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Understanding tensions and conflict: a phases of learning approach to family business

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Understanding tensions and conflict: a phases of learning approach to family business

Abstract
Tensions inevitably arise from time to time in most business settings. But in family businesses these tensions potentially can be especially acute and even result in the cessation of the enterprise. These tensions manifest at various times and for many reasons but they generally arise when the business is undergoing a transition. Understanding these transitions and how to prepare for them enable family business leaders to lessen the threats to survival. In this paper we present results from our research into the transitions that Australian family firms typically experience and how they influence four key stages of learning for family business leaders seeking to discover pathways for managing the paradoxes they confront.

Keywords
understanding, approach, conflict, family, business, learning, tensions, phases

Disciplines
Business | Social and Behavioral Sciences

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UNDERSTANDING TENSIONS AND CONFLICT: A PHASES OF LEARNING APPROACH FOR LEADING FAMILY BUSINESSES

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and

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University of Wollongong
Abstract

Tensions inevitably arise from time to time in most business settings. But in family businesses these tensions potentially can be especially acute and even result in the cessation of the enterprise. These tensions manifest at various times and for many reasons but they generally arise when the business is undergoing a transition. Understanding these transitions and how to prepare for them enable family business leaders to lessen the threats to survival. In this paper we present results from our research into the transitions that Australian family firms typically experience and how they influence four key stages of learning for family business leaders seeking to discover pathways for managing the paradoxes they confront.

Introduction

The tension, conflict and relationship problems that all families experience are likely to be intensified for families in business because they work so closely with the ones they love. Family disputes can overshadow work, even when the business appears to continue operating normally. An understanding of how tension and conflict can be managed in family business is important given family businesses' role in generating future entrepreneurship. In this paper, we canvas the family business literature on conflict and link it to our previous research. This research has taken a life-stage approach to learning family business and we have distilled a framework to identify the challenges that family business leaders face in dealing with, among other things, tension and conflict during management and ownership transition (Moores and Barrett, 2002).

Tension and Conflict

Tension is often tacit, whereas conflict is often explicit, the ultimate manifestation of tension. Hence, we can posit that conflict can be identified and managed, even resolved, but its 'causative' tension may still exist. In contrast to the comparative neglect of tension in the literature, much has been written about conflict, its causes and how it should be managed. For
example, it is widely accepted that conflict and change go hand in hand. Vargo (2004) observed that business families are well aware that: (1) there is no change without conflict, (2) transitions are the source of most conflicts, and (3) change is expensive.

Not all tension and conflict is negative for family firm performance. In fact, 'conflict can be highly beneficial to a firm's performance by increasing options, by preventing premature consensus, and by increasing involvement and motivation of family firm members' (Kellermanns and Eddleston, 2004). It is the type of conflict that needs to be noted and managed if benefits are to accrue and dysfunctional aspects minimised. We have found the following three-way typology of conflict to be useful in our analyses: Task conflict (that is, the ends on which tasks should be accomplished, allowing group members and individuals to identify diverse perspectives and increasing understanding of tasks); Process conflict (that is, disagreement on how work should be accomplished and how members should be utilised). Both these types of conflict can have positive effects on family firm performance if managed appropriately. On the other hand, relationship conflict plays a detrimental role. It can override the positive effects of task and process conflict because it is associated with animosity, stress, anxiety, hostile behaviour, and the perception of others as having antagonistic or sinister motives. Table 1 sets out the effects of different types and levels of conflict in family firms.

Transitions and Change

Internal and external change creates uncertainties that all firms face. In family firms, critical uncertainties can also emanate from the stages of family, ownership and business development (Gersick et al., 1999). Some firms make these changes rapidly in revolutionary modes whereas others bring about change through evolutionary modes (Miller, 1992). These changes manifest themselves in different company strategies, structures, or processes and have been referred to as transitions (Kimberly and Quinn, 1984). As a business moves from start-up to steady state or enters a period of growth or retrenchment, significant alterations
may be required in the aspirations of the firm or in its internal structures and systems (Hackman, 1984).

Life cycle theory implies that businesses go through stages that both follow predictable patterns and are not easily reversed (see, for example, Quinn and Cameron, 1983; Kimberly, Miles and Associates, 1980; Kimberly and Quinn, 1984). To make these transitional changes successfully requires careful leadership that understands the underlying dynamics of the system. There are various ways in which leaders can seek to control these organizational stages and transitions, ranging from informal mechanisms to highly sophisticated formal systems. In the case of family firms a number of different life cycles are changing simultaneously thereby adding to the complexity of the underlying transitions.
<table>
<thead>
<tr>
<th>Table 1: Types of Conflict</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
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<tr>
<td><strong>Definition</strong></td>
</tr>
<tr>
<td><strong>High level</strong></td>
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<tr>
<td><strong>Moderate level</strong></td>
</tr>
<tr>
<td><strong>Low level</strong></td>
</tr>
<tr>
<td><strong>Successful family firms</strong></td>
</tr>
</tbody>
</table>
Figure 1: The stages of the organizational life cycle

Reorganize and Decentralize
Rekindle the Fire
Directive Board
GO-GO
Intensive Support
COURTSHIP
Reality Testing

PRIME
ARISTOCRACY
EARLY BUREAUCRACY
BUREAUCRACY
DEATH

Surgery
Therapy
Euthanasia
Caretakers

Intensive Support

COURTSHIP

Sources:
Adapted from Adizes (1979) and Moore (1990)
Not only is the business progressing through a life cycle, that has been variously analysed in models such as that presented by Adizes (1979) and Moores (1990) (see Figure 1), but aspects of the individual, the family or the ownership of the business may also have changed. So while the business might have reached a predictable pattern of change these other issues may provide added complications.

Understanding Tensions and Conflict: A Phases of Learning Approach

Our research has allowed us insight into how owners of successful family businesses learn to manage various transition phases in their (often enmeshed) businesses and lives. We have used various methodologies but have been careful to give special weight to the ideas of family firm members themselves, many of whom have had considerable experience in businesses other than their own. We distilled how owners of Australian family businesses (1) learn business, (2) learn to run their business, (3) learn how to lead their business, and (4) how they learn to let go that business (the 4Ls framework). We then explored some of the pathways (learning priorities) successful family owned businesses have found through the challenges presented by the business environment (Moores and Barrett, 2002). Of course, many similar issues are faced by all businesses. But our research shows that in managing family-owned businesses, some paradoxes appear that require special handling if the business is to be successful. While management is increasingly seen as being about dealing with paradox (Handy, 1994), our research shows that running a family business also means dealing with paradoxes that defy ultimate resolution. Framing the paradoxes allows us to start to understand and manage them.

Thus, the 4Ls is a framework for mapping family business issues, many of which lead to tension and are ultimately manifested in conflict. It not only highlights the learning priorities at each stage but also the unique paradoxes that are presented at each stage for family firms. In summary, the framework stresses that (a) There are four phases of learning;
(b) priorities in each phase can be identified, (c) each phase of learning is characterized by a paradox, and (d) pathways that manage the paradox of each phase in accordance with these priorities have been distilled from successful cases. Table 2 summarises, for each phase of learning, the learning priority or skill that must be attained, the paradox that arises in the family business setting, and the pathway that successful family firms have developed to manage each paradox.

Table 2: Learning Phases

<table>
<thead>
<tr>
<th>Learning phase</th>
<th>Priority</th>
<th>Paradox</th>
<th>Pathway</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business</td>
<td>Proficiency</td>
<td>Inside vs outside</td>
<td>• Go outside</td>
</tr>
<tr>
<td>Our business</td>
<td>Perpetuating values</td>
<td>Continuing differently</td>
<td>• Keep philosophies not details</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Learn market value of family business values</td>
</tr>
<tr>
<td>Lead our business</td>
<td>Perspicacity</td>
<td>Informal formality</td>
<td>• No simple pathways</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Address learning tasks 1-5</td>
</tr>
<tr>
<td>Let go our business</td>
<td>Prescience</td>
<td>Leading to leave</td>
<td>• Develop timeline for retirement</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Create management development systems</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Stick to the plan</td>
</tr>
</tbody>
</table>

Phase 1: Learning Business

All CEOs need to learn the skills of managing a business, which suggests the skills needed have a lot in common, regardless of ownership. Our research suggests however that family firm leaders need to go beyond knowing what stage the firm has reached in its organizational life cycle. Leaders also need to learn special or different things to manage their family-owned business and they need to learn them differently from how they would in a business that is not family owned.
**Learning Priority: Proficiency**

The first ‘personal proficiency’ priority in learning family business, is to learn personal management, particularly the self-discipline that business leadership will eventually require, and people skills. Unexpectedly, the technical skills of business were of lesser importance.

**Paradox: Inside vs Outside**

Should these skills be learned inside or outside the family firm? This ‘inside-outside’ paradox was at the heart of the first stage of learning family business. We might think of it as something like the Biblical parable of the prodigal son, who leaves his father’s house and eventually returns, but only after disappearing for a long time, wasting his inheritance and being virtually given up for lost. In a similar way, ‘going outside’ in order eventually to ‘return inside’ the firm later is both a vital opportunity for learning and a potential threat to the family nature of the business. It is vital to learning since the younger generation needs to develop skills and gain perspectives they cannot acquire by staying in the family business, and also prove themselves worthy of a place in the senior management structure of the firm. But it is also a threat to the survival of the firm as a family firm, because the person who leaves the family business setting to learn about how to run a business might not come home.

**Pathway: Go Outside**

Despite the difficulties, there seemed to be only one viable pathway through the inside-outside paradox: ‘go outside anyway’. It was generally accepted that future managers of family owned businesses had to leave that business at an early stage, usually for an extended period, so they would be equipped to come back into the firm later. The stage of the family firm in terms of the business life cycle affects the location where the outside experience is gained. If the family firm is moving towards maturity then outside experience and learning that assists the family firm to make that transition is highly beneficial. The family business needed to accept the uncertainty of this pathway and keep the route back to the family firm open.
Phase 2: Learning OUR Business

Returning to the family firm entails learning our business. This had to do with valuing the values of that business and the values of the people who had been – and generally still were – associated with creating it. Getting this right, that is, learning the values of that particular family business, ultimately prepares the learner for leading the family business.

Learning Priority: Perpetuating Values

There were frequent suggestions from our respondents that there is something about learning our business that is different from learning business in general. And there is a new paradox arising from the need to maintain a sense of continuity that allows owners and customers alike to see the business as ‘the same’ family business – in a rapidly changing world.

Paradox: Continuing Differently

The use of debt exemplifies the continuance of values in family business and the associated paradox: 'continuing differently'. It is often pointed out that family businesses are typically not interested in sharing ownership with shareholders outside the family. Their financial policies typically lead them to minimize the risk of losing independence. This is seen in their preference for retained earnings or bank loans over outside equity finance to fund growth, often described as family firms’ ‘strategic conservatism’ (Dunn, 1995). This value is often cited as part of what is special about 'our' business. But this is not to say that everything – including the use of debt – is done in just the same way as the older generation would have done it. Examining the stage the firm has reached in the business life cycle shows the need to continue values differently to manage a modern business in the real world.
Pathway(s)

Pathway 1: Keep Strategic Philosophies Not Details

As we saw, the second and later generations in the family business have learned to value the principles of our business. This often includes a cautious, even tight-fisted approach to debt, and personal qualities such as the capacity for self-discipline, honesty and hard work. The younger generation sticks with these ideas even though they pursue different firm strategies, influenced by business life cycle stage, from those the older generation would have adopted.

Pathway 2: Learn the Market Value of Family Business Values

The future CEO also has to learn about the market value of being a family firm. This was a complex pathway, and ways of following it were also influenced by the firm’s stage on the life cycle curve. Simply being a family firm has market value in terms of customers’ and other firms’ perception of it as a closely-knit and stable entity. The perception that the business was family-based, sharing a common family culture and speedy processes of decision-making were valued by many CEOs – especially those contemplating growth, for example by extending their businesses to include joint ventures with overseas firms. Moreover, they often perceived the same values in family firms from other cultures, and this helped them establish the joint venture. This serves as a counterpoint to some other research on the internationalization of family business (see for example Davis, 1983; Gallo and Pont, 1996; Gallo and Sveen, 1991), which argues that the resistance of family businesses to outside information, and their tendency to concentrate on local markets, tend to inhibit their capacity to internationalize.

The most obvious manifestation of the firm’s movement along the life cycle curve is the CEO’s interest in professionalizing the business. For this, the learner who is now approaching senior management or perhaps is already the CEO, sometimes had to move an insider out. That is, he or she had to persuade a family member without the skills needed for
the current stage in the firm’s life cycle to leave the business. Sometimes the converse was necessary, that is, the new or aspiring leader had to know how to move an outsider in. There are some special difficulties here for the family business. Both tasks involved responding to the demands of the business, in fact becoming ‘just like any other business’ with formal control systems, performance appraisal and contingent rewards systems. Despite this, CEOs recognized this was always going to be something of an illusion. The family always remains an additional, complex factor that simplifies some issues yet complicates them as well.

**Phase 3: Learning to LEAD our Business**

*Learning Priority: Perspicacity*

While ideas for leading family business are gained outside the business and by constantly scanning the environment, values are learned inside the business from the family itself and by applying knowledge gained outside to the special situation and peculiar qualities of the family business. Bring the two kinds of learning together suggests a special *perspicacity* is required. The changes in development denoted by the business life cycle suggest that the distinction between transactional and transformational leadership is likely to be relevant to family business just as it is to others. Consistent with the more general literature, it seems likely that transactional leadership in family business will be appropriate for handling the transactions relevant to the current stage of the organizational life cycle. Transformational approaches, on the other hand, are needed when the leader of the family business judges that he or she needs to guide it through a transition to a later, more developed stage on the life cycle curve.

*Paradox: Informal Formality*

Achieving the perspicacity or insight needed to lead the family firm appears to centre on knowing how to use apparently contradictory approaches to management control at the same time. The quantitative evidence showed the internal environment was influencing CEOs’
approaches to developing systems in family owned businesses more than external uncertainties. Paralleling this, in the interviews, we saw evidence of ‘informal formality’ in how family firms were run, that is, formal and informal controls being exercised together.

**Pathway: No Simple Pathway**

There is no clear or obvious pathway through the problem of leading a family business, but rather a careful balance between apparently opposed approaches. As firms professionalize, leaders of family firms typically introduce outsiders, formal boards, complex information gathering systems and other control devices that bring greater formality and potential for wider participation to the decision making practices of the firm. The pathway therefore involves leading the family and firm through the determination of strategy, structure and systems. Five key learning tasks were revealed: 1. Adopt management systems adequate for the internal and external environment, and the firm’s development stage. 2. Create an internally consistent package of strategies, structures and systems. 3. Have systems which evolve with the business’s growth. 4. Professionalise in order to develop management systems. 5. Plan for succession.

**Phase 4: Learning to LET GO our Business**

*Learning Priority – Prescence*

Letting go is a paradoxical kind of leadership problem, because it has to do with planning what needs to happen when the incumbent CEO is no longer there. In addition, contrary to what the words themselves might suggest, letting go is not so much an event as a process of transition. As Figure 1 shows, before their maturity firms will show ‘ascending’ characteristics, and after it there is a risk that they will show descending characteristics. Ascending firms are dominated by entrepreneurialism, manifested in a ‘permissive’ control ethos, domination of form by function, and political power resting with marketing and sales.
The leader of a firm at this stage needs to facilitate convergent thinking, and mobilize the firm’s internal change agents. In descending firms, administrative features dominate, and may even encompass rules about trivia that people respect but no longer understand. A bureaucratic control ethos means that everything is forbidden unless expressly permitted, form dominates function, and political power rests with finance and accounting. The task of the leader is to facilitate divergent thinking, and to mobilize external agents of change.

Paradox: Leading to Leave

The succession process, though logical, is not easy. While new leaders can be catalysts for change, factors at the individual and the firm level can make changes, including succession, messy and difficult, and even abort the process altogether. CEOs have to manage to become willing outcasts. That is, they must welcome the presence of being displaced by their own anointed heir, who needs to be perceived as a capable and trustworthy performer even before moving into the top position. Making sure all this happens in a timely and orderly way is in large measure the task of the incumbent CEO. The paradox of this stage is that where learning the family business earlier involved learning, achieving, justifying one’s place as the anointed successor, this stage of learning involves the reverse. To add to the difficulty, most of our informants agree it needs to be done early – sometimes not much later than the time the CEO takes over the reins of power. It involves a mental dissociation from the firm often just when the firm typically needs the most direct and detailed involvement by those running it – typically as it reaches maturity.

Pathway(s): Multiple

The pathways through the paradox of leading to let go include the CEO adopting a future role in the business that, preferably, resembles an ‘ambassador’ or ‘governor’ relationship with the firm. In short the pathway is simply (1) Develop a defined timeline for retirement; (2) Create management development systems; and (3) Stick to the plan.
Learning to Live with Tension and Conflict: Some Pathways

The effect of task, process and relationship conflicts on family firm performance is evident in the transition phases discussed earlier. The three types of conflict are also interactive and are affected by some key firm characteristics: especially the levels of altruism, control concentration and generational involvement, where:

- **altruism** is the trait that links the welfare of an individual to the welfare of others. (Altruism is typically higher among family members is higher than in other organizational settings),
- **control concentration** is the level of power held by family firm members, with low levels suggesting many individuals are involved in the decision-making process, and higher levels that power is limited to a select few or to one individual, and
- **generational involvement** is the involvement of subsequent generations in the management of the family firm. For good family firm performance, members of the newest generation must be integrated into the family business and the transfer of knowledge and information from the previous generation must take place.

Table 3 summarises the relationships between these factors. When family business owner/managers are active social participants in their families, interacting with a wide range of family members beyond the work setting, conflicts arise or at least become more discernible. Family members who are not working in the business may resist complying with demands on their time and energy required to achieve family (group) consensus on organizational goals. This resistance may be misinterpreted by the owner/manager as substantive or task conflict (Davis and Harveston, 2001).
Table 3: Learning to Live with Tension and Conflict: Some Pathways

<table>
<thead>
<tr>
<th>Learning Phase</th>
<th>Pathway</th>
<th>Task conflict</th>
<th>Process conflict</th>
<th>Relationship conflict</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Business</strong></td>
<td>Inside vs outside</td>
<td>Outsourced</td>
<td>Outsourced</td>
<td>Establishes credibility</td>
</tr>
<tr>
<td><strong>Our business</strong></td>
<td>Continuing differently</td>
<td>Learn the values</td>
<td>Participation in strategic planning processes with clarification of vision and values</td>
<td>Develops respect</td>
</tr>
<tr>
<td><strong>Lead our business</strong></td>
<td>Informal formality</td>
<td>Develop strategies (family and business) Create structures (e.g. board of directors) Design systems (performance appraisal)</td>
<td>Communication AGM Family forums</td>
<td>Earns acceptance</td>
</tr>
<tr>
<td><strong>Let go our business</strong></td>
<td>Leading to leave</td>
<td>Plan and implement Evolutionary process Management development process</td>
<td>Builds trust</td>
<td></td>
</tr>
</tbody>
</table>

To maximise the positive outcomes of task and process conflict while minimising the negative of relationship conflict, the transfer of leadership, that is generational involvement, has to occur as a slow evolutionary and mutual role-adjustment process. Such an evolution brings about more widely dispersed control (lower levels of ownership concentration) through a broader participation in the decision-making process. This will tend to bring with it greater conflict and decisions will take longer because more people are involved. While higher levels of control concentration would diminish the occurrence of task and process conflict, they also lead to greater relationship conflict in family firms.
In successful multigenerational family firms the incumbent and newest generations communicate ideas, offer feedback, and encourage mutual learning, using task and process conflict to do this. Founders, however, may try to make themselves indispensable to the business in an effort to maintain decision-making authority over newer generation family members. Their reluctance to let go may discourage new generation family members from participating in decision making and taking over leadership roles. Process conflict may be even more vital for multigenerational family firm performance.

Members of the family social group who are outside of the business have been found to be able to influence substantive/task conflict via “kinship responsibility”. This allows these family members to cope with conflicts and resistance in family firm management, minimising their potential negative effects on family cohesion. In other words, family members who are not active in day-to-day management may serve as peacemakers. In addition, social interaction while not reducing conflict may provide a mechanism for coping with conflict in family firms (Davis and Harveston, 2001). Some suggestions for owner/managers seeking to reduce conflict are dependent on the generation the family firm has reached. For example:

• Managers of *third or later generation* family firms might increase the involvement of family members beyond the day-to-day operating group;

• Managers of *second generation* firms might keep the founder involved in some managerial or operating capacity as this appears to be an effective mechanism for suppressing conflict;

• For *first generation* businesses efforts to reduce conflict may be misplaced, as substantive conflict typically was found to be lowest among founder-led firms.

**Summary and Conclusion**

Many families are afraid to encourage participation because they fear that simmering conflicts may explode. That is, they are finding ways to cope with the tension (by avoiding
involvement in the business) because that is easier than the alternative. Hence, they avoid honest communication about the reality of their situation in the interest of maintaining the ‘myth’ of familial harmony. While maintaining harmony is important, conflict and change — including from the younger generation and family members who are not directly involved in the business — are crucial to the growth of individuals, family relationships and the company.

Many business families use a planning process to create structures and systems that address family conflicts or relationship problems, thus building the trust that is essential to breaking the cycle of conflict. They have learned that the most effective way to keep a family functioning is to work as a group. Families that have avoided conflict or have difficulty with confronting issues will find that the planning process is an opportunity to begin building the family trust that will serve them not only in immediate planning, but also in their ongoing family and business relationships. Involving the family may be a challenge for some family businesses, particularly those with a tradition of highly controlling leaders and rigid hierarchies. However, many senior family members recognize how important this process can be.

References


