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Conflicts in Family Firms – empirical evidence from a survey of 249 managers of German family-controlled businesses

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Abstract

This paper reports the results of a survey of 249 managers of German family firms about occurrence and perceived effects of 15 selected potential conflict situations (hereafter: PCSs) in family firms. Further hypotheses about differences in perception of PCSs between family-member managers and hired managers are tested. As a result a portfolio is created which categorizes the PCSs according to the two dimensions frequency of occurrence and degree of perceived negative impact on company performance. It turns out that rather emotionally tinged than task-oriented discussions and private matters being carried into the corporate environment are the most prevalent PCSs. Less frequent but most often associated with negative effects on the company are situations related to succession, such as family members refusing to retire from office and, reversely, family members being prevented from retiring. Hired managers are found to significantly differ in their perception of PCSs in the family firm compared to family-member managers, especially in case of positions being filled not only based on objective criteria and prioritization of company autonomy over cooperations with other firms.

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Keywords: Family business management, conflicts in family businesses, hired managers in family businesses, task conflict, relationship conflict, process conflict, family firms survey

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1 Introduction

„Family businesses are fertile environments for conflict.” (Harvey and Evans, 1994, 345); it is widely accepted that conflict is a prominent characteristic of businesses with family participation especially in comparison to businesses without family participation (Lee and Rogoff, 1996, 432). As Lansberg (1983) observed family firms exist on the boundaries of two qualitatively different institutions – the firm and the family. Since each institution has its unique set of values, norms, principles and its own distinct rules of conduct (Lansberg 1983, 40) circumstances like the dominant presence of the family, the lack of formalized systems and structures to deal with conflict and the commingling of business and family roles (Harvey and Evans 1994, S. 345) lead to many possible sources of conflict. But it’s not only the greater potential for conflict that set apart family businesses from public enterprises but also the effects and implications of conflict, which seem to be more complex in family firms (Kellermanns and Eddleston 2004, 210). Accordingly conflict-plagued family businesses have been found to be less succesful (Danes 1999, Dyer 2006). Since family businesses make up for a large part of the economic output and provide the majority of jobs in many societies, research on conflict in family firms may help to make a significant share of enterprises in most economies more succesful and thus improve societal conditions. Hence research on conflict in family firms has increasingly been found to be an important part of business research (e.g. Sharma 2004).

Research so far has treated different aspects of conflict in family firms, for example reasons for conflict (e.g. Lansberg 1983, Harvey and Evans 1994, Davis and Harveston 2001, Grote 2003, Astrachan and McMillan 2003, Eddleston, Otondo, and Kellermanns, 2008), effects of conflict in the family firm (e.g. Cosier and Harvey 1998, Kellermanns and Eddleston 2004, Mitchell, Morse, and Sharma, 2003) and strategies to cope with conflict in the family firm (e.g. Habershon and Astrachan 1996, Sorenson 1999). However, relatively few large sample studies investigating the occurrence of specific PCSs in family firms are available.

In order to focus on conflicts that are specific for family firms (and not conflicts that occur often in family firms but are not limited to them) we apply theory about paradoxical situations inherent to family firms. The concept states that possible conflict arises from the fact that family entrepreneurs view certain decision-making situations simutaneously from two entirely different perspectives: the family perspective and the firm perspective. Because of the different underlying values, norms and principles it is never possible to make a decision that entirely fits the requirements of both the family and the firm. Thus, from violating the requirements of either the family or the firm different types of conflict can arise (Simon, Wimmer, and Groth, 2005). For example, the matter of succession in an executive position can be viewed from the business perspective and from the family perspective. The business perspective calls for the most capable candidate to take over once the actual incumbent retires. This is what would be labeled a just outcome. From the family perspective a just outcome might be a different one, for example when equality between siblings is to be achieved. Thus, because of these differing perspectives conflicts can arise over the right way to choose a successor in a management position.

The purpose of this study is to produce empirical evidence on 1) the occurrence of specified PCSs among family firms in Germany and 2) the degree of negative influence on the business that family entrepreneurs attribute to these PCSs. Furthermore we develop and test hypotheses stating differences in perception of PCSs between family managers and non-family managers.

In order to assess occurrence and effects of PCSs in family firms this study adopts the perspective of leading managers of the family firm. Because here conflict is studied by surveying managers the central construct we focus on is not objective conflict but „perceived conflict“ (Davis and Harveston, 2001).

We proceed as follows: In section 2 we provide an overview of the literature describing paradoxical situations inherent in family firms and consequential PCSs. Section 3 continues with a description of the methodology and empirical results. Findings are subsequently discussed in section 4. We conclude with a brief summary and suggestions for further research.

2 Literature Review

Generally, because of the multitude of possible triggers, conflict in the family firm can be traced back to a myriad of issues (Harvey and Evans 1994, 331). In this article we refer to paradoxical situations that are typical for family firms and which can be seen as reasons why certain conflicts frequently occur in family firms. These paradoxical situations have been described by several authors. All of the paradoxical situations have in common that no matter what a person does the selected behaviour will be wrong in some aspect. Simon et al. (2005) have identified several paradoxical situations.

The first paradox is about the role the family plays with regard to the company. The participation of the family in the family business helps the business because resources (workforce, capital, dedication etc.) are available to the firm. On the other hand a strong interconnection of family and business makes the business vulnerable to family problems being carried over to the business side. In this context phenomena like role ambiguity (Harvey and Evans 1994) or role conflict (Lee and Rogoff 1994) occur, for example when the family patriarch is also the leader of the family business. Role ambiguity refers to a situation where a person is unsure about the valid norms and the expected behaviour. A family patriarch and business leader can easily experience such unclarity since he is neither only family patriarch and business leader but both. Role conflict occurs when the two roles demand different not compatible behaviours. Such a situation arises for example when the family patriarch and business leader has to deal with a family member in the company. A specific frequently reported incident is family members trying to get some influence in operative business affairs (Beckhard and Dyer 1983, 8) even though they do not occupy a position in the company. Because of the institutional overlap it is inevitable that controversies stemming from domestic relationships are also articulated within the corporate environment.

A second topic are different ways of communicating in families and organizations. Communication in families is personal, in organizations it is task-oriented. Family members speak with each other in a fashion conveying emotions, by contrast the typical tone in organizations is factual and sober. Communication without emotion is not natural in families, in organizations it is necessarily to keep out emotionality in order to reach optimal decisions.

Reasons for especially negative emotionality in families are past events (family history) and family processes. From the family's psychosocial history arise family dynamics that result in competing goals and values of the family members (Hilburt-Davis and Dyer 2003). As a result communication problems can develop in family firms (Harvey and Evans 1994). If domestic communication patterns win the upper hand a more emotional way of discussing tasks right up to heated disputes may evolve (Simon, Wimmer, and Groth 2005, 163 ff.).

Another main paradox are different conceptualizations of justice in families and organizations. Justice in families means that its members are treated as equal (especially within a generation). In contrast employees of enterprises expect to be treated differently according to their differing status. Family rivalries, especially between siblings (Grote

2003, Kellermanns and Eddleston 2004) come into play when just decisions are to be made in the family firm.
For example, family members demand a position because relatives were also provided a job in the firm (Grote 2003, 122f.). HR practices that take the representation of family factions into account and thus lead to perceptions of injustice among non-family employees are also widely known in family firms (Barnett and Kellermanns 2006, 838). Besides the direct effect of possibly choosing a candidate less suitable than an external manager additionally negative incentives are given for non-family members in the firm (Bertrand and Schoar 2006, 78).

Another paradox lies in the main goals that family members pursue with the enterprise. On the one hand family members are owners or shareholders of the firm. But they cannot act solely on the basis of capital market criteria since the mere existence of the firm is a value to the family. As a family member they should choose their actions in favor of the long-term existence of the family firm. This might require actions which would not be taken when capital market criteria were applied only, for example waiver of dividends in order to accumulate capital. Nonetheless it happens quite frequently that family members view their investment in the family business simply as a main income source and thus demand regular dividends (Baus 2007, Terberger 1998).
Another related aspect is the case of a family member choosing to sell his shares in order to reinvest in other assets (Davis and Harveston 2001). This might spark dissent among other shareholders because it has to be decided who will get the shares to be sold. Also unwanted ownership dispersion (Kellermanns and Eddleston 2004) might be an arising concern. The more shareholders the more difficult it is to consider all shareholders interest. (Sharma and Nordqvist 2008).

Because of the interdependency of economic entities under market conditions an enterprise is often engaged in different types of cooperations, e.g. R&D cooperation, purchase cooperative, joint ventures etc. However a typical value of families is independence, that is families tend to rely on themselves and seek not to be dependent from outsiders. In family firms the two diametrically opposed views collide since more openness of the firm means less independence of the family (for instance the success of a cooperation with another firm affects overall family firm success which in turn affects family circumstances). So it is difficult to find goals and strategies suiting both family and firm (Harvey and Evans 1994, Kellermanns and Eddleston 2004). As a result conflicts can arise about which strategy to follow, to cooperate with other firms or to give autonomy the higher priority (Simon, Wimmer, and Groth 2005). Similar is the question of whether to invest with outside capital. In this case the family business becomes partially dependend from a bank; a prospect which can trigger controversies between shareholders.

In most markets innovativeness is a key factor for enterprise success. In contrast a main characteristic of families are traditions which give family members a mutual mental basis, a feeling of belonging to a specific group. So members of family firms need to be both, innovative thinkers and keepers of tradion. But in some cases a strong traditional views can undermine the innovative strength of the firm (Terberger 1998; also Betrand and Schoar 2006).

The next paradox covers the role of the young generation. From the family perspective they should learn the family business in order to be ready one day to take over a leadership role. It is viewed as a advantage of family firms that buisiness-specific knowledge is transferred relatively easily between generations over a long time compared to the situation in a public company where a new manager takes over in comparatively short time (Bertrand and Schoar 2006).

On the other hand everybody has individual desires and seeks to go one's own way. The children wish to differentiate themselves from their parents (Kellermanns and Eddleston 2004). A second aspect is that the offspring is alleged of not having experience outside the company and therefore not being suitable to lead the company (Lansberg 1983, Baus 2007, Rüsen 2008). But if daughter or son are starting their career at another company and do not come back, conflicts can start about who should take over (Rüsen 2008).

Lastly, membership in organizations can always be ended whereas membership in a family is for life. Thus a member of an entrepreneurial family finds herself in the paradox situation that she can leave the firm but since firm and family are intertwined it is not possible to leave the family firm completely without leaving the family. So it is possible that a family member wants to retire but is asked by the family to go on since no fitting successor is available (Davis and Harveston 1998). On the other hand it is a classic family business topic of family members refusing to retire from office (Davis and Harveston 1998, Klein 2004, Terberger 1998, Rüsen 2008).

For each paradoxical situation up to three items were developed in order to capture typical PCSs arising from the respective specific paradoxical situation.

Paradoxical situation	PCSs: variable name and questionnaire item	Reference
Basis paradox of the family business	PRIMAT Private matters are carried into the company.	Simon et al. 2005
	BUSDEC Family members want to have a say in business decisions despite not occupying an official position.	Beckhard & Dyer 1983
Person-focused vs. task-focused communication	DISCUS Discussions between family members in the company are rather emotional than objective.	Simon et al. 2005
justice: equality vs. inequality	MANPOS Family members claim similarly attractive management positions like those occupied by relatives equal-ranking in family hierarchy (f.e. the brother).	Rüsen 2008, Grote 2003, Baus 2007
	OBJCRI Management positions are not filled consequently based on objective criteria	Barnett & Kellermanns 2006
Investor interest vs. idealistic values	SHARES Family members being passive shareholders want to sell their shares.	Davis and Harveston 2001
	DIVIDS Family members being passive shareholders demand regular dividends even if that would weaken the company's capitalization.	Baus 2007, Terberger 1998
Independence vs. Openness	OUTCAP Investments with outside capital are not carried out because of concern for the family business' independence.	Simon et al. 2005, Sharma 2004
	AUTONO The company's autonomy is given priority over cooperations with other firms (e.g. joint R&D efforts).	Simon et al. 2005
Tradition vs. Innovation	TRADIT Innovation is hampered by traditional views of (parts of) the entrepreneurial family.	Terberger 1998
Learning the family business vs. learning new things	EXPERI The young generation learns the family buisness from scratch but has no experience outside of it.	Rüsen 2008, Baus 2007, Lansberg 83
	FUTURE The young generation collects experience in other firms but does not return and thus is not available anymore as future leaders of the family business.	Rüsen 2008
Terminable membership (company) vs. not terminable membership (family)	RETIRE Family members refuse or obstruct their retirement.	Rüsen 2008, Davis / Harveston 1998; Klein 2004, Terberger 1998
	DUTIES A family member who wants to retire from a management position is hindered at it by the family with reference to duties as a family member.	Rüsen 2008, Davis / Harveston 1998
	RESTRI Selling of shares by family members is hindered or restricted.	Dyer 2006, Kellermann & Eddleston 2004

Figure 1: Potential conflict situations (PCSs).

Effects of conflict in family firms

Research has shown that conflicts in firms need not necessarily have a negative impact on firm performance. Scholars have identified positive effects of conflicts in organizations and especially in family firms (e.g. Jehn 1997) like avoiding premature broad agreement, stimulation of the involvement of family members and identification of relevant alternatives. Kellermanns and Eddleston (2004, 211ff.) assume the existence of an optimal level of task and process conflict with regard to firm performance. Too much conflict impedes business processes whereas too much harmony does not lead to best decisions and performance. Only relationship conflicts are viewed as harmful independent from the extent of conflict. Conversely many findings support the assumption that some conflicts can threaten the existence of family businesses by triggering severe crises, even up to insolvency. Experts estimate the proportion of family conflicts as trigger of business crises in family firms at no less than 20-30% (Rüsen 2008, 116f.).

Family member managers and non-family managers

The workforce of a family firm usually consists of two distinct groups: the members of the entrepreneurial family and non-family employees. Although the important role of non-family employees in family businesses has often been stressed (e.g. Ibrahim et al. 2001), this particular stakeholder group and especially their view on family business issues has not been addressed sufficiently (Sharma 2004, 15). Regarding conflicts in family businesses, several reasons can be stated why perception and evaluation of conflicts in the family business environment might be different for the two groups.

First of all, conflicts in family business tend to be kept quiet or ignored (Baus 2007, 21) because otherwise the result could be perpetual conflict among family members: “If my sons or my wife make mistakes, I let it go, because it’s not worth fighting over. You have to live with your family. A nonfamily member, you can fire him.” (Rosenblatt et al. 1985, 112; cited in Dyer 2006, 261). Thus, family members are likely to suppress family-related conflicts more than non-family managers who can observe such incidents more dispassionately. Accordingly non-family managers probably view the role of the family more critically whereas family-members try not to foul one’s own nest. The different perspectives should lead to differing perceptions and evaluations of PCS.

One important aspect in this context is justice in personnel decisions. Some scholars have argued that the family exerts significant influence on personnel decisions (Barnett and Kellermanns 2006, 838). In case of non-family managers especially aspects of distributive justice seem to be relevant. It is argued that family influence leads to agency-based problems which negatively influence the perception of distributive justice of non-family employees, e.g. in case of promotions (Barnett and Kellermanns 2006, 842). An example is the family’s wish for a family member to join the executive board. In this case family membership is an explicit criterion besides professional competence. Depending on the selection process there is danger of non-family managers getting the impression that for applicants from the family not the same criteria do apply as for non-family applicants. Many anecdotes from business practice suggest that family membership outdoing better qualification is not uncommon in family businesses when it comes to filling a managerial position.

Of course aspects like suspected higher commitment of family members, long-term orientation, altruism often play a role in choosing a family member. But the non-family employee only observes the outcome and not the motives.

Family or sibling rivalry can cause some members of an entrepreneurial family to feel entitled to demand similarly attractive positions (Grote 2003). From the family perspective such a request is understandable since justice is associated with equality. In the organization though just treatment is associated with inequality depending on performance differences. From this point of view a claim that is partly based on kinship should be inacceptable for non-family managers.

The persistence of the firm is a value in itself for members of the family because the firm gives a meaning to the family and holds the family together. Thus the preservation of the family business is a prominent goal of the entrepreneurial family. An important characterictic of a family business is the independence, that means the family determines the firm's fate as autonomously as possible. Hence, strategic decisions like whether and to which extent cooperations with other firms should take place have to be assessed in the light of then possibly decreasing independence. On the one hand, cooperations can produce strategic advantages (like e.g. faster and more efficient R&D, realization of otherwise too big projects etc.), on the other hand dependencies can arise which impair family business independence. Thus, from the family member perspective it can be reasonable to abandon certain cooperations which from a business point of view would have made sense. By comparison, it is natural to non-family managers to evaluate cooperation opportunities only on (less long-term) business considerations. Concern about the independence of the family business is typically not one of the most important aspects non-family managers take into account when evaluating strategic options. As a result it is not likely that non-family managers would forego economically reasonable cooperations in favor of greater independence of the family business. The same logic applies in case of the question to which extent investments financed with outside capital should be undertaken.

From a family member point of view the use of outside capital always leads to less independence of the family business. In order to prevent too much influence of banks many family businesses have set minimum levels for the equity capital. Therefore it seems likely that out of concern for the rising level of outside capital a family entrepreneur will be more likely to be against a certain investment than a non-family manager. On the contrary, he non-family manager will not per se regard a higher level of outside capital as an obstacle for investments.

Five hypotheses follow from these considerations:

H_{1a}: The company's practice of filling management positions not only based on objective criteria is reported more frequently by non-family managers than by family managers.

H_{1b}: The company's practice of filling management positions not only based on objective criteria is evaluated more negatively by non-family managers than by family managers.

H_2: Family members claiming positions similar to those occupied by relatives equal-ranking in family hierarchy is evaluated more negatively by non-family managers than by family managers.

H_3: The company's independence being given priority over cooperations with other firms hierarchy is evaluated more negatively by non-family managers than by family managers.

H_4: Investments with outside capital not being carried out because of concern for the independence of the family business evaluated more negatively by non-family managers than by family managers.

3 Empirical study

3.1 Method

Main variables are the occurrence of PCSs among family firms and perceived harmfulness of the PCSs with regard to firm performance.

Occurrence of PCSs was measured by the percentage of respondents who were familiar with the particular conflict situation. Harmfulness of the conflict situation was measured by the percentage of respondents being familiar with the situation and attesting the situation a negative impact or very negative impact on firm performance (CN) related to the number of respondents familiar with the conflict situation (CF):

$$\frac{CN_i}{CF_i}$$

For example, a value of 0,7 indicates that 70% of respondents knowing the selected conflict situation attest it negative or very negative consequences.

The questionnaire contained 15 questions addressing the PCSs. A pretest with family entrepreneurs was used to assess validity of the questions and user-friendliness of the questionnaire.
On average, respondents needed around 15 minutes to complete the questionnaire.

Data collection

The sampling frame consisted of a list of family businesses in Germany, Switzerland and Austria that was built up by a search of print publications, internet sources and databases. A company was considered a family business if the majority of its shares were owned by one family or several related families. In some cases companies were included that were not (anymore) predominantly family-owned but still regard and publicly present themselves as family enterprises because of heritage and continuing influence of an entrepreneurial family. In total, the list contained slightly under 3000 companies.

Key informants had to be able to supply information about PCSs in the family firm. In this sense general managers, other leading managers (especially in large firms) and shareholders without management position were defined to be appropriate c9ontact persons. Through internet and database searches at least one key informant was identified for each firm in the sample.
The survey was composed as an online survey, additionally participants were supplied with a printable version oft the questionnaire.
At the beginning contact persons were contacted by telephone to verify their company as a family business and to inform about the research project. Subsequently interested companies were sent an email containing detailed study information and a link and a password for the online questionnaire.

Between february and october 2009 1.789 companies were succesfully sent an email with all relevant survey information (rest: not interested, generally no participation in surveys, contact person not available, voicemail etc.). 3-4 weeks after the first email, a reminder was sent to the contacts. In total, 305 analyzable questionnaires were obtained which corresponds to a response rate of 17%. For the analysis of the questions presented in this paper a narrower definition of relevant family firms (at least second generation active in the firm) had to be applied which led to the inclusion of 249 cases.

3.2 Sample

For analysis the resulting sample of 249 relevant cases was split into two partial samples: family members and non-family members.

Figure X shows the composition of both partial samples with regard to several criteria.

For the partial sample of family members, regarding age of the enterprise, the sample contains about 28% family businesses where the second generation is involved and about 20% where already the fifth or later generation is contributing to the business. The remainder is distributed quite evenly on family businesses in the third respectively fourth generation. Regarding company size (number of employees and annual turnover) the sample consists of mainly mediumsized enterprises between 100 and 500 employees and between 25 and 100 Mio. € annual turnover. Most companies are from the manufacturing and trade sectors.

Compared to the distribution in the population (i.e. Röhl 2008) bigger and older family businesses are overrepresented. This is due to the concentration on at least mediumsized businesses in the sampling frame.

The comparison of the partial samples shows a higher percentage of bigger enterprises and public companies among the non family sample. This is due to that a non family executive becomes more likely with increasing size and age of the family business.

The partial samples differ with regard to the variables generation, number of employees and industry. This leads to the question whether these differences might account for differences in response behaviour. In this context, Dyer (2006, 257) assumes « (…) the fact that families find certain industries more attractive for launching an enterprise calls into question whether performance differences are solely a function of familiy ownership and management or are, in fact, related to the industry where these firms are embedded."

To check for such effects chi-square tests were carried out. They showed significant relationships between the covariates and the main variables. In order to account for these relationships, weightings were applied regarding the variables generation, number of employees and industry.

		Sample	
		Family entrepreneurs (n=205)	Non-family managers (n=44)
		%	%
Generation	2nd	27,8	31,8
	3rd	31,2	27,3
	4th	20,5	15,9
	5th or later	20,0	20,5
	Don't know	0,5	4,5
	Sum	*100,0*	*100,0*
Number of employees	< 50	5,9	2,3
	50-100	12,7	9,1
	101-250	23,5	18,2
	251-500	26,0	13,6
	501-1.000	12,7	15,9
	1.001-2.500	9,3	11,4
	2.501-5.000	5,9	6,8
	More than 5.000	3,9	22,7
	Sum	*100,0*	*100,0*
Annual turnover	Less than 25mn €	15,5	14,0
	25mn to less than 50mn €	23,5	7,0
	50mn to less than 100mn €	25,0	20,9
	100mn to less than 250mn €	17,0	14,0
	250mn to less than 500mn €	11,5	14,0
	500mn to less than 1bn €	3,0	9,3
	More than 1bn €	4,5	20,9
	Sum	*100,0*	*100,0*
Industry	Manufacturing industry	50,3	59,5
	Services	9,1	7,1
	Trade	22,3	14,3
	Building industry	1,5	7,1
	Other	16,8	11,9
	Sum	*100,0*	*100,0*

Figure 2: Composition of samples (before weighting).

Limitations

The sampling frame from which the sample was acquired has to be considered an approximation of the population since the population is not directly accessible. A non-reponse bias is possible, but is not quantifiable in this study. The comparisons between family-members and non-family managers are based on only 44 cases for the group of non-family managers. On the whole, results should be interpreted as approximations of the circumstances in the population.

3.3 Results

First, we provide results on occurrence and perceived effects of PCSs, evaluated by family-member managers.

Figure 2 illustrates how frequent the selected PCSs occur in family firms (in descending order) and how this percentage is composed with regard to the question of how negative the effects of these situations are evaluated.

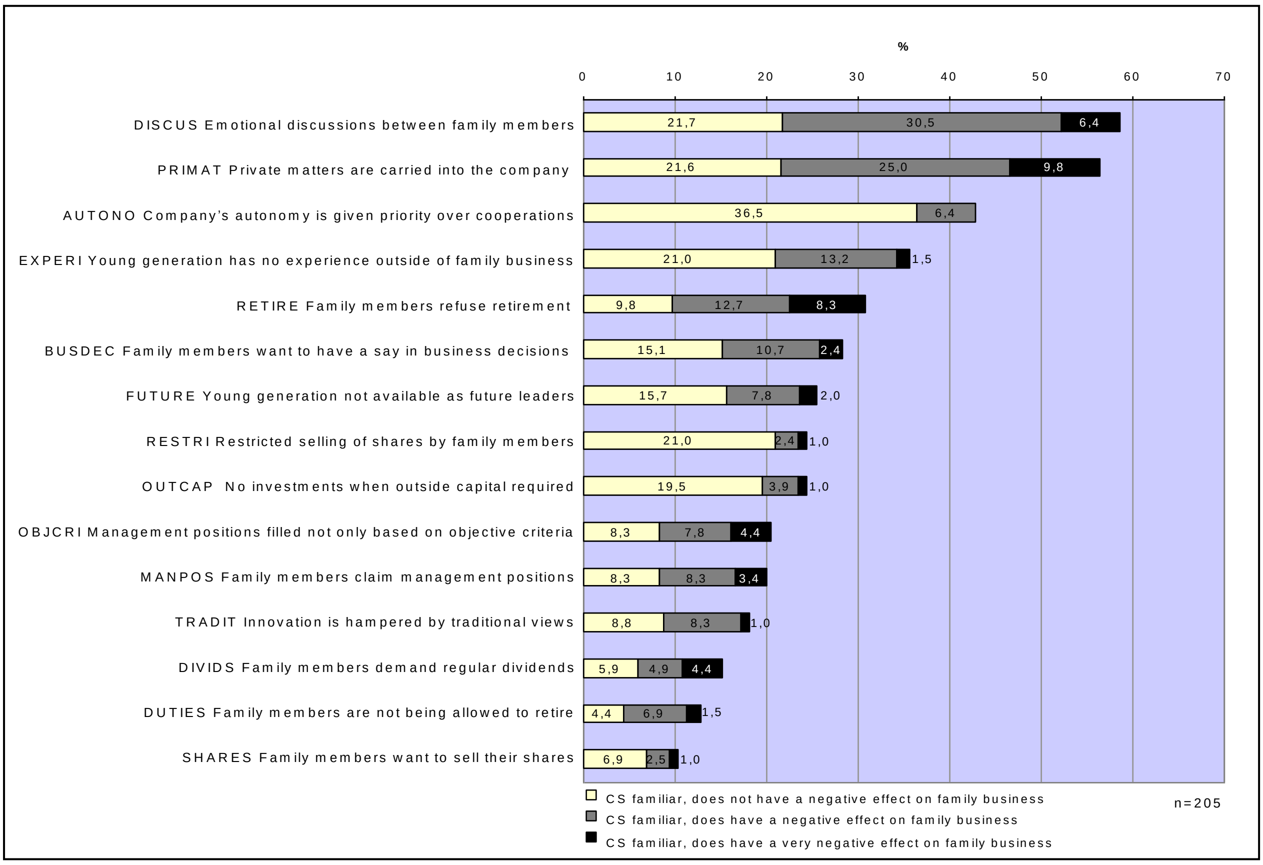

Figure 3: Occurence and evaluation of potential conflict situations.

Frequency of occurrence

The most common PCSs are rather emotional than objective discussions among family members in the firm (DISCUS, 58,6%) and carrying of private matters into the company (PRIMAT, 56,4%). About a third of the respondents know the situations where autonomy is given priority over cooperations with other firms (AUTONO, 42,9%) and where the young generation does collect experience outside the family firm (EXPERI, 35,6%). At least between 25% and 30% of the respondents know the situations where family members refuse to retire (RETIRE, 30,7%) or try to intervene in business decisions despite not occupying a management position (BUSDEC, 28,3%), and where the young generation is not available as future leaders (FUTURE, 25,5%). Less common situations are restricted sale of shares (RESTRI, 24,4%), investments put on hold because of the need to use outside capital (OUTCAP, 24,4%) and use of other than objective criteria when filling management positions (OBJCRI, 20,5%). Whereas lacking objectivity in connection with HR activities is mainly viewed as negative, the other two situations are less problematic in the eyes of the respondents. Among PCSs occurring in no more than a fifth of the polled companies are family members claiming positions (MANPOS, 20%), innovation hampered by traditional views (TRADIT, 18,1%) and regular demand for dividends by shareholders (DIVIDS, 15,2%).

Negative effects

Now we consider how the respondents that were familiar with the particular PCSs evaluated them regarding negative effects on the family business.

The situation that is most strongly associated with negative effects is a family-member refusing to retire from office (RETIRE, 68,3% negative or very negative effects) followed by the reverse phenomenon of family members being prevented from retiring (DUTIES, 65,4%). Other situations predominantly associated with negative effects are emotionally tinged discussions between family members (DISCUS, 63%) private matters that are carried into the company (PRIMAT, 61,7%), family members demanding dividends at regular intervals (DIVIDS, 61,3%), furthermore positions filled not only based on objective criteria (OBJCRI, 59,5%) and family members claiming positions (MANPOS, 58,5%). Situations that only a small fraction regards as negative are family members want to sell their shares (SHARES, 14%), company's autonomy given priority over cooperations with other companies (AUTONO, 14,9%) and investments with outside capital not being carried out because of concern for the family business' independence (OUTCAP, 20%).

If we combine the information of both variables to derive the proportion of respondents stating they know the particular situation from their family business and perceive it as negative for the company, it appears that emotionally tinged discussions between family members within the corporate environment and private matters being carried into the corporate environment are clearly the most relevant PCSs for the surveyed family businesses (36,9% and 34,8%).

Apparently there are large differences between the PCSs regarding occurrence and perceived effects. There are PCSs which are relatively common and at the same time are predominantly perceived as negative for the company. Other CS are common but are mainly perceived as harmless. Further exist rather rare CS but which are perceived as rather negative and finally rare and harmless CS. Thus, the CS can be categorized into a portfolio with the axes frequency of occurrence (abscissa „CS familiar in % of respondents") and proportion of negative assessments (ordinate Number of respondents attesting cs a negative or very negative effect divided by number of respondents familiar with cs). Using a threshold value of 50%, the portfolio is thus divided into four quadrants (fig. 4).

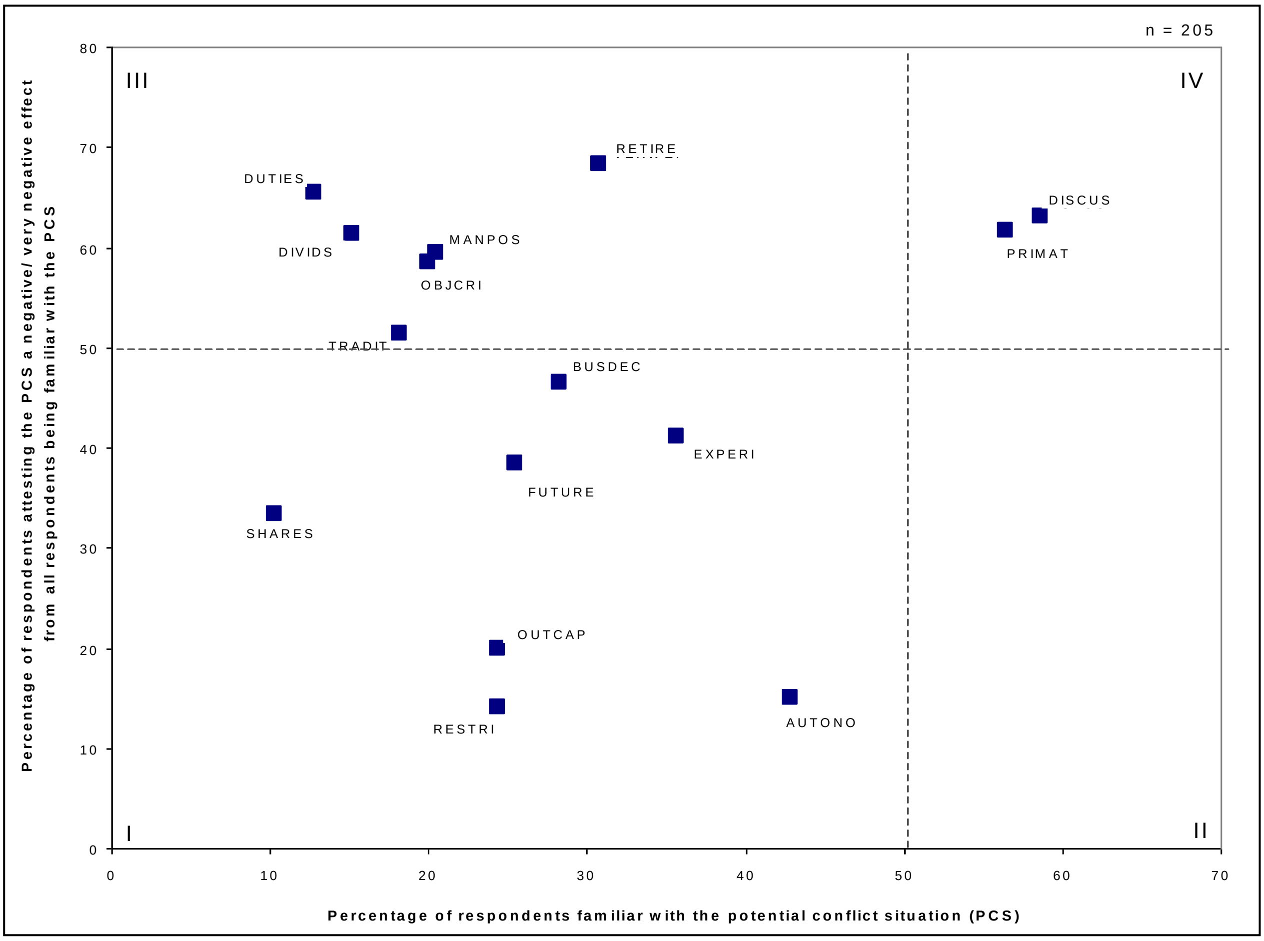

Figure 4: Conflict situation portfolio family entrepreneurs.

Quadrant 4 comprises two frequent and mainly negatively assessed PCSs: rather emotional discussions between family members (DISCUS) und private matters being carried into the company (PRIMAT). Quadrant 3 contains six common but mainly negatively assessed PCSs. Quadrant 2 which is defined as containing common but mainly harmless PCSs is empty. Quadrant 1 with PCSs less common and mainly assessed as harmless contains seven PCSs. Table 2 shows a summary of the allocation of PCSs to the 4 quadrants.

Quadrant	Criteria	Potential Conflict Situation (PCS)
I	▪ Known in less than 50% of family firms ▪ Negatively assessed in less than 50% of family firms that are familiar with the PCS	BUSDEC Family members want to have a say in business decisions despite not occupying an official position. EXPERI The young generation learns the family buisness from scratch but has now experience outside of it. FUTURE The young generation collects experience in other firms but does not return and thus is not available anymore as future leaders of the family business. SHARES Family members being passive shareholders want to sell their shares. AUTONO The company's autonomy is given priority over cooperations with other firms (e.g. joint R&D efforts). RESTRI Selling of shares by family members is hindered or restricted. OUTCAP Investments with outside capital are not carried out because of concern for the family business' independence.
II	▪ Known in more than 50% of family firms ▪ Negatively assessed in less than 50% of family firms that are familiar with the PCS	/
III	▪ Known in less than 50% of family firms ▪ Negatively assessed in more than 50% of family firms that are familiar with the PCS	RETIRE Family members refuse or obstruct their retirement. DUTIES A family member who wants to retire from a management position is hindered at it by the family with reference to duties as a family member. MANPOS Family members claim similarly attractive management positions like those occupied by relatives equal-ranking in family hierarchy (f.e. the brother). OBJCRI Management positions are not filled consequently based on objective criteria DIVIDS Family members being passive shareholders demand regular dividends even if that would weaken the company's capitalization. TRADIT Innovation is hampered by traditional views of (parts of) the entrepreneurial family.
IV	▪ Known in more than 50% of family firms ▪ Negatively assessed in more than 50% of family firms that are familiar with the PCS	PRIMAT Private matters are carried into the company. DISCUS Discussions in the company between family members are rather emotional than objective.

Figure 5: Classification of PCSs.

Differences in perception of cs between family members and non-family members

In order to compare family entrepreneurs with hired managers in family firms the portfolio was extended with the data from the partial sample of non-family managers. The answers of external managers were weighted in order to account for differences in company size and industry composition (cf. section 3.2). For some sonflict situations, the extended portfolio shows considerable differences between the groups. The largest differences are indicated by arrows, the vertical dimension indicating differences in attribution of negative effects, the horizontal dimension indicating differences in frequency of occurrence (fig. 4).

At first glance, it becomes clear that hired managers often associate PCSs more frequently with negative effects than family-member managers (vertical justification of arrows). For example, 58,6% of family-member managers consider it negative for the company if other family members claim management positions (MANPOS), but external managers are considerably more critical (90,8%). Other PCSs that are evaluated negatively by a considerably higher proportion of hired managers are positions filled not only based on objective criteria (OBJCR), emotionally tinged discussions between family members (DISCUS), traditional views of the entrepreneurial family hampering innovation (TRADIT), family-member refusing to retire from office (RETIRE) and investments with outside capital not being carried out because of concern for the family business' independence (OUTCAP). On the other hand family members consider it negative more frequently if family members are forced into continuing with their work although wishing to retire (DUTIES, 65,4% vs. 20,2%).

Regarding occurrence of PCSs, two major differences between the family members and non-family members can be pointed out. External managers report more frequently that positions in their company have been filled not exclusively based on objective criteria (OBJCR, 45,3% vs. 20,5%). Furthermore they report more frequently that emotional discussions between family members have taken place in the company where strictly task-oriented communication would have been appropriate (DISCUS, 58,6% vs. 42,8%). Other PCSs show only minor differences.

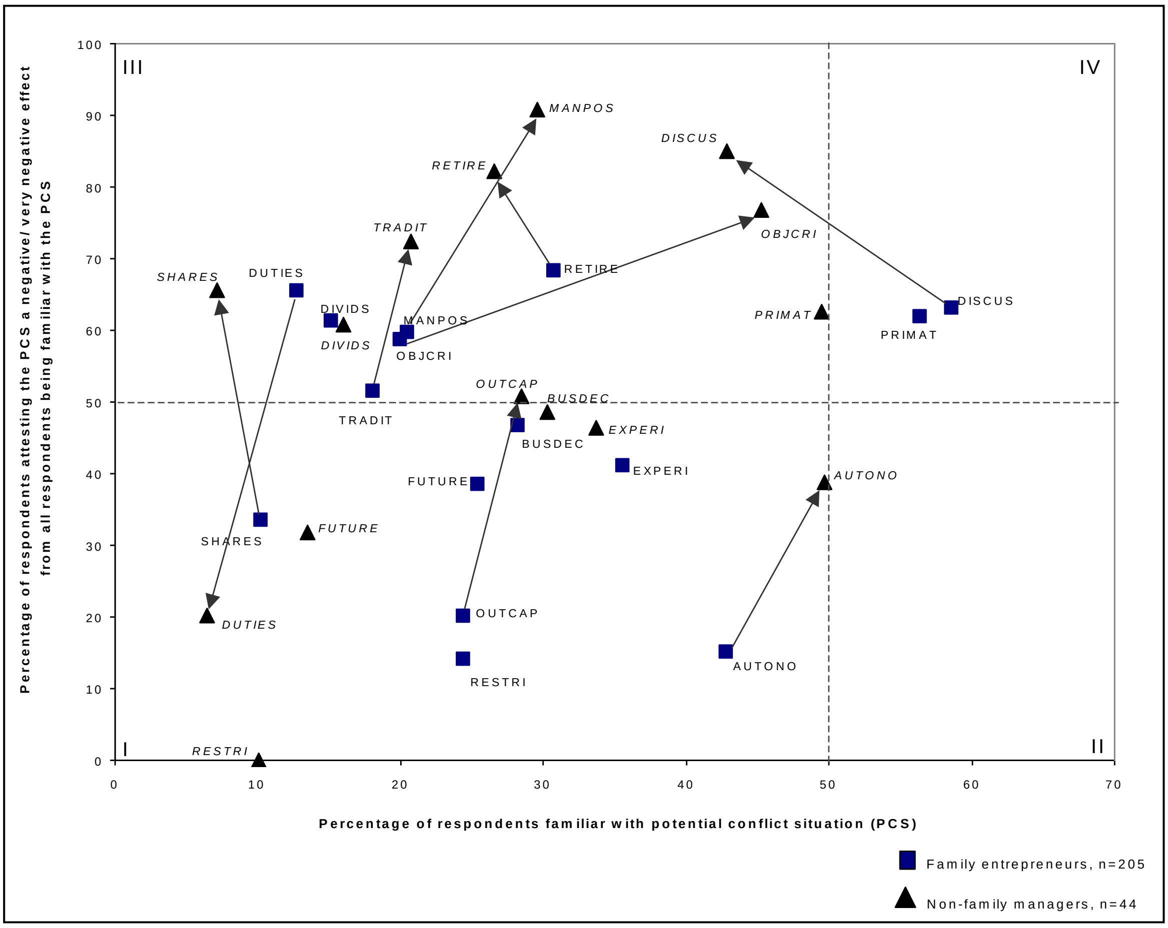

Figure 6: Conflict situation portfolio family entrepreneurs and hired managers.

The hypotheses regarding differences between family members and non-family managers are mainly supported by the data (table 3). Chi-square tests show differences significant at the 1%-level for hypotheses H_{1a} (The company's practice of filling management positions not only based on objective criteria is reported more frequently by non-family managers than by family managers) and H_3 (The company's independence being given priority over cooperations with other firms hierarchy is evaluated more negatively by non family managers than by family managers). Results significant at the 5%-level are obtained regarding hypotheses H_2 (Family members claiming positions similar to those occupied by relatives equal-ranking in family hierarchy is evaluated more negatively by non-family managers than by family managers) and H_4 (Investments with outside capital not being carried out because of concern for the independence of the family business evaluated more negatively by non-family managers than by family managers). Hypothesis H_{1b} though (The company's practice of filling management positions not only based on objective criteria is evaluated more negatively by non-family managers than by family managers) is not supported by the data.

Conflict situations	Extent of being familiar with conflict situations			Attribution of negative/very negative effect on family business (basis: respondents being familiar with conflict situation)		
	Family Entrepreneurs (%)	Non-family Managers (%)	Chi squared	Family entrepreneurs (%)	Non-family managers (%)	Chi squared
PRIMAT	56.4	49.5	0.59	61.7	62.6	0.03
BUSDEC	28.3	30.3	0.03	46.6	48.6	0.00
DISCUS	58.6	42.8	3.50 °	63.0	85.0	3.27 °
MANPOS	20.0	29.6	1.94	58.5	90.8	5.07 * H_2
SHARES	10.3	7.1	0.50	33.3	65.5	1.24
OBJCRI	20.5	45.3	12.08 ** H_{1a}	59.5	76.9	1.42 H_{1b}
DIVIDS	15.2	16.0	0.01	61.3	60.8	0.04
OUTCAP	24.4	28.5	0.40	20.0	50.7	4.55 * H_4
AUTONO	42.9	49.7	0.75	14.9	38.9	7.35 ** H_3
EXPERI	35.6	33.7	0.04	41.1	46.5	0.16
FUTURE	25.5	13.5	2.84 °	38.5	31.8	0.06
RETIRE	30.7	26.5	0.21	68.3	82.3	1.11
DUTIES	12.7	6.4	1.23	65.4	20.2	1.17
RESTRI	24.4	10.0	4.99 *	14.0	0.0	0.64
TRADIT	18.1	20.7	0.13	51.4	72.3	1.11

** $p < 0.01$ * $p < 0.05$ ° $p < 0.10$

Figure 7: Occurence and evaluation of PCSs - family entrepreneurs and non-family managers.

4 Discussion

It is apparent that the only PCSs appearing in quadrant IV of the conflict situation portfolio are such that arise from personal relationships. This outcome is consistent with many other findings stressing the role that family ties play in family firm conflicts. Obciously the "institutional overlap" (Lansberg 1983) is still so distinctive that these problems become apparent very clearly in reality. Especially the high level of reported negative consequences indicate that these phenomena pose real problems in today's family businesses. A possible positive effect of heated discussions (like closer examination of options) is not found to be predominant among the majority of family businesses. Nevertheless we see that 37% of the surveyed family entrepreneurs who are familiar with emotional discussions between family members don not perceive them as problematic. In this group emotionality obviously does not lead to business-affecting distortions in the social relationship of the people involved. On the whole the described phenomena seem to constitute a disadvantage for family businesses compared to public companies.

Quadrant III contains six other potentially problematic PCSs. Two of them are concerned with the issue of fair decision-making in family businesses (OBJCRI, MANPOS), two other address the topic of succession (RETIRE, DUTIES) and the remaining two refer to the topic of dividends pay-out (DIVIDS) respectively the influence of traditional views on innovation (TRADIT). Refusal to retire from a management position and the opposite case of a family member being put under pressure to continue in office are the two highest rated incidents with regard to negative impact on family business performance. These conflicts are regarded as a problem in 2 out of 3 family businesses. Especially refused withdrawal from office seems to have a high relevance since approx. 30% of the surveyed family firms reported to be familiar with this issue. These results fall into line with previous research regarding the topic of succession in family firms.

It is hardly surprising that 61% of family businesses familiar with demands for dividends by shareholders perceive this as negative for company performance. Family businesses most times disapprove of external financing and therefore have to rely on accumulation of profits in order to sustain financial health of the firm. The bigger the influence of shareholders claiming dividends the harder it can get for the family business to retain sufficient funds.

PCSs in quadrant I are of minor importance for the conflict management in family businesses. Nevertheless some PCSs can become problematic. Both PCSs treating the role of the young generation (EXPERI, FUTURE) are known in 25-35% of the surveyed family businesses and are assessed negatively by ca. 40% of family entrepreneurs being familiar with that phenomenon. Also family members wanting to have a say in management decisions is known in a third of surveyed family businesses and assessed as negative by almost half of family entrepreneurs knowing being familiar with it. Here a classic problem of family businesses comes to the fore which clearly sets family businesses apart from public companies. This corresponds to the conclusion of Lansberg (1983) “The standing of an individual in a family is determined more by who the individual "is" than by what the individual "does".

For three PCSs the percentage of negative assessments was under 20%, so for the great majority of family entrepreneurs being familiar with them, the PCSs were only somewhat annoying but did not seriously interfere with the business. These PCSs were OUTCAP (investments with outside capital not carried out because of concern for the company's independence), AUTONO (priotity of company's autonomy over cooperations) and RESTRI (restrictions regarding selling of shares). The strategic issues which are incorporated in the first two PCSs are derived from the self-conception of family businesses: preservation of independence and control over the company as a major objective. In this respect it seems not surprising that discussions over investments with outside capital only seldom lead to substantial problems since the refusal of such investments are often in line with overriding goals.

In business literature the phenomenon of „ownership dispersion" is often described as problematic because the balance of power in a family firm can change in response to a change in the distribution of shares and because the character of the "family firm" can slowly erode if shares are increasingly distributed among more and less closely related persons. In fact, around a third of the surveyed family entrepreneurs who were familiar with the of family members aspiring to sell their shares attested a negative impact on the family business. Thus, it can be concluded that although this does not pose a major concern for family businesses it still should not to be neglected completely.

The comparison of family-members and non-family managers has shown clear differences between the groups regarding their perception of PCSs. First of all, a strong propensity appears that external managers more frequenty associate PCSs with negative impacts on business. They are more critical than family-members who might have an inclination to downplay the impact of these situations. External managers can afford a more objective view at things, they perceive circumstances as more realistic or as particular critical. Another reason for different evaluations of PCSs could be different levels of experience with PCSs in family firms. Over the years, family entrepreneurs have got accustomed to the fact that certain quarrels make up the "background noise" of the daily work in family firms. Under these circumstances a result that appears as sub-optimal at first glance has to be considered in truth a realistic optimum. External managers often lack such experience and therefore might attribute nagative outcomes to certain PCSs where an experienced family entrepreneur would not perceive them as critical.

5 Conclusion and Outlook

By delivering empirical evidence on occurrence and perceived effects of several PCSs derived from specific properties of family firms that lead to paradoxical decision making situations, this study provides benfits for both practitioners and researchers.

In a practical sense the results give indications to which PCSs should be focused on when monitoring potential conflicts in the family firm. Although family firms are heterogeneous organizations with always specific characteristics the results provide information which situations are more likely than others to evolve into real and possibly dangerous problems for the firm. This information can be used to establish guidelines and set priorities within a family firm's conflict management approach. The findings concerning the differences in perception of conflict situations by hired managers can help family firms to recognise the need to better integrate this group in conflict solving matters and to bear in mind their specific view.

On the other hand the findings give clues for rewarding future research efforts in the family business area. The findings give rise to assumptions that relationship conflicts and process conflicts are more important in family firms than task conflicts. Since this study was not focused on this aspect further research should look into this topic. In addition, it should be studied how task- and process-related conflicts expand to relationship conflicts and what consequences arise from such a development. Furthermore, future studies should elaborate specifics and effects of the perception of conflicts for the important stakeholder group non-family staff. Eventually, this study delivers insights about family firms by studying them as a whole. Since family firms differ from one another in various aspects it would undoubtedly be useful to have the results available for different types of family firms (e.g. size, ownership structure) or family firms in different stages of development. In this sense, future research can use our findings as a starting point towards a more differentiated description of conflict situations in family firms.

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