CRISES AND THEIR IMPACT ON CONFLICTS IN FAMILY BUSINESSES

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The article deals with the impact that macro- and micro-scale crises have on the functioning of family businesses and in particular on family-business conflicts. The article presents a research-based theoretical model of the influence of crises on conflicts in Polish family businesses.

Keywords: family businesses, crises, conflicts

1. INTRODUCTION

Tough competition, fluctuations in consumer demand, aggressive expansion of domestic and international markets as well as a volatile environment (Campbell, Lefler, 2009; Fox, 2013; Heifetz, Grashow, Linsky, 2009) impose upon businesses the necessity to operate under the conditions of continuous uncertainty. Such circumstances are in a large part a ripple effect of a global crisis which originated in the USA in 2008 (Krugman 2010; Tijdens et.al., 2014; Tozzo, 2011), and which put the economy in the state of recession (BCG, 2009; Reeves, Deilmler, 2009). As a result, managers need to be prepared to face often sudden and unexpected organizational crises (Heifetz, Grashow, Linsky, 2009; Rabiee, Sarafrazi, Khanmohammadi, Jafarzadeh, 2013). Research (Gilpin, Murphy, 2010) shows, however, that despite a high level of awareness concerning the emergence of problems, over 40% of firms are not adequately prepared to tackle crises. It is this unpredictable, intensive and dramatic character of crises (Roux-Dufort, 2007) that has caused special-
ists in management sciences to have been interested in the issue for more than 30 years (Heath, 2010). The remaining part of the subjects – close to 60% - deal with crises in an effective way. There is no statistical data, though, regarding this issue, but the presented share corresponds with the number of family businesses. Crises are a significant phenomenon in the light of organizational research. They can emerge in all types of organizations irrespective of their size and kind of activity they are involved in (Miller, LeBreton-Miller, 2005). The aim of the article is to present a theoretical model of conflicts in family businesses which takes into account the influence of crises on their environment.

2. THE NOTION OF CRISIS

Source literature abounds with various considerations concerning the notion of crisis. Apart from a colloquial meaning of this word, not a single, generally accepted definition has been proposed. The notion changes its meaning in various business, organizational and cultural contexts (Heath 2010; Cockram, Van Den Heuvel, 2012). Researchers maintain that the said diversity of definitions is necessary to thoroughly understand the issue, as it specifies its character from many independent angles, thus showing a wide range of possible solutions in the area of crisis management (Alpaslan, Mittroff, Shrivastava, 2013). A dictionary defines crisis as a time of intense difficulty or danger (Oxford Dictionaries). According to the source, the word crisis originates from the Greek word krisis, which means a decision. Ironically, theorists observe that in today’s economy one of the main causes of crises is a widely understood indecision (Denis, Domipierre, Langley, Rouleau, 2011; Lalonde, Roux-Dufort, 2013). Cockram and Van Den Heuvel (2012) refer to crisis as a phenomenon in which the situation of an organization is far from everyday norm, causes instability, enforces the implementation of changes and may put the future of the business at risk. According to Czermiński (2011) crisis is a situation in which possibilities of further effective functioning of an entity have been exhausted. A similar, situational approach is presented by Carter and Schwabb (2008), who call crisis a situation in which further existence of the firm is endangered. Rabiee, Sarafazi et al. (2013) define the notion as a series of unfavourable events which may weaken the organization. Organizational crisis may also be viewed as a period of instability (Cockram, Van Den Heuvel, 2012) or an event which may cause the firm’s reputation to suffer, endanger its profitability, growth and further operation (Coombs, 2010b). Another interesting approach to crisis is to perceive it as a change which happens suddenly or evolves over a period of time bringing on nagging problems with a high level of uncertainty (Efficiency Unit 2009). Coombs (2010a) sees the analysed phenomenon in a purely perceptive way. According to the author, a crisis should be understood as a subjective perception of
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an event which compromises the fulfilment of stakeholders’ essential expectations and may worsen the organization’s performance. A different, though, as the authors see it, adequate definition, especially at the time of process management was presented in 1988 by Shrivastava, Mitroff, Miller and Miglani (Alpaslan, Mittroff, Shrivastava, 2013). They proposed resigning to perceive crisis as an event or series of events. Instead they suggested seeing it as a set of continuous processes which last and develop over time and space. Such an approach may enable managers to understand its causes, identify turning points and undertake preventative and reorganizational measures (Alpaslan, Mittroff, Shrivastava, 2013). A similar path is taken by Roux-Dufort (2007), who points to a problematic shortage of research into states between normality and crisis itself.

The analysis of the presented theoretical output allows to single out universal elements of the definition of crisis (Gorbaniuk, Samaradkiewicz, 2011). According to Cockram and Van Den Huevel (2012) they are as follows: instability, change, and dynamic threat. Crises are characterized by urgency, pressure, a high level of uncertainty, interdisciplinary character and comprehensiveness (Alpaslan, Mittroff, Shrivastava, 2013; Bartkowiak, 2011; Cockram, Van Den Heuvel, 2012). Threats connected with crises concern not only tangible resources but also may affect intangible aspects. Pasieczny (2012) points to numerous pathologies arising in an organization overcome by crisis in which favouritism, corruption and interpersonal conflicts destroy the fundamental values of a firm. An essential issue is the limited ability for information to flow and be processed by the distressed organization (Cockram, Van Den Heuvel, 2012). Research shows (Freshfields Bruckhaus Deringer LLP, 2013) that, although the internal communication of a firm is disturbed, information related to its problems is released publically very quickly. Over 25% of crises reach stakeholders within 24 hours after being diagnosed. This phenomenon may have a detrimental influence on the way the brand is perceived and in turn affect the performance and long-term reputation of a firm (Heath, 2010). A well-developed, good reputation may turn out to be an incredibly valuable resource during a crisis (Coombs, 2010a), which is the main building block of family business brands.

It is worth noticing that crisis is often perceived from the point of view of the organization itself. Kent (2010) underlines that it is an incomplete perspective and that, analysing critical situations, it is important to pay attention to all stakeholders connected with the firm as they are the main subjects affected by these situations (Coombs, 2010b). Crises should not be viewed as discreet events but as interpretations of these events by stakeholders and decisions resulting from them (Gilpin, Murphy, 2010). Understanding crisis from the point of view of all stakeholders (including corporations, governmental agencies, clients, employees etc.) (Alpaslan, Mittroff, Shrivastava, 2013), allows managers to limit the greatest physical, financial and psychological threats (Coombs 2010b; Heath, 2010). Crises are emotional events. Therefore, combating them requires managers to display a high level of
emotional intelligence as well as a high level of awareness related to the firm, stakeholders and environment (Alpaslan, Mittroff, Shrivastava, 2013; Jin, Pang, 2010).

Research done by the Efficiency Unit (Efficiency Unit 2009) proves that crises are of an ambivalent character. They may appear quickly. They may disappear quickly. They may also develop, last and end for a long time. In literature crises are treated as unpredictable events (Cockram, Van Den Heuvel, 2012; Freshfields Bruckhaus Deringer LLP, 2013; Roux-Dufort, 2007), but not necessarily unexpected (Coombs, 2010b). Herbane (2014) claims that a crisis may be recognized early by looking at its first symptoms. According to Urbanowska-Sojkin (2003), symptoms of crisis are signs of increasing problems in an organization. In respect of the complexity of subjective and objective references connected with the approaching destabilization, the precise identification of all signals appears to be a difficult or even an impossible task. The most widely quoted symptoms in literature include problems with financing current activity, negative changes within the structure, volume and dynamics of sales, worsening in the perception of the firm by stakeholders, internal conflicts, fluctuations in the market value of the company, unstable interest and currency exchange rates (BCG, 2009; Fox, 2013; Klepka, 2013; Roux-Dufort, 2009).

One of the causes of crises, augmenting their negative impact, may be the fact that essential information and signals are ignored (Krzakiewicz 2011). Researchers point to a wide involvement of external causes, claiming they take their rise from the crisis and economic recession in 2008 (BCG, 2009; Campbell, Lefler, 2009; Fox, 2013; Heifetz, Grashow, Linsky, 2009; Krugman, 2010; Deilmler, 2009; Tijdens et al., 2014). Carter and Schwabb (2008) underline that only a few firms go through crisis as a result of exclusive external factors. In fact, crises are often associated with ignorance and numerous managerial errors (Roux-Dufort, 2007), e.g. an outdated range of products, lack of investment in key competences, irrational exploitation of resources, inability to adjust organizational culture to social and political conditions (Alpaslan, Mittroff, Shrivastava, 2013; Carter, Schwabb, 2008; Cockram, Van Den Heuvel, 2012; Krzakiewicz, 2011; Rakowska, 2011; Stabryla, 2010; Urbanowska-Sojkin, 2003). Krzakiewicz (2011) sees the cause of crises in the wrong perception of reality by managers. The author notes that leaders, beset by the appetite for growth and top-notch results, try to find one, universal solution applicable to all functions in an organization, losing sight of the necessity to diversify decisions. Foote (2013), on the other hand, blames managers for fundamental mistakes made in communication. He maintains that due to insufficient skills in effective listening, speaking and understanding, they drive firms into serious trouble. It is important to underline that, regardless of the sources of crisis, it is always a challenge for the entire organization in respect to choosing the right way of survival (Powley, 2012).

Extensive source literature related to the issue of crisis is connected with the fact that firms have and always will experience crises (Alas, Gao, 2010). Powley (2012) maintains that they are inseparably connected with the life cycle of an or-
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Many approaches to the theory of life cycle have been proposed (Cameron, Quinn, 1983; Greiner, 1972; Hanks, Watson, Jansen, Chandler, 1993; Hoy, 2006; Lippitt, Schmidt, 1967), most of which recognize decline as a natural stage in the life of an organization (Alas, Gao, 2010; Almeida, Ferreira, Serra, 2012).

Theorists note, however, that the phase of decline and the crises it entails do not have to lead to the end in operating a business (Czermiński, 2011). Greiner (1972) goes further and proposes a famous theory of developing businesses through crisis. The author states that crises are an inherent element in the growth of an organization and only overcoming further obstacles paves the way for achieving a higher phase of development. Such an approach allows to perceive crisis as a valuable experience and a motivator for change in the future (Coombs, 2007; Gopinath, 2005; Herbane, 2014; Roux-Dufort, 2007; Seeger, Sellnow, Ulmer, 2010; Simmons, 2009; Wińczeck-Janka, 2013; Żukowska, 2009). Obviously, failure is never welcome. Theorists, however, claim that it sometimes yields surprisingly positive effects (Edmondson, 2011; Sutton, 2009). Despite difficulty in attaining such effects (Bear, Todorova, Weingart, 2014), facing extreme circumstances may be utilized as an element of an organizational lesson. The in-depth analysis of causes and development of the situation, verification of the undertaken activity and identification of alternative solutions made it possible for an organization to be better prepared for operating in an uneasy environment (Mitroff, Pearson, 1998; Simmons, 2009).

Coombs (2010b) summarizes that, irrespective of approach, a negative or positive outcome of crisis is not a characteristic on its own. It is to be assumed that crises generally pose serious threats and their result depends on how effectively they are dealt with in the process of crisis management. Managers bear the responsibility for managing this process. Leaders, despite insufficient information, pressure and limited resources, must be able to react quickly and confidently (Alpaslan, Mitroff, Shrivastava, 2013; Foote, 2013) in order to prevent the damage from spreading (Roux-Dufort, 2007). Heifetz, Grashow and Linsky (2009) observe that one of the greatest threats connected with crisis is the fact that along with diminishing the sense of urgency and real danger, managers feel a less compelling need for implementing changes. As a result, after the stage of apparent adaptation and stability in a new environment, a firm sees processes leading to bringing back habits which were the departure point for crisis. Managers should not treat crisis as an alibi which justifies the bad performance of the firm (Roux-Dufort, 2007), but as a catalyst for change which may restore the desired equilibrium.

Running an organization in the situation of constant danger is a difficult task. Thus, one of the most valuable managerial competences today is the ability to manage crises effectively instead of avoiding them (Li, Matouschek, 2013).
3. CRISIS AS THE CONTEXT FOR CONFLICT IN A FAMILY BUSINESS

The analysis of literature related to crises, which are an inseparable characteristic of businesses functioning on the market, as well as 42 interviews carried out with owners of micro- and small-sized family businesses led to developing a model specifying a mutual relationship of crises and conflicts in family businesses (cf. Fig. 1). Individual interviews were conducted between 2012 and 2013. The aim of the research was to identify variables responsible for disputes and conflicts in family businesses. The essential point of the model is to relate crises understood as activities in which it is necessary to take decisions under the pressure of time with conflicts which are tied with the emergence of conflicting interests or aims which, as a result, make it impossible for one of the parties to achieve them. Both crises and conflicts decrease the effective operation of a business. The family character causes the accumulation of potentially negative outcomes of conflicts.

The basis of the model is the placement of a family business in an external environment which has been divided into the one connected with a family business and the one remaining outside a family business. The directly interactive external environment specifies relations initiated and accepted by a family business. They include cooperators, competitors, legal and financial institutions. The indirectly interactive external environment is the environment in which a firm exists without having a direct influence on the way it is shaped. This may include global and local policy, technological development and business trends.
The key element of emerging crises and conflicts is the internal environment, which includes family-business culture, power, ownership, family influence and a phase of the life cycle. Micro- and small-sized businesses, which are mainly family- or potentially family-owned businesses, are especially susceptible to global crises, which relate to the external environment not directly tied with a business, e.g. global financial and economic policy. The years 2008-2015 show a strong impact exerted on domestic and local markets by crises in the USA and the EU. A strong impact is also exerted by crises connected with natural calamities, such as floods, droughts, hurricanes, etc. Many family business initiatives failed and the economic situation worsened in many regions in Poland as a result of natural disasters.

The model presents the influence of developed functioning mechanisms on crises connected with both the life cycle and external environment. The lack of harmony in the internal environment may bring about a crisis which destabilizes its components and which in effect leads to a source of conflict. The analysed conflicts may make it possible to develop new regulating mechanisms which lead to stability. The process of stability-crisis-destabilization-conflict-solution-stability is repeated cyclically at the time of changes in the external and internal environment of a family business. If a change is to be acknowledged as necessary for the development of a business, then a crisis should be regarded as its component. Firms, which take into consideration the possibility of a crisis, are forced to change and undertake new challenges and tasks. It happens, however, that firms, instead of looking for non-routine solutions, are affected by critical situations in a way that causes them to adopt a conservative, critical and denying attitude as well as yield to resignation or frustration. Therefore, crises should be viewed as a challenge for teams and individuals which may draw upon their own knowledge resources and skills in order to improve their value and the value of the firm.

Each business goes through a crisis related to the economic situation, a surplus and low demand. In each generation, the life cycle of a family business faces a crisis related to adjusting the management style to the personality of the owner and other family members and employees. The choice of a management style by the successor is always tied with the risk of confrontation and conflict, like it happens in the case of shaping autonomy in taking and verifying decisions in market conditions.

Crises in a family are connected with its life cycle and achievement of set aims. The most frequently quoted crisis in source literature and by researchers (Więcek-Janka, 2013) is the engagement crisis. It concerns businesses operating in the first generation and is connected with the necessity to divide time and energy between the business and family spheres. The choice between “affording time to children and providing for them” is viewed as the most difficult one. According to the authors, many family businesses (3-8 years in business) end their operation at this stage, as this is when family roles come into conflict with business roles.

Besides, it is essential to point out the role which the owners play in the treatment of their children employed in a firm. Too high requirements and harsh as-
assessment may dissuade a potential successor from working in a family business. Likewise, too much indulgence may bring about similar consequences. It is important for the attitude towards children to be well-balanced so that they will care about taking over the business and will be encouraged to expand their knowledge and improve their skills necessary for running the firm. Educating children and their growth is the aim the family wants to achieve. However, it is often the case that children leave their family home, which causes parents to be uncertain as far as the future of the family and business is concerned. The empty nest crisis disheartens the owners, causing doubts as for the validity of running the business. Overcoming these crises leads to the acceptance of the succession process, its planning and ensuring the future for the current owners.

Individual crises are connected with requirements imposed on individuals by the family as well as with their home atmosphere in which such a process happens. Setting aims and educating children in harmony with the development of the firm and family enables to minimize the identity crisis which children experience, wondering who they are and what is expected of them. The family is the basis of reference for values and norms which, if inscribed in the existing context, minimize the result of isolation crisis which affects a young individual and which is tied with choosing the right life path, building a relationship with a partner and planning a career.

<table>
<thead>
<tr>
<th>Readiness to accept a new vision of a successor</th>
<th>Lack of readiness to accept a new vision of successor</th>
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<tr>
<td><strong>Readiness to take over the company by the successor</strong></td>
<td><strong>No conflict. Succession plan carried out through a proper selection and preparation to the new role. Company has a secured continuity.</strong></td>
</tr>
<tr>
<td><strong>Lack of readiness to take over the company by the successor</strong></td>
<td><strong>Interpersonal conflict occurs resulting from successor’s reluctance to submit its individual goals to company goals, resulting in long-term implementation or leaving the company.</strong></td>
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Fig. 2. Matrix of conflicts resulting from the succession process (Więcek-Janka, 2013)

It often happens that a properly operating business sphere is subject to increased control and bureaucracy, which significantly limits creativity and a free generation and flow of ideas, pushing them into a constrained set of procedures. This is when
the crisis of authority takes place and the succession process has to be implemented. The succession crisis pertains to two aspects of readiness: of a successor for taking over a firm and of accepting by current owners of a new vision for running the business. The combination of these variables gives four possibilities of conflict emergence.

The authors conclude that the succession process and its unavoidability is in the first place an event which may potentially cause a conflict to arise, and in the second place an event which leads to numerous personal and economic crises.

Understanding the dynamics of macro- and micro-scale crises and conflicts poses a challenge for not only scientists and researchers who want to learn about behavioural patterns and their motives but also for practitioners who try to identify the best solutions for family businesses.

4. CONCLUSIONS

The article is based on a thorough literature search into the problem of macro- and micro-scale crisis. It features the ways in which crises can be overcome by family businesses. The article presents a model which covers the impact of crises on conflicts in family businesses. The model takes into account identified variables in research conducted between 2011-2013. The research was carried out in 42 family business by means of a paper and pencil interview. The developed model should be viewed as theoretical and subject to verification by future research.

LITERATURE

KRYZYSY I ICH WPŁYW NA KONFLIKTY W PRZEDSIĘBIORSTWACH RODZINNYCH

Streszczenie

W artykule przedstawiono problematykę wpływu kryzysów w makro i mikro skali na funkcjonowanie przedsiębiorstw rodzinnych, a szczególnie na konflikty rodzinno-biznesowe. Zaprezentowano opracowany na postawie przeprowadzonych wcześniej badań teoretyczny model wpływu kryzysów na konflikty w polskich przedsiębiorstwach rodzinnym.

Słowa kluczowe: przedsiębiorstwa rodzinne, kryzysy, konflikty