

# Tools to Support Effective Communication, Conflict Prevention and Conflict Resolution in Family Businesses

**Eliška Valentová<sup>\*</sup>, Magdalena Zbránková**

Technical University of Liberec, Faculty of Economics, Department of Business Administration and Management, Liberec, Czech Republic  
email: <sup>\*</sup> eliska.valentova@tul.cz, magdalena.zbrankova@tul.cz

## **Abstract**

The article deals with the topic of open communication in the family business and focuses on the possibilities of conflict prevention. The article aims to define the factors influencing communication in family businesses and to identify their possible interdependence with selected characteristics of the business. The effect of complicated communication or conflicts could be not only negative, which could even result in the closure of the business, but also positive when constructive conflict can stimulate change and innovation. It is advisable to take measures to prevent conflicts and set up processes to resolve them. It is also advisable to clearly define the company's organisational structure, establish norms for dealing with work and family situations, and introduce governance tools. All of these measures promote open and effective communication and a sense of belonging among family business members. The paper presents the results of a survey of 98 family businesses. The findings suggest that family businesses perceive that effective and open communication is essential to their functioning. In most cases, family businesses attempt to separate business-related conflicts from family conflicts, which are related to personal family relationships and ties. Efforts to separate family and work-related conflicts increase as the number of employees increases.

## **Key Words**

*communication, family enterprise, conflicts, governance, family business*

**JEL Classification: M10, M13**

## **Introduction**

Family businesses are a very important part of any advanced economy (Memili et al., 2015). It is therefore desirable that they are resilient, able to adapt to changing conditions, and thus support the further development of society in all dimensions of sustainable development. It is a unique type of business in which family and business coexist. The intermingling of these two systems can be a source of conflict in the family and also in the business (Harvey and Evans, 1994; Kellermanns and Eddleston, 2004), with positive and negative effects (Alvarado-Alvarez et al., 2019). Any family problems spill over into the enterprise and vice versa. Family members who work at the same time in the business face role conflict (Memili et al., 2015). Their decision-making is driven by a combination of emotional relationships and economic interests (Daspit et al., 2021; Alvarado-Alvarez et al., 2019) and they have to pursue economic and family goals simultaneously (Kotlar and De Massis, 2013). On the other hand, the same goals, mutual trust, family culture, social respect and proper communication are some of the main advantages of the family business (Hanzelkova, 2004).

Inadequate or poor communication means not only the potential end of the family business but also the disruption of family relationships (Morris et al., 1996; Habbershon et al., 2003). Nothing is more stressful in a family business than the threat of conflict between family members and the futile effort to reach agreements. (Astrachan and McMillan, 2003; Kellermanns and Eddleston, 2004). The close link between family communication and the firm, and the inappropriate adjustment of the interpersonal communication and cultural foundations of the family business can result in complications associated with its performance. Additional communication problems may arise as the business grows, when extended family members, representatives of other generations, or non-family members who often do not share the same values and means of communication as the founding family, become involved (Sciascia et al., 2013; Nordqvist et al., 2014).

To resolve conflicts constructively, prevent conflicts and maintain trust and family harmony, family businesses should strive for effective open communication and transparency and develop processes for conflict management (Caputo et al., 2018; Suess, 2014). It is advisable to define a specific formal organizational structure (Harvey and Evans, 1994), define clear authority and responsibilities and set up communication processes. To promote cooperation and open communication, it is advisable to implement some governance tools such as family councils, family meetings, intergenerational meetings, or joint family activities (Alderson, 2015; Nordqvist et al., 2014). Family meetings are informal gatherings where family and business matters are discussed. It is usually attended by family members who work in the business (Alderson, 2015). It is an effective and simple way to encourage communication between family members and help busy families stay connected (Nordqvist et al., 2014).

A family council is a formal type of family meeting attended by all family members, regardless of whether they work directly for the company. Issues related to the management of the family and its relationship to the business are discussed. (Nordqvist et al., 2014; Suess, 2014) Meetings provide a space for open debate, expressing the needs, expectations and values of family members about the business and the family, and developing policies that protect the long-term interests of the family and the business. (Suess, 2014) They set visions and rules for the whole family and establish principles for the management of the business (Kets de Vries, 1993), thus linking senior management, the board and the family (Suess, 2014). It could be also the stimulus for the creation of a family constitution (Suess, 2014), which could address issues such as hiring and terminating the working process of family members, fair compensation policies for the family, disclosure procedures and policies for selling family members' shares. In addition to improving the level of communication in the family firm, it also helps to professionalize the governance of the firm, which also leads to a reduction in the risk of conflict (Alderson, 2015).

The family constitution is one of the most important corporate governance tools and an important tool in preventing or resolving conflicts. It is a written normative agreement that contains the basic principles and procedures according to which the family organizes its relationship with the enterprise (Suess, 2014). It sets the way to act in common as well as unexpected situations. The constitutions cover a range of topics such as hiring and firing family members, information transfer, procedures for valuing the business when it would be sold to other family members, what happens to an employed family member in the event of substance abuse problems, and rules for selling and buying shares. The

preparation of a constitution is a lengthy process that involves a large group of family members (Alderson, 2015).

Joint family activities are often used by family businesses where several generations are represented. It may be a trip, a weekend event, making a family tree, or a joint holiday where family members meet distant relatives. Family members who are not involved in the business can gain information about the business and a sense of belonging (Alderson, 2015). The above-mentioned governance tools are primarily intended to strengthen the family's relationship with the company (Suess, 2014).

Effective communication is further supported by clearly writing down all the rules, whether in the form of a family constitution, norms or standards. In some cases, professional counselling or mediation may be appropriate. A mediator is a facilitator who can resolve conflicts that arise with insight and without emotion, coming up with new ideas and positively directing the behaviour of family members. The mediator can also play a major role in court disputes, this function is more widely used abroad (Prince, 1990). Education of family business members should also be part of conflict prevention and promote open communication. Education should include both the development of communication skills and training in conflict management techniques, as well as education on the specifics of managing a family business (Nordqvist et al., 2014).

A well-chosen communication strategy is one of the key factors for the proper functioning of a family business. The study focuses on how the evaluated family businesses approach conflict prevention and whether they use tools for conflict elimination. It also investigates whether family businesses consider open and effective communication to be important for maintaining family and workplace satisfaction and whether they separate family and work conflicts. It also examines whether the size of the business or the industry in which the business operates affects the separation of family and work conflicts. The study also examines the use of tools to prevent and eliminate employment-related conflicts between family and non-family members.

The findings of this study may be beneficial to family businesses that are solving communication conflicts. Family businesses can gain inspiration and beneficial information to improve their communication strategies. The study can also serve as support for family businesses that are trying to separate family and work conflicts and are looking for tools to eliminate them. Furthermore, the findings of this study may be useful for academics and researchers working on family businesses and communication conflicts. The study provides new insights and contributes to the existing scholarly knowledge in this area.

## **1. Methods of Research**

The definition of possible factors influencing appropriate communication and efforts to eliminate conflicts is based on data from research carried out in 2020-2022 based on a call by the Ministry of Industry and Trade of the Czech Republic, which annually evaluates the quality of family businesses. The research sample was family businesses that volunteered based on the call, and the years examined were 2022 (23 respondents), 2021 (42 respondents) and 2020 (42 respondents). Representatives of family businesses responded to thirty questions, which were grouped according to themes in the

administrative, managerial and financial modules. The data assessed came from the management module and only questions related to communication and conflict in the family business were assessed. Respondents answered questions on a five-point Likert scale and supplemented their answers with verbal ratings, providing both quantitative and qualitative data.

Based on the data obtained about the respondents, verification of the selected hypotheses can be done. Specifically, a correlation was made between the level of the evaluation criterion and turnover, number of employees or main business sector. This statistical evaluation was carried out using regression analysis and analysis of variance. The IBM SPSS Statistics Base software was used to test the hypotheses. For the regression analysis, two numerical variables were used (number of employees and turnover). For the verbal variable (business sector) analysis of variance was chosen as the most appropriate method given the number of responses obtained. Homoskedasticity was verified by Levene's test of the agreement of variances and normality was verified by the Kolmogorov-Smirnov test. Due to the size of the sample, the significance level was set at 5%. Since the enterprises were self-reporting and were not selected by random sampling, the obtained results cannot be generalized.

## 2. Results of the Research

### 2.1 Reflection - findings from qualitative responses

**The first statement** that family business respondents commented on was: Conflicts within the family are strictly separated from conflicts within the business, and communication in conflict resolution is open and effective.

Respondents answered on a five-point Likert scale ranging from strongly disagree (1) to strongly agree (5). The average response was 4.25, indicating that in most family businesses, family and business life are strictly separated and family businesses realize that it is better not to transfer conflicts from business to family life. Family businesses consider open and effective communication as the foundation of business while maintaining the quality of family life. In most cases, they try to separate business problems and conflicts from personal life, although this is not always entirely possible.

Conflict prevention tools mentioned by respondents include:

- a) Involvement of a mediator or coach.
- b) Elaborated family constitution, guidelines, and standards.
- c) Overview. Trying to solve situations without unnecessary emotions.
- d) Determination of a family member with veto power. If a conflict arises, one specific person is determined to adjudicate the conflict with veto power. In most cases, it is the owner and founder of the family business.
- e) Family Council.
- f) Informal family meetings.

From the companies which admitted that work conflicts interfere with their personal life, most of them try to separate it and prefer to resolve the conflict immediately and not

waste time with it. Companies try to separate family and work life but often admit that it is not always 100% possible.

**Statement 2** related to tools that can help reduce conflict: The family business employs non-family members and the enterprise has tools to avoid favouritism towards family members.

The average response on a Likert scale from strongly disagree (1) to strongly agree (5) was 4.45, so it means, that most family businesses also employ non-family members and they have the necessary tools to help the business run more efficiently, prevent conflicts, and facilitate communication between family members and non-family employees.

These tools include for example:

- a) Family constitution.
- b) Clearly defining the qualifications, expectations and benefits of the position. In order not to favour family members, family businesses have clearly defined qualification requirements for a specific job that each applicant, including family members, must meet or they cannot perform the job. Respondents often stated that in the case of family members, higher requirements are set so that they have to do more to earn their position in the company. There is also a need to clearly define the incentive system and then follow it for all family and non-family employees.
- c) Perception of non-family members as family. To do this, respondents use, for example, sharing family stories and employing multiple generations.

According to the results of the survey, non-family employees in family businesses often hold lower positions than family members and have decision-making powers mostly at the operational level. Family members, who are expected to hold top management positions in the future, should progress through all levels of management and work their way up to a top management position. Although companies consistently stated, that they do not allow the promotion of a family member, because of potential conflicts, it is very often, because family members occupy senior positions in the company, which may bias this evaluation criterion. In most cases, non-family members are not employed in small companies, where the entire operation is handled solely by the family. In one case, the respondent indicated that due to negative experiences with the employment of family members, he no longer envisaged their involvement in the future.

## 2. 2 Determination of hypotheses

Based on linear regression analysis and analysis of variance, it was statistically examined whether the value of responses on a five-point Likert scale is related to the number of employees, the amount of turnover and the sector in which the family business operates. The primary sector was excluded from the research due to the low number of respondents.

The claim of separating family and corporate conflicts was examined using hypotheses:

H0: The larger the company (in terms of turnover and number of employees) is, the more conflicts related to business and family are separated. This hypothesis was examined using regression analysis.

H0: Whether a business can separate conflicts within the business from conflicts within the family, depends on the business sector in which it operates. This hypothesis was examined using an analysis of variance.

The assumption is, that the separation of family business from family life is more likely to be solved in smaller enterprises, where the percentage representation of the family is in most cases larger.

The claim of favouritism family members and setting tools so that favouritism does not occur and is not a stimulus for the conflicts were investigated based on the hypotheses:

H0: The larger the company (in terms of turnover and number of employees) is, the more tools are set up to prevent the favouritism of family members.

H0: Whether a company has tools in place to help prevent the favouritism of family members and thus conflicts within the company, depends on the sector in which the company operates.

### **2.3 Verification of Hypotheses**

At the 5% significance level, was with regression analysis verify only the first hypothesis. That is why it could be concluded, that the more employees a company employs, the more the business tries to separate conflicts within the company from conflicts within the family. All the other hypotheses of interdependence could not be verified at the 5% level of significance and it could be said, that the way the company deals with potential conflicts within the company and whether it has tools to prevent favouritism of family members, does not depend on the size of the company, the turnover or the sector in which the company operates.

## **3. Discussion**

Effective communication is a key factor for success in family businesses. According to Hubler (2018) in a family business, the future direction of the business cannot be precisely defined at the beginning, which highlights the importance of effective communication among family members. As the business grows and ages, conflicts within the family and the business tend to increase exponentially (Kets de Vries, 1993). Therefore, it becomes crucial for family businesses to separate conflicts within the family from conflicts within the business.

Research shows that most family businesses recognize the importance of separating work and family conflicts and make efforts to do so, especially as the number of employees increases. While complete separation of work and family life may not always be possible, family businesses use various conflict prevention tools to manage conflicts effectively. These tools include for example creating a family council, engaging mediators or coaches, developing a family constitution, establishing guidelines and standards, designating a family member with veto power to adjudicate conflicts and holding informal family meetings. Among these tools, the family council and family constitution are considered as the most important corporate governance tools for improving communication and reducing conflict (Alderson, 2015). The family council not only enhances communication

within the family business but also contributes to professionalizing the management of the business. Larger family businesses make more use of the family council and the family constitution. Furthermore, when family businesses employ non-family members, it is important to clearly define the necessary qualifications, expectations and benefits of each position. The study suggests that the way family businesses deal with potential conflicts and prevent nepotism does not depend on the size of the business, turnover, or sector. It is important to note that the results of the study may have limitations due to self-reporting and a small number of respondents. However, they still provide useful insights into the functioning of family businesses.

Future research could focus on exploring additional tools to improve communication and prevent conflicts in family businesses, taking into account the age and size of the businesses. Understanding how these tools evolve over time and with the growth of the business can contribute to the sustainability of family businesses.

## Conclusion

In conclusion, effective and open communication, along with the use of conflict prevention and resolution tools, are essential to maintaining the satisfaction, resilience, sustainability and competitiveness of the family business. Understanding how these tools work and implementing them into the management system concerning the specific characteristics of the enterprise is crucial for successful conflict management in the context of the family business.

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