

# EXPLORING THE RELATIONSHIP BETWEEN GOVERNANCE, POWER OF CONTROL AND ORGANIZATIONAL CONFLICT: A SURVEY ON SMALL AND MEDIUM ITALIAN FAMILY FIRMS

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## 1. Introduction and Aim

Conflict seems to be a phenomenon that is physiologically linked to Family Firms (FFs) (Sharma, 2004). Prior research has interpreted conflict as one of the main reasons weakening these organizations (Beckhard & Dyer, 1983; Dyer, 1986; Gersick et al., 1997). Under this respect, FFs are considered as fertile ground for misunderstanding and conflict among shareholders since divergent groups pursue competing goals (Sciascia & Mazzola, 2008).

Much theoretical and empirical research, especially since the end of the 1960s, has revealed a strong discontinuity with respect to the basic assumptions of this view (e.g. Harvey & Evans, 1994; Sharma et al., 1997). The recent literature, in particular, tends to identify factors in the nature, type and level of conflict that can have a positive impact on performance at a group and/or organizational level (e.g. Cosier & Harvey, 1998; Kellermanns & Eddleston, 2002; Litz & Kleysen, 2001). Consistently with this perspective, in developing this paper, we assume that the conflict is not necessarily negative for the organisations (in general, and for family companies in particular) and that certain types of conflict can contribute to increase the level of creativity and innovation in the processes of sense-making (Weick, 1999), decision-making and knowing (Astrachan & McMillan, 2003).

The aim of this paper is to develop and test a theoretical model concerning the relations among some variables of organisational design and the type and nature of the conflict in FFs. The theoretical model is developed through a variety of hypotheses which were tested by means of a survey on 175 firms registered at Italian Association of Family Businesses (“Associazione Italiana delle Aziende Familiari” or “AIdAF” for short).

Organizational conflict is analysed as a dependent variable with respect to: decisional power concentration (measured in terms of founder centrality), formal governance mechanisms (i.e. strategic planning and management control systems) and generational involvement. The study examines how these three features of the organizational design ultimately affect the functioning of a FF, in terms of expected effect on task, process and relationship conflict.

The paper is organized in the following way: in Section 2, we explain the conceptual background, focusing on the unique content of FF conflicts (par. 2.1) and introducing some common types of conflict characterizing FF domain (par 2.2). In Section 3, we have developed our model, illustrating the hypotheses. In Section 4, the research methodology is described. In Section 5, the empirical results are provided and discussed, while the contribution to the literature and the main limits are explained in Section 6.

## **2. Conceptual Background**

### *2.1 The Unique Content of Family Firm Conflicts*

The concept of FF as a distinct area of study is typically linked to recognition of the overlap between business dynamics and family relations (Zellweger, 2010; Moores, 2009). From this point of view, the subject of the relationships between interpersonal conflicts and the functioning of the firm is not only an extremely interesting question for FFs, but also one of the elements that define their uniqueness (Ibrahim & McGuire, 2011).

The subject of organisational conflict in the FFs has traditionally been discussed in relation to the processes of succession and survival of the company (Ward, 2011). Scholars suggest that only a small percentage of FFs survive the transition to the second generation and many intergenerational transitions fail soon after the second generation takes control (De Massis et al., 2008). Frequent justification of this phenomenon includes lack of planning for the next generation (Kellermanns & Eddleston, 2004), disappointment of the incoming generation's expectation (Handler, 1989; Ward, 1997), and failure to effectively prevent and manage conflict (Beckhard & Dyer, 1983).

A review of the literature shows that conflict seems to be an outstanding feature of FFs (Levinson, 1971). As argued by Sorenson (1999), the inclusion of family in a business makes conflict unique at least in three ways.

In the first place, family adds complexity to organizational conflict. Several studies have attempted to capture the overlap between family and business and the resulting conflicts (Zellweger & Nason, 2008): in fact, family tasks and values are often placed in opposition to those of the busi-

ness (Whiteside, & Brown, 1991). There is a tendency to consider the family as a system that impedes the functioning of the business (Olson et al. 2003; Benson et al., 1990). Danes et al. (1999) suggest that the interdependence of family and business goals can compromise the business as well as strengthen it: FFs can get lost in unhelpful levels of tension between family and business goals.

To maintain relationships in the family, FFs must accommodate issues important to the immediate family and, in some cases, to extended kin. This is especially true when family members are involved in some way in the business as owners, managers, employees or even non participating stockholders. As Dunn (1995) highlights, family-related issues may take precedence over business concerns. For example, a family in business must handle matters such as impartial treatment of family members, equality in rewards, Samaritan dilemma (Buchanan, 1975), work-family conflict, jealousy, sibling rivalry (e.g. primogeniture), and/or succession planning (Habbershon et. al., 2003; Cesaroni & Sentuti, 2010).

More accurately, the unique content and goals of FF conflicts could be interpreted through five lenses: justice conflict (problems of compensation and quality of treatment along with allocation of resources), role conflict (confusion and disorientation among roles when family members work together or around the inside/outside phenomenon when the family business employs others who are not part of the family), work/family conflict, identity conflict (gender conflicts, sibling rivalry, and parent/child interrelationships) and succession conflict (Danes et al., 1999).

In the second place, family rules for resolving conflict set the tone for conflict management norms in the business and this can foster confusion and contention within the firm. Families have distinctive rules of interpersonal interaction.

The family system tends to legitimate a set of rules which are concerned with: the transition of power, the identification of family members as future business leaders, the choice of the members of the Board of Directors, the rules of procedural and distributive justice (equity, equality, or need based?), the decisions related to payment of dividends, the assignment of responsibilities and tasks, the management of selection, training, rewarding and/or career policies. These rules often are explicit as well as implicit (e.g. family values) and often (consciously or unconsciously) guide the behaviour of participants in the business. Therefore, family norms affect pervasively the process of decision-making and the source (and the management) of conflict (Kets de Vries, 1993).

Finally, in FFs power reflects the family influence on ownership, governance and management of the firm (see Klein et al., 2005). As Astrachan et al. (2002) suggest, the level of influence via ownership, management and governance is interchangeable as well as additive. It is typically mani-

fested in the proportion of family ownership and the proportion of family representatives in the firm's governing board (Holt et al, 2010). However, although the family would exercise this power in clearly visible ways, the family system can exert its power in more subtle ways. In many FFs, for instance, family members can access the key information and have decisional power regardless of the formal hierarchical/ governance structure. Because of their family connections and access to insider information, even family members without high formal positions can wield informal power in the business (Sorenson, 1999). Moreover, unlike organizations in which the CEO has final decision authority, in FFs, family members outside the actual business management can exert influence on high-level business decisions.

## *2.2 Types of Organizational Conflict*

Interpersonal conflict can be interpreted as the dynamic process that occurs between individuals and/or groups who are in interdependent relationships, and it is characterized by disagreement, interference and negative emotion (Hartwick & Barki, 2002). The studies focused on the link between conflict dynamics and organizational effectiveness have produced innovative developments as regards the relationship between types of conflict and organisational performance. This approach is based on a set of three formulations of conflicts in work groups (e.g. Jehn, 1995, 1997; Jehn & Mannix, 2001), that have led to the conceptualisation of three types of interpersonal conflict: relationship conflict, task conflict and process conflict.

Consistently with the framework of the model being developed, it seems appropriate to enrich the taxonomic analysis of the conflict by referring specifically both to the origins of the different conflictual types (relationship conflict, task conflict and process conflict) in FF context and to the respective effects on company performance.

Task conflict represents an awareness of differences in viewpoints and opinions pertaining to the group's task. It pertains to conflict about ideas and differences of opinion about the task, similar to cognitive conflict (Amason & Sapienza, 1997). Under this respect, task conflict has been found to increase group performance in cognitively complex tasks as it allows groups to benefit from different opinions and avoid group thinking (Janis, 1982).

Process conflict is defined as an awareness of controversies about aspects of how task accomplishment will proceed (Jehn, 1995). More specifically, process conflict pertains to issues of duty and resource delegation such as who should do what or how much should one get. For example, when group members disagree about whose responsibility it is to complete a specific duty, they are experiencing process conflict.

Cosier and Harvey (1998) have proposed that process and task conflicts can be beneficial because they promote creativity and innovation. Under

this respect, these types of conflict can contribute to: (1) improving the skills of decision-makers in identifying, discussing and understanding the information and key problems of the company and changes in the context; (2) increasing the level of creativity and innovation in the processes of sense-making, decision-making and knowing; (3) developing cognitive maps and opinions shared by the group and/or the company (Jehn, 1997).

The literature has often highlighted the risks of FFs in limiting the participation of non-family employees in defining strategies and goals and in the methods of achieving them; limiting this participation corresponds to moderating, respectively, the intensity of the task and process conflict (at least in the family versus non-family relationship).

According to the mainstream approach, FFs tend to have a low propensity for participation since the owner perceives the process of delegating as a loss of control over the business, which is seen as an extension of the family, as if it were a zero-sum game and the owner must give up a part of it to grant it to someone else.

Even when the company grows and delegating becomes inevitable, the owner maintains a sort of right of control that invalidates the entire original delegation process. In organisational terms, the owner's difficulty in separating himself from his business results in both high centralisation and low use of those external and internal resources that are not connected to the family. In strategic terms, this phenomenon places obstacles to evolution that block the development of the business and its ability to innovate. The assumption is that a family culture can inhibit processes of organisational and decision-making decentralisation, block processes of delegating responsibility and limit information flows.

Based on the above, it is argued that task and process conflict are necessary, especially in FFs, to renew it and improve its efficiency and for the ability of this form of conflict to stimulate a more effective management of the knowledge cycle and a greater orientation to innovation and change.

It should be highlighted that according some contributions (such as Hartwick & Barki, 2002), the two forms of conflict (task and process) were grouped in a single macro-category (cognitive conflict). Nevertheless, the fact that many empirical researchers emphasize the possibility of different sources in the development of the two forms of conflict (Jehn, & Mannix, 2001), led us to consider them separately when generating hypotheses for the model.

Relationship conflict is an awareness of interpersonal incompatibilities, which includes affective components such as feeling tension and friction (De Dreu, 2006). It involves personal issues such as dislike among group members and feelings like annoyance, frustration, irritation, and dislike (Jehn, 1997). Cross-sectional studies have revealed that relationship conflict is detrimental to individual and group performance, reducing the like-

likelihood that members of a group will work together in the future (Shah & Jehn, 1993). A review of the literature shows that relationship conflict can divert attention away from business objectives and can hurt the firm's productivity. In coherence with this interpretation, we assume that the dysfunctional nature of relationship conflict can have a highly negative effect on the organisational performance of FFs (Simon & Peterson, 2000).

Each of these types of conflict can occur in varying degrees of frequency and intensity. However, research has shown that the frequency and intensity of conflict are strongly related; that is, highly intense conflict is associated with more frequent conflict (De Dreu & Van Vianen, 2004).

The framework of the paper suggests that conflict per se is not necessarily bad for FFs and that task and process conflict can have a positive performance effect. In fact, task and process conflict can ensure that key information and environmental changes are discussed and understood by the decision makers.

### 3. Hypotheses Development

Our thesis is that different types and levels of governance control structures, power concentration and generational involvement (Canonico et al. 2011; Minichilli et al, 2010; Ling et al., 2002; Schulze et al., 2003b; Schulze et al., 2001; Schulze et al., 2002) influence the likelihood of the occurrence of relationship, task and process conflict.

The objective of this section is to explain a causal relationship between these variables and the typologies of conflict in FFs; for this purpose, the theoretical propositions formulated will be articulated into specific hypotheses that allow the theory to be translated into empirically-controllable terms.

#### 3.1 Formal Mechanisms for Governance and Control

Many theorists consider governance, planning and formal control systems a tool to align interests of the management with the ones of the shareholders. It is a way to avoid opportunistic behaviors of agents (Jensen & Meckling, 1976; Fama, 1980). In other words, the introduction of governance and control methods, such as those defined by Thompson (1967) as "organisational positions with a high level of discretionary capacity", appears to be an essential element, among other things, in avoiding the emergence of potentially destructive conflicts between ownership and management.

Enterprises formal systems to control agency costs are less necessary when few people own the property and there is an overlapping between management and shareholding. In this sense, according to the mainstream

literature (e.g. Fama & Jensen, 1983), FFs would represent an interesting context to minimise agency problems, especially because of the involvement of the family in the shareholders, management and governance.

However, some peculiar features of FFs and especially the presence of asymmetric altruism, help to increase agency costs, through actions of free-riding and entrenchment. In the opinion of Lubatkin et. al. (2005), altruistic bond between parent and child is generally stronger and more enduring than that between unrelated individuals: this compulsion can lead to agency problems, because it can cause parents to threaten their children with moral hazard. Parents are thus faced with a "Samaritan's dilemma" (Buchanan, 1975) in which their actions give beneficiaries incentive to take actions or make decisions that may ultimately harm their own welfare. The Samaritan's dilemma is representative of class of agency problems associated with the exercise (or lack) of self-control by the principal. Implicit in Buchanan's theorem is the notion that altruism can bias a parent's perceptions of their children, which, in turn, hampers their ability to monitor and discipline them. Family managers can behave in order to maximize their profit taking business critical resources away from firm development. Additionally there is typically an excessive decisional centralization in the hands of few people and the processes of selection and appraisal of family managers are often based on emotional considerations more than on the results achieved. As a consequence, there could be conflicts between relatives involved in the management and the ones who are only involved in the shareholding (Daily & Dollinger, 1992). These conflicts can at least ruin the peculiar features of FFs success, such as mutual altruism, collaboration and information exchange. Moreover, because of the lack of financial resources and of the reluctance to let external members join the shareholding, these firms fail to attract and retain successful external human resources (Gomez-Mejia et al., 2001; Morck & Yeung, 2003). In this perspective, asymmetric altruism, related to agency problems within the household, can lessen the occurrence of relationship conflict.

As far as these arguments are concerned, recent studies (Schulze et al., 2001; Schulze et al., 2003) suggest that is useful to use mechanisms to reduce control agency costs in FFs (e.g. such as boards of directors, strategic planning and management control system) and to increase the company performance (Taguiri & Davis, 1982). This is valid considering the assumption that value creation derives from the solution of conflicts created by informative asymmetries.

FFs use less formal mechanisms systems to evaluate and control (strategic planning or management control) than other firms. Schulze et al.'s analysis (2003) suggests that the introduction in the organizational structure of such mechanisms can bring to an important reduction of agency costs and, as a consequence, a reduction of relationship conflict. From the carried out

considerations it is possible to make the first hypothesis of the model clear:

**Hypothesis 1:** In FFs there is a negative relation between the use of formal governance mechanisms and the relationship conflict.

### 3.2 Power Concentration

The concept of power is extremely broad and has been used with different meanings, even in just the study of organisations. Consistently with Emerson's (1962) power-dependence theory, power is defined as an individual's relative capacity to modify others' states by providing or withholding resources or administering punishments (Keltner et al., 2003). In this approach, power is expressed through the relation between two figures, and is manifested when the relationship implies a dependence that must, at least to a certain extent, be reciprocal (Thompson, 1967; Emerson, 1962). If one subject depends upon another, this dependency is transformed into the possibility for the latter to control the former. Interpreting power in terms of the capacity to control therefore means identifying it in the capacity to regulate processes (Masino, 2005; Pezzillo Iacono et al., 2012). In other words, this prospective looks at the concept of power in relational terms, as the capacity to influence actions and decision making processes, since regulation is effectively interpreted as the act of limiting the capacity to decide and defining the level of organisational centrality/empowerment.

The centralisation of an organisational form is determined by observing the distribution of power within it (Canonico et al., 2009). So, to assess the degree of centralisation or decentralisation, one must discover where the decisions that have a significant influence on the firm's characteristic activities are made. In our model, we refer to a specific parameter that indicates the degree of the distribution of power: the founder centrality. This variable is interpreted in a broad sense, including both the founder of the FF in the strict sense and its leaders, managers and owners.

Founder centrality - the structural position of the founder in the FF's top management group network - defines the extent to which the founder is central in the communications and decisions of the group (Kelly et al., 2008; Hoanga & Gimeno, 2010). Kelly et al. (2000) suggest that a FF can be characterized as authoritarian, centralized, lacking in trust and delegation, lacking in planning, impulsive, and highly dependent on power that is a function of centrality or closeness to the founder. This concept encompasses either the structural potential and power use. For example, the founder centrality exists when members of the family business's top management group network always seek advice or approval from the founder before making decisions of strategic importance.

We assume that the level of founder centrality directly influences task and process conflict in FFs. Controlling founders often establish norms, attitudes, and values (Yang, 2010; Jiraporn & Dadalt, 2009; Kets de Vries, 1993) that are rarely openly questioned during their reign (Beckhard & Dyer, Jr., 1983). Essentially, this refers to the founder's tendency to decentralise or centralise decisions regarding the work of their agents, or the founder's/owner's capacity to regulate and exercise control and limit the space for discretion and "freedom" granted to operators when setting goals, contents, timing and methods of performing or assigning activities.

In the opinion of Kellermanns and Eddleston (2004): "*Not only do family members refrain from challenging the belief structure of the controlling individuals with new insights but the controlling individuals are often reluctant to seek out advice and assistance from other family members*" (p. 217). For example, when the dominant individuals are perceived to have high punitive capabilities within the organization and the family, the level of information exchanged is considerably low. In fact, FFs with high control concentration tend to have a less participative atmosphere (Ronstadt, 1984). Therefore if the founder still controls the decision-making process, the level of task and process conflict may not be sufficient to ensure the discussion of future strategies and the responsibilities of the newest generational family members (Masciarelli & Prencipe, 2010). When control is widely dispersed, a broader participation in the decision-making process tends to occur (Ruekert & Walker, 1987). The participation of more family members leads to greater diversity of perspectives, which should therefore have a positive impact on the occurrence of task and process conflict (Amason & Schweiger, 1994). This argument suggests the following hypothesis:

**Hypothesis 2(a):** In FFs, there is a negative relationship between founder centrality and task conflict; so, high levels of founder centrality are associated with low levels of task conflict.

**Hypothesis 2(b):** In FFs, there is a negative relationship between founder centrality and process conflict; so, high levels of founder centrality are associated with low levels of process conflict.

Harvey e Evans (1994) noted that, especially in the dynamics of FFs, a high level of centralisation in the management of information and in the structure of the decision-making process implies: (1) a significant sense of frustration on the part of players who have no influence; (2) a tendency to develop a strong desire for control and authority; (3) an element that stimulates affective conflicts. From this perspective, one can assume the existence of a positive relationship between the level of concentration of power and the sense of alienation and dissatisfaction, especially of younger fam-

ily members and non-family employees (Menon & Bharadwaj, 1996).

As Johnson and Ford (2000) pointed out, individuals lacking control over organizational processes perceive negative emotions (such as anger, irritation, envy) especially if decisions are regarded as unjust, detrimental or unjustifiable (Kellermanns & Eddleston, 2004).

For these reasons, one can reasonably state that a high concentration of power increases the probability of relationship conflict (Menon & Bharadwaj, 1996). Accordingly, we propose:

**Hypothesis 2(c):** In FFs, a higher level of power concentration (expressed in the form of founder centrality) is associated with higher levels of relationship conflict.

### 3.3 *Generational Involvement*

Many studies about family business have proved that the arrival of every new generation and the fragmentation of ownership can change dynamics intra-relatives (Songini & Gnan, 2010; Gersick et al., 1997; Harvey & Evans, 1994; Schulze et al. 2003b; Sharma et al. 1997), as a consequence the relation between family and business become more difficult (Dyer, 1986).

Most of organizational literature agrees that the overlapping between family, management and ownership increases conflicts; it is logical to believe that the involvement between generations broaden the effects of such overlapping (Lansberg, 1983). Thompson (1967) has already highlighted how the potential for conflict within the dominant coalition increases together with the inter-dependency of its members and the areas that they represent and control. In this sense, the presence of several members of the family and/or the entry of new generations within the management of a family firm can result in the risk of disaggregation, imbalance and may even threaten the survival of the company itself.

As a matter of fact, Harvey and Evans (1994) explain how conflict intensity and frequency increase as the overlapping between family actors and organisational actors increase.

Family involvement can be measured by the participation of family members of the family to the strategic processes, as well as by the number of generations that work into the firm. Both criteria will be used in the model shown further on.

In particular, the degree of family involvement is measured through two dimensions: generational dispersion and the characteristics of the succession in leadership.

Generational dispersion. The supposition underlying the legitimisation of this dimension as a source of potential relational conflict is that there

is a direct relationship between conflictuality, the number of generations that have followed each other in the company and the number of members of the family employed in the business. The hypothesis at the base of this supposition, supported by much theoretical and empirical research (such as Gersick et al., 1997; Schulze et al., 2003b; Sharma et al., 1997) is that, with the progressive entry of new generations into a company and the consequent dispersion of ownership, the dynamics between the members of the family are modified, becoming ore complex (Dyer, 1986).

When ownership is dispersed among members of the family (due, for example, by processes of generational transition), it is probable that there will be differentiation among the family members that are involved in managing the business and those that are not. This gives rise to a classic agency problem: the values, objectives and visions of the two categories of owners can be misaligned or conflictual.

Although this alignment can be corrected using specific governance tools (for example, family councils) one could argue that a FF with dispersed ownership suffers from a greater risk of conflictuality and the consequent decision-making impasses of FFs with concentrated ownership. Schulze et al. (2003) empirically demonstrated that dispersed ownership has an impact on important strategic factors.

In general, in the case of the co-presence of several heirs, one can find the so-called “generational drift” phenomenon, which implies a cooling of intra-family relationships and a weakening of affective bonds beyond the identification with the FF. In these cases, there is an increase in the expenses of succession linked to the potential buy-out of dissenting shareholders and the tensions will be greater the greater the share of family assets invested in the business.

The riskiness of the phenomenon is linked not so much to the distribution of surpluses between a high number of subjects with a right, as to the presence in the company’s capital of increasingly less relevant shares of ownership belonging to subjects that could have completely diverging interests and, thus, in potential conflict and for which control mechanisms become necessary. For example, family shareholders who are not involved in entrepreneurial or managerial activities (and who, as a consequence, receive no compensation) typical express an expectation of periodic financial remunerations of the capital, while shareholders involved in economic governance activities tend to favour a limited dividend distribution policy to allow self-financing. Diverging interests between shareholders, which are potential sources of relational conflict, are also found when a minority shareholder holds a share that is substantial component of his own personal assets. He thus finds himself involved in a risky activity that is beyond his personal control.

From this point of view, large FFs seem to be less problematic. On the

strategic side, they seem committed to resolving the important problem of renewing the entrepreneurial formula by transitioning from focused portfolios to diversified portfolios or vice versa. On the value side, these businesses are committed to transferring the family culture in the presence of a reality that is often multi-family or composed of an expanded family with potential conflicts between relatives (Devecchi, 2007).

Generational succession. A process of transition connected to generation transfer can occur with or without heirs (successors). This situation can be effective (the absence of actual heirs) or derived (the situation in which the heirs, while existing, are not considered suitable to succeed in the governance of the business by the founder).

In the case of a multiplicity of heirs, it is also necessary to foresee and plan for a sort of competition for succession, a condition that almost inevitably determines an increase of conflictuality in family relations. In fact, also in this case, one can find a conflict of interest that can be transformed into relational conflicts, first latent and then manifest. It is not uncommon to find situations in which these tensions result in the sale or, in some cases, even the liquidation of the business. In the presence of heirs that are not suitable to run the company, its survival can be guaranteed through the introduction of outside managers. So, the generational transfer process runs the risk of being transformed into a release valve for latent conflicts that were previously kept under control. From the carried out considerations it is possible to make the second hypothesis of the model clear:

**Hypothesis 3:** In FFs, there is a positive relationship between generational involvement and relationship conflict; so, higher levels of generational involvement are associated with higher levels of relationship conflict.

## 4. Methodology

### 4.1 Sample Description and Survey

The definition of theoretical model comes from the main contributions of the organisational literature. A questionnaire survey was designed as the instrument to garner data for the purpose of this study. The empirical observation identifies as its target the FFs board. The survey was conducted by sending 175 questionnaires to FFs with more than 10 employees. The response rate to the questionnaire, sent by e-mail and consisting of 25 Likert-style questions, was about 23%.

This response rate is reasonable given the setting of the survey (also very small firms), firm diversity, the positions of the respondents (CEO, president, and managing director), and the sensitivity of the information.

As we said, the sample was constructed by means of a list of FFs in Italy. We refer to the Italian Association of Family Businesses: established in 1997, this association works on behalf of Italian family businesses of all sizes, which operate in a plethora of different industries. The wide range of sectors of reference in the companies involved in the survey is not a relevant factor in analysing the causal relationship between the variables of organisational structure and type of conflict, as can also be seen by comparing other studies on the subject which employed similar methods and have been widely quoted in literature (see, for instance, Eddleston et al., 2008; Eddleston & Kellermanns, 2007; Kellermanns & Eddleston, 2004; Sorenson, 1999; Davis & Harveston, 1999; Harvey & Evans, 1994).

The survey instrument was reviewed by a focus group of family business owners and pilot tested on a holdout sample. The identification of FFs from published listings produces a convenience sample rather than a pure random sample, but this methodology is consistent with that of other FF researchers, who have been constrained by the lack of a national database of FFs (Chua et al., 1999). The participants, members of the owners' families, are either CEOs or have governance and top management responsibilities.

#### *4.2 Measurement of the variables*

In measuring intra-organisation conflicts in terms of task conflict and relationship conflict, we used the intra-group conflict scale developed by Jehn (1995) consisting of 6 items and, for process conflict, we used the scale developed by Shah and Jehn (1993) consisting of 3 items. Example items are: "Personal friction between members has occurred in the company"; "People often get angry while working in our family firm," and "There is much emotional conflict in our family firm (relationship conflict); "Differences of ideas have occurred in the context of making particularly important decisions in the company" (task conflict); "Conflicts have occurred over the assignment of tasks" (process conflict). The Cronbach's alphas of the conflict measurements are:  $\alpha = 0,920$  for the relationship conflict scale;  $\alpha = 0,8$  for the task conflict scale;  $\alpha = 0,765$  for the process conflict scale.

With reference to the independent variables, the management concentration was measured by the question: "Management control of the company is concentrated in the hands of." The item was measured by a 7-point Likert scale anchored by "one family member" and "several family members." The Cronbach's alphas of the management concentration measurements are:  $\alpha = 0,810$ . With reference to generation involvement, consistently with the Eddleston et al. (2009) model, we measured generational dispersion by asking: "In our family firm, the ownership is concentrated within how many generations" and provided "One generation", "Two generations," and "Multiple generations" as potential choices. The

characteristics of the succession in leadership were monitored with questions such as: “How many heirs are there in the family group that might be interested in taking over the leadership of the company?” The presence of formal control mechanisms was determined through questions such as: “Are formal control mechanisms used in your company? Which ones?”. Finally, the level of centralisation of decision-making power in the hands of the founder/leader was determined through questions such as: “How strong is the founder’s influence in making strategic and organisational decisions of critical importance for the company?”. The Cronbach’s alphas of the control mechanisms measurements are:  $\alpha = 0,799$

### 5. Results and Discussion

The main goal of this work is to make a contribution to a question of great importance in the organisational context of FFs: we are referring to the organisational characteristics through which a company can limit the development and expression of relationship conflict by exploiting parallel forms of conflict that are potentially positive. The hypotheses explained in the first part of this work were constructed in relation to this ultimate purpose. The hypotheses were tested through an analysis of the significance of the regression coefficients.

Table 1 shows both the averages and standard deviations of the model variables and the correlation matrix. Moreover, the T-test index proves the validity of the model (see Table 1).

Tab. 1 – Averages, standard deviations and correlation matrix of the model variables

|                       |              | INDEPENDENT VARIABLES |              |            |                     |                   |             |                          |              |                 |
|-----------------------|--------------|-----------------------|--------------|------------|---------------------|-------------------|-------------|--------------------------|--------------|-----------------|
|                       |              | FORMAL MECHANISMS     |              |            | POWER CONCENTRATION |                   |             | GENERATIONAL INVOLVEMENT |              |                 |
|                       |              | $\mu = 4,77$          | $S^2 = 3,85$ | $S = 1,96$ | $\mu = 4,17$        | $S^2 = 3,61$      | $S = 1,90$  | $\mu = 4,13$             | $S^2 = 3,45$ | $S = 1,86$      |
| DEPENDENT VARIABLES   |              |                       |              |            |                     |                   |             |                          |              |                 |
| RELATIONSHIP CONFLICT | $\mu = 4,97$ | $r^2 = 0,025$         |              |            | $r^2 = 0,38^{**}$   |                   |             | $r^2 = 0,37^{**}$        |              |                 |
|                       | $S^2 = 3,43$ | $r = -0,16$           | $t = -0,84$  |            |                     | $r = 0,62^{**}$   | $t = 4,15$  |                          |              | $r = 0,61^{**}$ |
|                       | $S = 1,85$   | $S = 1,86$            |              |            | $S = 1,48$          |                   |             | $S = 1,86$               |              |                 |
| TASK CONFLICT         | $\mu = 3,73$ |                       |              |            |                     | $r^2 = 0,51^{**}$ |             |                          |              |                 |
|                       | $S^2 = 5,2$  |                       |              |            |                     | $r = -0,71^{**}$  | $t = -5,39$ |                          |              |                 |
|                       | $S = 2,28$   |                       |              |            |                     | $S = 1,62$        |             |                          |              |                 |

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|--|--------------|--|--|--|--|--|--|-------------------|------------------|--|--|--|--|--|--|
| PROCESS<br>CONFLICT  | $\mu = 3,4$  |  |  |  |  |  |  | $r^2 = 0,31^{**}$ | $t =$<br>$-3,55$ |  |  |  |  |  |  |
|  | $S^2 = 5,44$ |  |  |  |  |  |  | $r = -0,56$       |                  |  |  |  |  |  |  |
|  | $S = 2,33$   |  |  |  |  |  |  | $S = 1,97$        |                  |  |  |  |  |  |  |
| $\mu = \text{mean}; S^2 = \text{variance}; S = \text{standard deviation}; r^2 = \text{coefficient of determination}; r = \text{Correlation Coefficient}; S = \text{population variability}; t = \text{t-Student}; t_{0,001} = 3,674 (v=28); ** \text{Correlation}$ |              |  |  |  |  |  |  |                   |                  |  |  |  |  |  |  |

From the table, we derive the significance of the correlations between formal governance mechanisms, power concentration and generational involvement and the three types of conflict. An empirical analysis reveals that these hypotheses were only partly validated.

Our first hypothesis, which argued that there is a negative relation between the use of formal governance mechanisms and the relationship conflict, was not supported ( $r^2 = 0,025$ ;  $r = -0,16$ ). In this perspective, the introduction of control mechanisms could be superfluous with respect to the goal of limiting destructive conflict in FFs. This result can be considered coherent with the traditional literature in relation to the approach to agency theory in FFs (and not in line with the referenced approach of Schulze et al., 2003). In fact, at least until 2000-2001, the mainstream (such as Fama & Jensen, 1983) identified a governance model in the morphological characteristics a FFs that, almost by definition, led to the automatic alignment of interests between owners and management since *“individual family members would engage in altruistic behaviours wherein they subjugate their self-interests for the collective good of the family”* (Sharma, 2004, p. 16). In line with this perspective, FFs would have less than need that other businesses to add formal control systems to agency costs: they could be a particularly efficient method for minimising agency problems due to the typical involvement of the family in ownership, management and governance (Fama, 1980).

Hypothesis 2(a) and 2(b), which argued that in FFs there is a negative relationship between founder centrality and task ( $r^2 = 0,51$ ) and process conflict ( $r^2 = 0,31$ ), was validated. This result is in line with that part of the literature (such as Kelly et al, 2000) that emphasises the importance of transitioning to a participatory model of organisational design and a decentralised governance structure to increase the firm’s capacity to improve the quality of the decision-making and knowledge process. The basic assumption of this orientation is that the family culture can inhibit processes of organisational and decision-making decentralisation, block processes of delegating responsibility and limit information flows. In particular, the literature has often highlighted the risks to FFs in limiting the participation of non-family employees in defining strategies and goals and achieving them; limiting this participation corresponds to moderating, respectively,

the intensity of the task and process conflict (at least in the family versus non-family relationship). Lazonick and O'Sullivan (1998), among others, cite the cumulative and collective character of innovation and emphasize the importance of the participation of family and non-family employees for an organisational knowledge network. As already stressed, FFs tend to have a low propensity to participation since the founder/entrepreneur typically views the delegation process as a loss of control over the business, which is perceived as an extension of the family, as if power were a zero-sum game and the business owner would have to give up a part of it and grant it to someone else. The founder's difficulty in separating himself from his firm and the strong centralisation of power leads to low levels of process and task conflict and, thus, at least potentially, to a negative impact on the organisational processes of sense- and decision-making.

Similarly, the empirical analysis also confirmed Hypothesis 2c, according to which a higher level of power concentration is associated with higher levels of relationship conflict ( $r^2 = 0,38$ ). This outcome is in line with that branch of the literature according to which power differences increase the likelihood of personal conflicts (De Dreu & Van Van Vianen, 2004), especially if the founder are reluctant to open the decision-making process to younger family members (Kellermanns & Eddleston, 2004). In line with this approach, high concentration of control increases disappointment and negative emotions (such as frustration, envy, etc.), which are usually associated with relationship conflict. The potential for emotional conflict, correlated to the reduced capacity to influence of family members involved in the business, can also become a particularly dangerous factor due to high psychological costs and the possibility of leaving the FF (Schulze et al., 2001).

Hypothesis 3 which argued that there is a there is a positive relationship between generational involvement and relationship conflict, was supported ( $r^2 = 0,37$ ). So, this confirms that conflict in FFs can be interpreted by starting from the effects of family relationships on organisational structure and relationships, which do not impact other types of companies; we are referring, for example, to rivalries between brothers, the desire of the incoming generation to gain autonomy and/or differentiate itself from its parents, spousal disagreements and the overlap between perceptions, stereotypes and prejudices in family and work contexts (Schulze et al. 2003a; Schultze et al., 2001). The potential dysfunctionality of these effects is linked to the extraordinary capacity of transforming conflicts of interest related to business questions into relational conflicts. The higher the generational involvement, the higher the probability that conflictual situations will emerge. For example, when ownership is dispersed among members of the family (due to processes of generational transition), it is probable that those family members who are involved in management will differ-

entiate themselves from those who are not. This can give rise to a classic agency problem: the values, objectives and visions of the two categories of owners can be misaligned or conflictual. In this sense, one could argue that FFs with dispersed ownership are at greater risk of the development of relationship conflict (rivalries between relatives and in-laws and intergenerational conflicts) and conflicts for succession in leadership, with consequent decision-making impasses with compared to systems with less dispersion.

## **6. Contribution to the Literature and Main Limits**

Our model considers how FFs can create the right balance between different types of organizational conflict. Applying Jehn and Mannix (2001) approach, we assume that if FFs manage to overcome relational conflict and exploit positively task and process conflict, they could grow and thrive across generations. The distinction between distinct types of conflict, though rarely applied to the interpretation of the FF matrix (e.g. Eddleston et al., 2008), can contribute to explaining some of the reasons for which determined family groups are able to work together effectively, promoting the skills, talent and ideas of family members, while others suffer strong tensions and hostility that affect their functioning.

The study have showed the structuring role of some organizational variable in conflict interactions in FFs: we refer to governance control structures, power concentration and generational involvement. By investigating these three features of the organizational design, interpreted as antecedents of productive and destructive conflict, our empirically-tested model aimed at the recognition of the methods by which family members can develop different forms of conflict, in the perspective of creating value. Schulze et al. (2003) argue that destructive conflicts are particularly likely to occur when the distribution of ownership is dispersed, as often occurs as FFs lack of control mechanisms. From this perspective, FFs may incur significant agency costs due to the conflicts that accompany family involvement and to the lack of control. Whereas we have not demonstrated that control mechanisms can lessen the occurrence of relationship conflict, we have confirmed that the level of control concentration directly influences relationship, task and process conflict in FFs. Moreover, we suggest that greater generational involvement increases the development of relationship conflict.

It should be highlighted that in the FF literature, there is much concern about conflict in FFs but little empirical work surrounding this critical topic. This paper attempts to contribute to fill this gap.

Another original element in the paper was the extension of the horizon in which the origin of organisational conflicts in FFs is considered. In fact,

the study does not only consider the most “traditional” source of conflict, associated with the composition of the dominant coalition (generational involvement), but also concentrates on the characteristics of the work processes (cf. the definition of the level of centralisation/decentralisation of decision-making power) and managerial processes, focussing on the governance and control mechanisms and the organisational positions with a “high grade of discretion” (Thompson, 1967).

In terms of managerial implications, the results of the survey firstly warn of the risk – very common in small and medium sized FFs – associated with excessive centralisation of power in the hands of the founder/owner. In fact, this tendency may not only cause inter-personal tension and conflict that can threaten the survival of the firm, but by limiting the quality of strategic and organisational decision-making, can even form a factor capable of limiting development, especially in firms that operate in sectors that are subject to rapid change (Martinez & Pezzillo Iacono, 2012; Consiglio, 1996). The analysis also confirms the need for careful and transparent planning of generational succession, showing how a high level of either generational dispersion or the number of heirs to the founder/owner are a potentially explosive factor in the dynamics of “negative” conflicts.

The main limit of the model developed can probably be found in its focus: in fact, we tried to understand the relationship between organisational matrix values in influencing the development of different conflictual forms without making reference to principles, techniques and tools for the resolution and management of conflictual situations already latent or manifest. In other words, the focus is on prevention rather than managing the conflict.

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## **Abstract**

The aim of the paper is to develop and test a theoretical model concerning the relations among some variables of organisational design and the type and nature of the conflict in family firms. The theoretical model is developed through a variety of hypotheses which were tested by means of a survey on 175 firms registered at Italian Association of Family Businesses. In particular, conflict is analysed as a dependent variable with respect of: power concentration (measured in terms of founder centrality), formal governance mechanisms and generational involvement. The study examines how these three organizational features ultimately affect the functioning of a family firm, in terms of expected effect on task, process and relationship conflict. The results of empirical analysis confirmed that the level of power concentration directly influences task, process and relationship conflict, and that greater generational involvement fosters the development of relationship conflict.

## **Riassunto**

Obiettivo principale dell'articolo è esplorare la relazione tra alcune variabili di progettazione organizzativa e le tipologie di conflitto nelle imprese familiari di piccole e medie dimensioni. A tal fine, adottando un approccio tipicamente quantitativo, è sviluppato un modello teorico originale, le cui ipotesi di ricerca sono state testate sull'universo delle 175 SMEs dell'Associazione Italiana delle Aziende Familiari. In particolare, il conflitto organizzativo è analizzato come variabile dipendente rispetto: (i) al grado di concentrazione del potere decisionale (misurato in termini di *founder centrality*), (ii) alla presenza di meccanismi formali di controllo della *governance* e (iii) al livello di coinvolgimento inter-generazionale. Lo studio contribuisce a spiegare come queste tre variabili influenzino il funzionamento delle aziende familiari in termini di effetti attesi sul *task*, sul *process* e sul *relationship conflict*. La declinazione del conflitto in queste tre fattispecie, secondo un approccio ampiamente consolidato in letteratura, può aiutare a comprendere le ragioni per cui solo determinati gruppi familiari sono capaci di lavorare insieme con successo, facilitando il raggiungimento di livelli equilibrati di *task* e *process conflict* e limitando lo sviluppo del *relationship conflict*. I risultati dell'analisi empirica mostrano che il livello di concentrazione di potere influenza direttamente tutte e tre le forme di conflitto richiamate, mentre un maggior coinvolgimento inter-generazionale stimola lo sviluppo del conflitto di relazione.

## **Jel Classification: L2**

**Keywords (Parole chiave):** organizational conflicts, formal governance mechanisms, power concentration, generational dispersion, small and medium enterprises (conflitti organizzativi, meccanismi formali di governo, concentrazione del potere, dispersione generazionale, PMI)

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