose responsibility it is to complete a specific duty, they are experiencing process conflict. Cosier and Harvey (1998) have proposed that process and task conflicts can be beneficial because they promote creativity and innovation. Relationship conflict is an awareness of interpersonal incompatibilities, which includes affective components such as feeling tension and friction. Relationship conflict involves personal issues such as dislike among group members and feelings such as annoyance, frustration, irritation, and dislike (Jehn and Mannix, 2001). Cross-sectional studies (e.g., Jehn, 1995; Shah & Jehn, 1993) have revealed that relationship conflict is detrimental to individual and group performance, reducing the likelihood that members of a group will work together in the future. A review of the literature shows that relationship conflict can divert attention away from business objectives and can hurt a firm’s productivity (Amason, 1996; Jehn, 1997b; Simons & Peterson, 2000). Each of these types of conflict can occur in varying degrees of frequency and intensity (De Dreu & Van Vianen, 2001). However, research has shown that the frequency and intensity of conflict are strongly related. That is, highly intense conflict is associated with more frequent conflict (De Dreu & Van Vianen, 2001). Our framework suggests that conflict per se is not necessarily bad for family firms and that moderate task and process conflict can have a positive performance effect. In fact, task and process conflict can ensure that key information and environmental changes are discussed and understood by the decision makers. Moreover, following the notion of Simons and Peterson (2000) and Kellermanns and Eddleston (2004),
the frame proposes a complexity perspective for the family firm, whereby we argue that both task and process conflict interact with relationship conflict to impact a family firm’s performance. Therefore, our basic premise is that relationship conflict diminishes the positive effects of task and process conflict. We go on our discussion by outlining the sources of relationship, task and process conflict.

3. Independent Variables.
Our thesis is that different type and levels of altruism (which characterizes the relationships of the family members), control structures, power concentration and generational involvement (Ling et al., 2001; Schulze et al., 2003b; Schulze et al., 2001; Schulze, Lubatkin, Ling, & Dino, 2002), influence the likelihood of the occurrence of relationship, task and process conflict.

3.1 Altruism
Altruism is defined as a trait that positively links the welfare of an individual to the welfare of others (Bergstrom, 1995). According to Lubatkin et. al. (2005), economists tend to believe that the altruistic bond between parent and child is generally stronger and more enduring than it is between unrelated individuals and that this compulsion can lead to agency problems, because it can cause parents to threaten their children with moral hazard. We distinguish between reciprocal altruism and asymmetric altruism. Asymmetric altruism can create agency problems within the household. For example, since altruism is at least partly motivated by the parents’ desire to enhance their own welfare, parents have incentive to be generous although that generosity may cause their child to free ride, shirk and/or remain dependent upon their parents. Parents are thus faced with a “Samaritan’s dilemma” (Buchanan, 1975) in which their actions give beneficiaries incentive to take actions or make decisions that may ultimately harm their own welfare; the Samaritan’s dilemma is representative of class of agency problems associated with the exercise (or lack) of self-control by the principal. Implicit in Buchanan’s theorem is the notion that altruism can bias a
parent’s perceptions of their children, which, in turn, hampers their ability to monitor and discipline them. More broadly, the Samaritan’s dilemma is representative of class of agency problems associated with the exercise (or lack) of self-control by the principal. Self-control problems arise whenever parties to a contract have both the incentive and ability to take actions that “harm themselves and those around them” (Jensen, 1994; 43). While many self-control problems are trivial (e.g., cheating on a diet), agency problems arise when a loss of self control causes a principal to violate the terms, or perhaps even the spirit, of an existing contract or agreement.

Moreover, as pointed out by Lubatkin et al. (2005), asymmetric parental altruism may exacerbate the agency problem of adverse selection. Parental altruism and its associated self-control problem can expose the CO family firm to labor markets that are characterized by an unfavorable self-selection or sorting process, and, as a result, adverse selection problems. Sorting occurs in labor markets whenever the terms of a firm’s employment contract systematically limit the size, character, and quality of the labor pool that serves it.

The thesis is that agency relationships in family firms are distinctive because they are embedded in the parent–child relationships found in the household, and so are characterized by altruism. Therefore, asymmetric altruism can lessen the occurrence of relationship conflict.

Parental altruism would not engender moral hazard if the altruistic ties among family members were uniformly strong and symmetric. However, Becker (1981) presumes that symmetric altruism is more the exception than the rule, because a parent’s altruism creates countervailing incentives toward asymmetry (Stark, 1989). We therefore propose:

**Hypothesis 1(a):** There is a relationship between reciprocal altruism in family firms and relationship conflict. Specifically, higher degrees of reciprocal altruism are negatively related to relationship conflict.
Hypothesis 1(b): There is a relationship between asymmetric altruism in family firms and relationship conflict. Specifically, higher degrees of asymmetric altruism are positively related to relationship conflict.

3.2 Formal mechanisms for governance and control

Many theorists consider governance, planning and control formal systems a way to align interests and acts of the manager with the ones of the shareholders; it is a way to avoid opportunistic behaviors of agents (Jensen & Meckling, 1976; Roos, 1973; Fama, 1980).

Enterprises formal system to control agency costs are less necessary when few people own the property and there is an overlapping between management and shareholding (see above). In this sense, family firms would represent an interesting context to minimise agency problems especially because of the involvement of the family in the shareholders, management and governance (Fama & Jensen, 1983).

As already pointed out, however, some peculiar features of family business and especially the presence of asymmetric altruism, help to increase agency costs, through actions of free-riding and entrenchment (Bruce & Waldman, 1990; Morck et al, 1988).

As a matter of fact, family managers can behave in order to maximize their profit taking business critical resources away from firm development; there is an excessive decisional centralization in the hands of few people; the processes of selection and appraisal of family manager are often based on emotional considerations, more than on the results achieved. As a consequence, there could be conflicts between relatives involved in the management and the ones who are only involved in the shareholding (Gallo, 1996; Daily & Dollinger, 1992).

These conflicts, in particular, can at least ruin the peculiar features for family business performance, such as mutual altruism, collaboration and information exchange. Moreover, because of the lack of financial resources and of the reluctance to let external members join the shareholding, these firms fail to attract and retain
successful external human resources (Gomez-Mejia et al., 2001; Morck & Yeung, 2003)

As far as these arguments are concerned, agency theory suggests that it is useful to use mechanisms to control agency costs in family firms (governance systems, strategic planning) (Tagiuri & Davis, 1982). This is valid considering the hypothesis that value creation derives from the solution of conflicts created by informative asymmetries.

Family firms use less formal mechanisms systems to evaluate and to control (strategic planning or management control) than other firms (Schulze et al, 2001). Schulze et al.’s analysis (2003) suggests that the introduction in the organizational structure of such mechanisms, can bring to an important reduction of agency costs and as a consequence a reduction of relationship conflict. From the carried out considerations it is possible to make the second hypothesis of the model clear:

**Hypothesis 2**: In the family firms there is a negative relation between the use of formal governance mechanisms (i.e. strategic planning) and the relationship conflict.

### 3.3 Power concentration

Consistently with Emerson’s Power-dependence theory, power is defined as an individual’s relative capacity to modify others’ states by providing or withholding resources or administering punishments (Keltner et al., 2003). This capacity is the product of the actual resources and punishments the individual can deliver to others. The power-dependency theory distinguishes between power as a structural potential and power use (Molm et al., 1999). The structural power refers to the possession of power bases such as coercion, rewards, and information. In organizations, power bases are mainly allocated through the hierarchical structure of the organization (Pfeffer, 1992). Power use is behaviour that has the acquisition of power as its end.

In the model’s framework the founder centrality (the structural position of the founder in the family firm's top management group network) defines the extent to which the founder is central in the communications and decisions of the group. This
concept encompasses either the structural potential and power use. For example, the *founder centrality* exists when members of the family business's top management group network always seek advice or approval from the founder before making decisions of strategic importance. For the purposes of this research we consider three dimensions of founder centrality - betweenness, closeness, and connectivity - each of which may have an impact on the role of the founder in the organization.

The first dimension, *betweenness centrality*, represents power (Krackhardt, 1990). Power is actualized when the founder (or one who represents and defends the founder's legacy) is central to the flow of information among members of the family business's top management group. In this context, much of the information from and to top management group members is channelled through the founder who "controls the agenda."

The second dimension, *closeness centrality*, captures an essence of independence or divisiveness (Freeman, 1979) that is maintained when the founder has a direct link with members of the top management group rather than through intermediaries (Bonacich, 1972). The lack of direct links among the other top management group members means that the founder is the most likely person to have rapid and unencumbered access to these managers as a group. Therefore, the founder is not dependent on others to manage and none of the other managers can establish a stronger power base than the founder.

The third dimension, *connectivity centrality*, indicates the extent to which the founder is able to influence the most "connected" members of the top management group. Watts and Strogatz (1998) have suggested it takes only a few well-placed connections to simplify communications in complex organizations. Thus, *connectivity* creates substantial influential capability throughout the organization. Though these three dimensions of centrality appear to be conceptually close, the way they describe a network of people results in very different conclusions.

We assume that the level of founder centrality directly influences task and process conflict in family firms. Controlling founders often establish norms, attitudes, and
values (Kets de Vries, 1993) that are rarely openly questioned during their reign (Beckhard & Dyer, Jr., 1983). For example, when the dominant individuals are perceived to have high punitive capabilities within the organization and the family, the level of information exchanged is considerably low (De Dreu, Giebels, & Van de Vliert, 1998). In fact, family firms with high control concentration tend to have a less participative atmosphere (Ronstadt, 1984).

Therefore if the founder still controls the decision-making process, the level of task and process conflict may not be sufficient to ensure the discussion of future strategies and the responsibilities of the newest generational family members. When control is widely dispersed, a broader participation in the decision-making process tends to occur (Ruekert & Walker, 1987). The participation of more family members leads to greater diversity of perspectives, which should therefore have a positive impact on the occurrence of task and process conflict (Amason & Schweiger, 1994). We therefore propose:

**Hypothesis 3(b):** There is a relationship between concentration of power (founder centrality) in family firms and task conflict. Specifically, higher concentration of power (founder centrality) will be associated with lower levels of task conflict.

**Hypothesis 3(c):** There is a relationship between concentration of power (founder centrality) in family firms and process conflict. Specifically, higher concentration of power (founder centrality) will be associated with lower levels of process conflict.

### 3.4 Generational involvement

Many studies about family business have proved that the arrival of every new generation and the fragmentation of ownership can change dynamics intra-relatives (Gersick et al, 1997; Harvey and Evans, 1994; Schulze, Lubatkin, & Dino, 2003b; Sharma, Chrisman & Chua, 1997), as a consequence the relation between family and business become more difficult (Dyer, Jr., 1986).
Family involvement can be measured by the participation of family members of the family to the strategic processes, as well as by the number of generations that work into the firm. Both criteria will be used in the model shown further on. Most of organizational literature agrees that the overlapping between family, management and ownership increases conflicts; it is logical to believe that the involvement between generations broaden the effects of such overlapping (Lansberg and Astrachan, 1994). As a matter of fact, Harvey and Evans (1994) in their model explain how conflict intensity and frequency increase as the overlapping between family actors and organisational actors increase.

In family firms each generation becomes involved in the family business in a multistage process that ideally includes the increasing involvement of the succeeding generation. At the same time, the preceding generation should reduce their involvement in the business until a transfer of responsibility and authority takes place (Cabrera-Suarez et al., 2001). As such, the transfer of leadership of the business from one generation to the next is a slow, evolutionary and “mutual role-adjustment” process (Handler, 1989; Handler, 1990). However, past research has suggested that incumbent generations leading family firms are often reluctant to let their offspring join in the decision making of the business (Handler, 1989; Lansberg, 1988; Stavrou, 1999). In particular, founding family members often make themselves indispensable to the business in an effort to maintain decision making authority over newer generation family members (Handler, 1989; Lansberg, 1988). What results is a lack of communication between the incumbent and newest generations entering the family business (Ibrahim, Soufani, & Lam, 2001). In successful multigenerational family firms the incumbent and newest generations communicate ideas, offer feedback, and encourage mutual learning (Handler, 1991). Thus, we see that multigenerational family firms vary in the degree to which they are able to successfully integrate and involve family members of the newest generations. We therefore propose:
Hypothesis 4: There is a relationship between generational involvement in family firms and relationship conflict. Specifically, higher generational involvement will be associated with higher levels of relationship conflict.

4. Conclusion
The model considers how family firms can create and manage optimum levels of conflict, how family firms can foster the right balance of task and process conflict while minimizing their relationship conflict.

By utilizing the complexity perspective of the conflict literature (Janssen et al., 1999; Simons & Peterson, 2000), we were the first to apply all three types of conflict to the family firm. We argued that not only does relationship conflict have a devastating effect on a family firm’s performance, but it also prevents task and process conflict from having a beneficial effect on performance.

Whereas altruism can lessen the occurrence of relationship conflict, the level of control concentration directly influences task, process, and relationship conflict in family firms. Moreover, we propose that greater generational involvement heightens the importance of relationship conflict.

By focusing on altruism, control concentration, control systems and generational involvement, the model captures a wide array of family firms and helps to explain the uniqueness of conflict in family businesses. This study will show the structuring role of some organizational variable in conflict interactions in family firms.

5. References


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