



## Literature Review: Classification of Problems Faced by Family Business

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### Abstract

Family business is significant for the economic growth and development of the country. The objective of the study is to study the various problems of family business. The study is literature review based. Family business faces the prominent problems like complex succession process, unprofessionalism, unhealthy relationship, ownership issues, resistance, gender discrimination, conflicts, conservative in nature, inadequate research and development, improper definition, high influence of family members, management problem. The finding of the study is that nepotism has negative impact on working of family business as new employees are not welcome. Family business does not have the universal definition. Study concludes that decision of family business has strong influence of family members as they hold major share of business.

**Keywords:** Family Business, Classification of Problems of Family Business, Factors affecting family business.

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### 1) Introduction

In an economy family business has significant role. Family is social institution which is the oldest form of organization. For holding leadership position there are many stakeholders. Often there is adequate communication between incoming generation and incumbent. As incumbent are unaware of how to handle challenges related to succession whereas incoming generation do not know how to



raise it. Competent members in family business are chosen to manage business disregarding gender, age or blood relation (Chrisman, Chua & Sharma, 1998). To be successful family firms, balance must be maintained between professional management, business ownership and family dynamics. Family business involves two or more family members and ownership lies with the family. In comparison to other business entities family business has advantage over others. Family business faces the various problems and to solve problems strategic planning and engagement of outside parties are needed.

## 2) Objective of the Study

- To study various problems faced by family business

## 3) Research Methodology

Study is literature review based. Literature review is covered to understand the problems of family business and research gaps are identified. Various problems are discussed under.

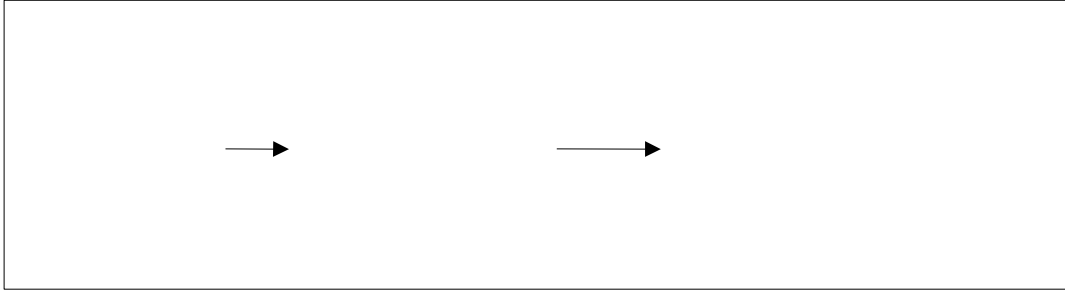
## 4) Problems Faced By Family Business

### *Agency Issues*

<b>Authors (Year)</b>	<b>Findings</b>
Thaler & Shefrin,(1981)	High agency cost leads to difficulty in cooperative exchange. High negotiation cost and supervision leads to productivity loss.
Schulze, Lubatkin, & Dino, (2003)	Ownership and altruism creates distinct agency problems.



**Figure No 1: Agency Issues Affects Family Business**



### **Complex Succession Process**

<b>Authors, (Year)</b>	<b>Findings</b>
Donnelley,(1964)	Many family businesses fail due to inadequate succession plan. This results in rise of conflict of family interest, control and power disputes.
Levinson, (1971)	Selection of successor is not formalized and process is not treated fair.
Barnes & Hershon, (1976)	Successor is limited in family business. When incumbent is alive transfer of power hardly takes place from first generation to second generation.
Beckhard & Dyer, (1983)	Problem of succession planning is faced by owners and managers i.e. change of ownership, management, assets and power distribution.
Firmstahl, (1986)	Unwillingness of founders, hesitant to make divisive decisions and absence of relationship between succession planning and goal achievement
Lansberg, (1988)	When succession process occurs customers, suppliers discontinue the account and change the relationship with family business.
Handler & Kram (1988)	Entrepreneurs face difficulties in transferring ownership and management to next generation.
Wong, McReynolds & Wong, (1992)	In family business succession is not a priority as families prepare children for professional career and not for family legacy. Some family business does not continue because of succeeding generations.
Schulze, Lubatkin & Dino, (2002)	Family businesses are involved in conflicts among family and non family employees.
Venter, Boshoff & Maas, (2005)	Small size of business may forces the potential successor for leaving the family business.
McMullen & Warnick, (2015)	Family business does not consider the difference between management and ownership succession.



## Figure No 2: Complex Succession Process Affects Family Business

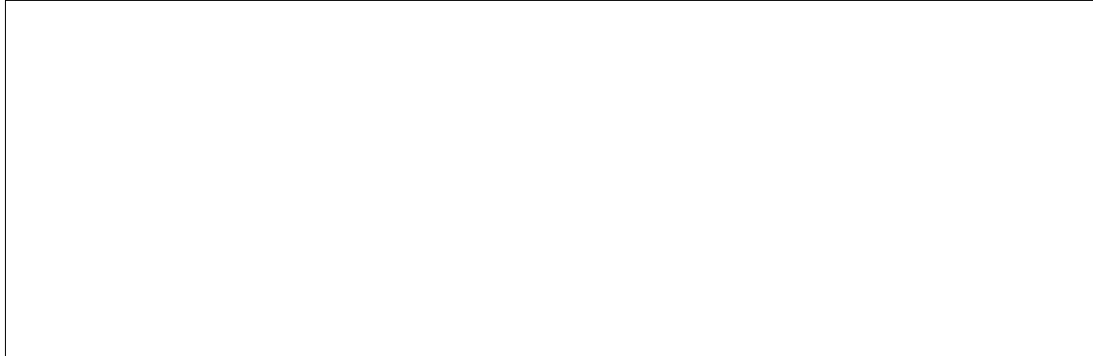


### Centralization

<b>Authors, (Year)</b>	<b>Findings</b>
Gallo & Vilaseca , (1996)	Centralization of power and control by CEO results to animosity and politics. It increases the frustration among employees.
Aronoff, (1998)	Centralization of power creates problems in negotiating over ownership, management and leadership roles in the family firm.



### Figure No 3: Centralization Affects Family Business

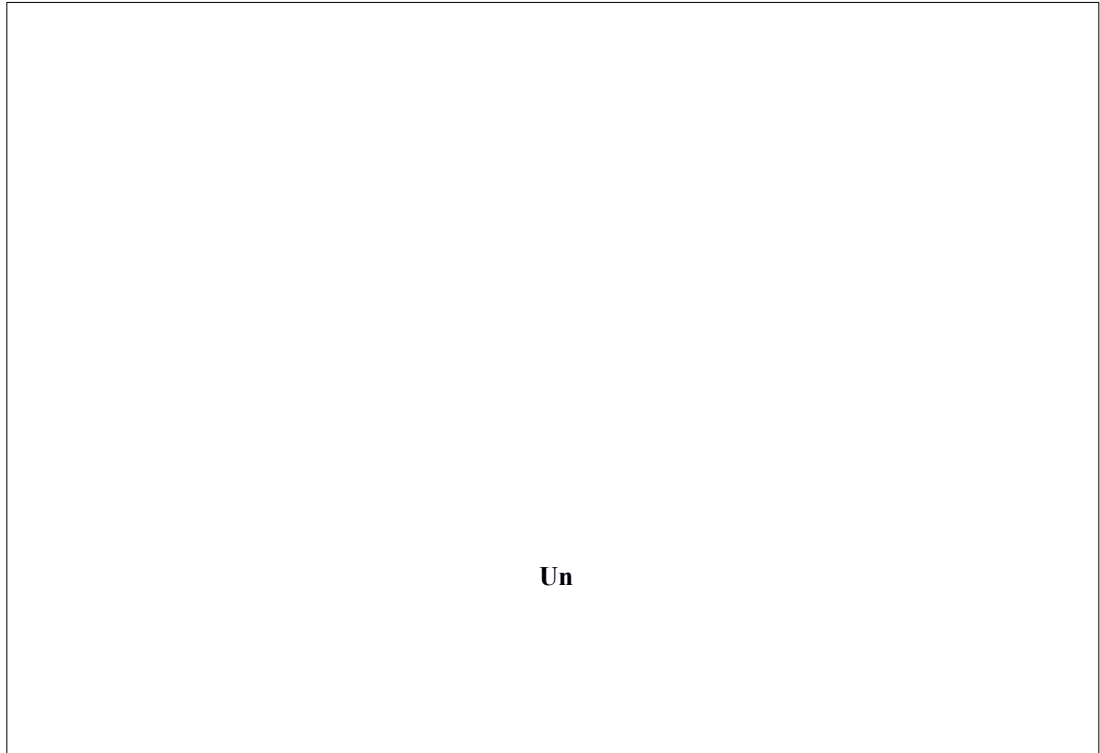


### Unprofessionalism

<b>Authors, (Year)</b>	<b>Findings</b>
Donnelley, (1964)	Family businesses are unable to attract the qualified managers as it suffers from lack of professional growth. It faces major problems like: conflict arises between private interest of family and firm interest; lack of interest in making profit; lack of focus on product quality and improvement; incapable of taking market opportunities and excessive nepotism.
Perrigo, (1975)	Owner-managers lacks formal training, insufficient knowledge leads to unprofessionalism.
Vries, (1977)	Entrepreneur's unprofessionalism creates decision making problem.
Dyer, (1989)	It lacks management skills, succession plan and change of norms and values of business.
Kaye, (1991)	Rules are mostly verbal which is the problems for family business
Chrisman, Chua & Litz, (2004)	In family business nepotism in decision making, recruitment, selection and delegation of activities.



## Figure No 4: Unprofessionalism Affects Family Business



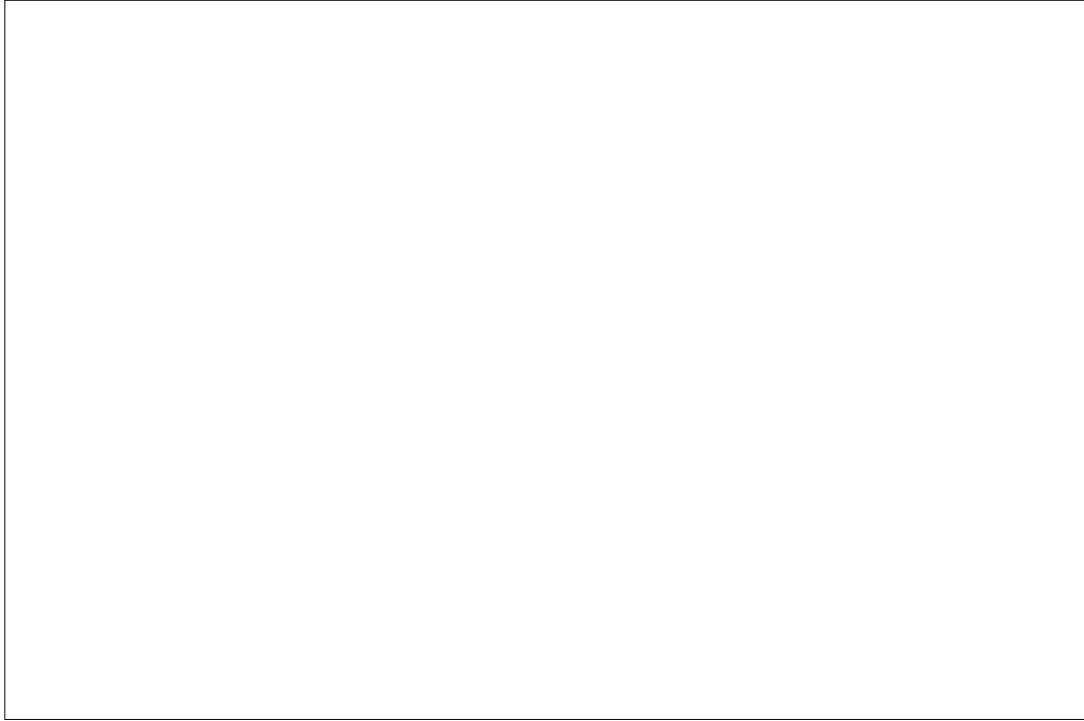
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### Unhealthy Relationship

Authors, (Year)	Findings
Berle & Means, (1932)	Complexity of family business increases new issues such as separation of ownership, management and control this leads to disappearance of family networks.
Churchill & Hatten, (1987)	Interpersonal relationship problems leads to rise of conflict which results in obstruct succession.
Lansberg, (1988)	Suppliers and customers resist in maintaining relationship with next generation family members who are holding power.
Ward & Aronoff, (1992)	Sibling relationships are complex and it adversely affects the management process and ownership structure of the family business.
Daily & Dollinger, (1993)	Effects of conflict cannot be understood in the absence of psychodynamic relationship in family business.
Mortimer,(2003)	Young family members face difficulties in creating identity. They do not have cordial relationship in family.



**Figure No 5: Unhealthy Relationship Affects Family Business**



**Inadequate Communication**

<b>Authors, (Year)</b>	<b>Findings</b>
Beckhard &Dyer,(1983)	Arise of conflict in family businesses is due to inadequate communication.
Chrisman, Chua & Sharma, (1998)	Inadequate communication between incumbent and incoming generations.



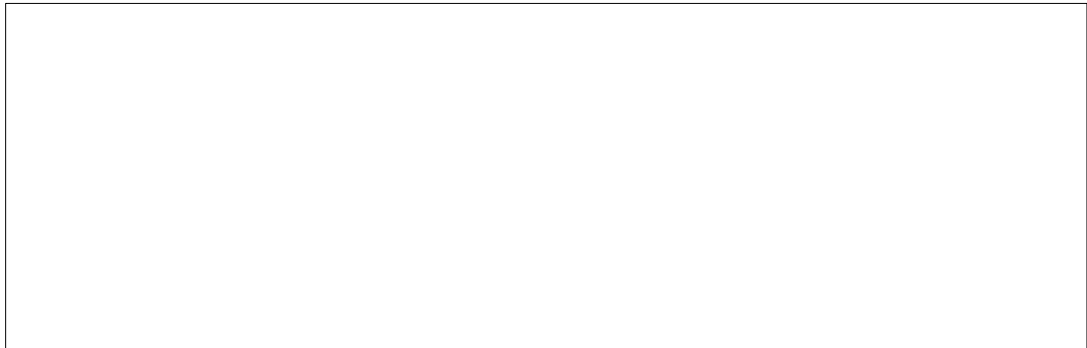
### Figure No 6: Inadequate Communication Affects Family Business



#### Stress

Authors, (Year)	Findings
Shanahan et al., (1991)	Stressful work can damage the psychological well-being of younger family members.
Stewart & Danes, (2001)	Family tension decreases productivity and low business success
Greenhaus & Powell, (2006)	Family business has the atmosphere of stress and low family commitment.

### Figure No 7: Stress Affects Family Business



#### Complexities

Authors, (Year)	Findings
Pollak, (1985)	Difficult monitoring, technological complexity, specificity of human capital, lack of information and adverse selection are problems of family business.
Ward, (1997)	Family business suffers from various problems like maturing business cycle and increase competition, inadequate capital for business growth, inflexible entrepreneurial leadership and resist change.





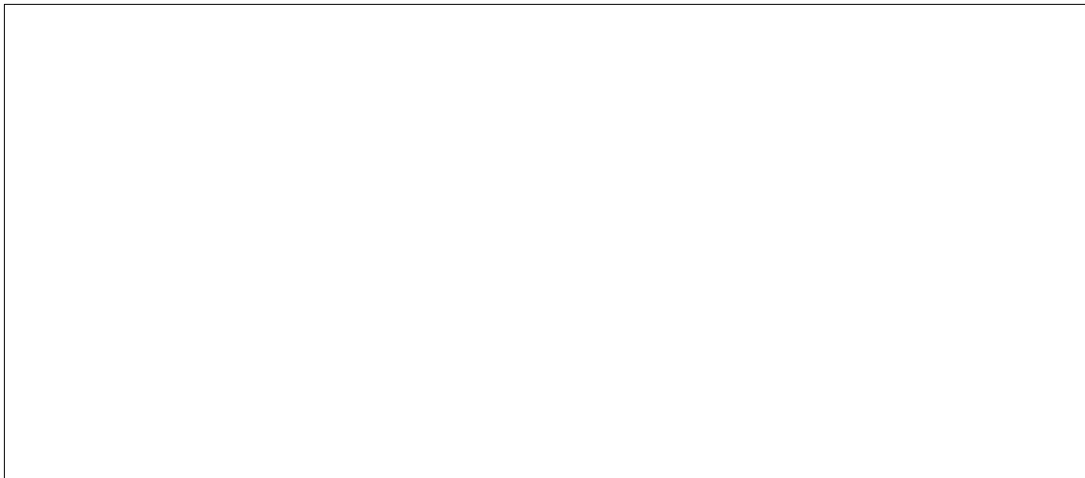
### **Inadequate Trust**

<b>Authors, (Year)</b>	<b>Findings</b>
Dyer, (1994)	Family members trust each other more than unrelated individuals in family business.
Chrisman, Chua & Sharma, (1998)	Trust and integrity are significant element of any family business. Successor has to earn trust to become legitimate leader.
Kelly, Athanassiou, & Crittenden,(2000)	Owners of family business are authoritarian leaders who lacks planning and trust.

### **Ownership Issues**

<b>Authors, (Year)</b>	<b>Findings</b>
Beckhard & Dyer, (1983)	In the succession process, the founder leaves family assets in such way that makes governance impossible, disturbing family harmony and decreases motivation of family member.
La Porta et al., (1999)	Family business is suffering problem of high concentrated ownership, less transparency, low accountability and less fairness which decreases the rights of minority shareholders.

**Figure No 8: Ownership Issues Affects Family Business**





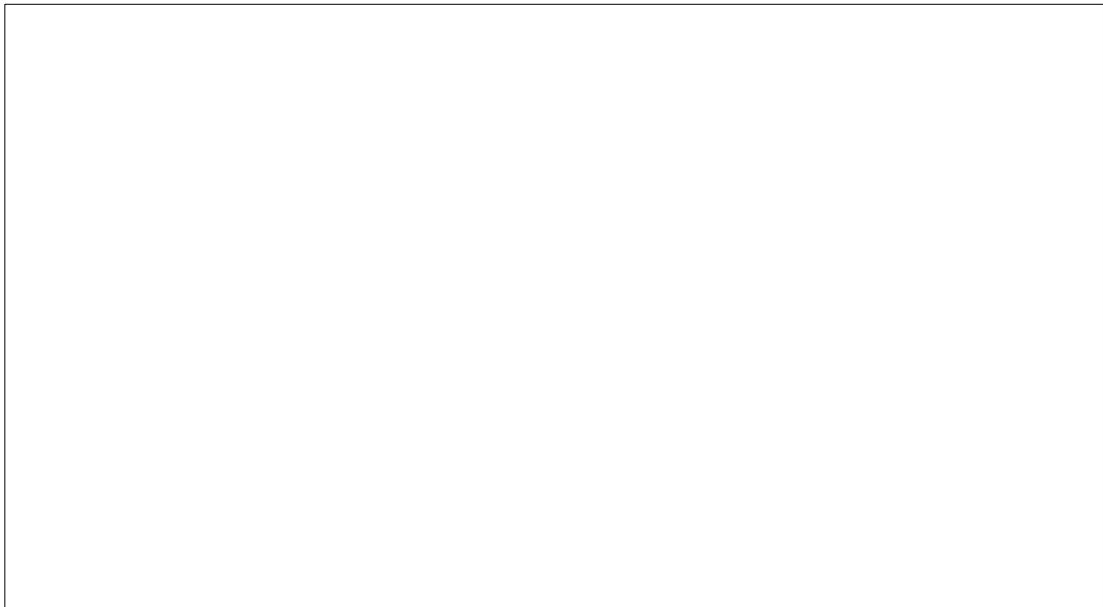
### Resistance

Authors, (Year)	Findings
Pollak, (1985)	The success of family business is dependent on familial ties as it is a source of weakness when owners of a firm are reluctant to deal with changing market and technological conditions.
Dyer & Gibb, (1988)	Family business has strong pride because of employees loyalty, tradition and culture of business. Resistance to change can create problem.
Gallo & Sveen (1991)	There is the resistance on the entry of employees from outside family as they fear that organizational culture might change and lose control.

### Inadequate Planning

Authors, (Year)	Findings
Becker, (1973)	Difficulty in planning process of succession is because of inactive entrepreneurs, humanity of founders, unwillingness to use power, favoritism and generational envy.
Jonovic, (1989)	Professional management teams, effective financial planning, control systems and strategic planning efforts decreases the need of the outsiders in family business.
Vries, (1993)	Family business does not prepare their plans and they do not have the clear task division.
Ploster, (1994)	In family business inadequate planning makes growth slow.

**Figure No 9: Inadequate Planning Affects Family Business**





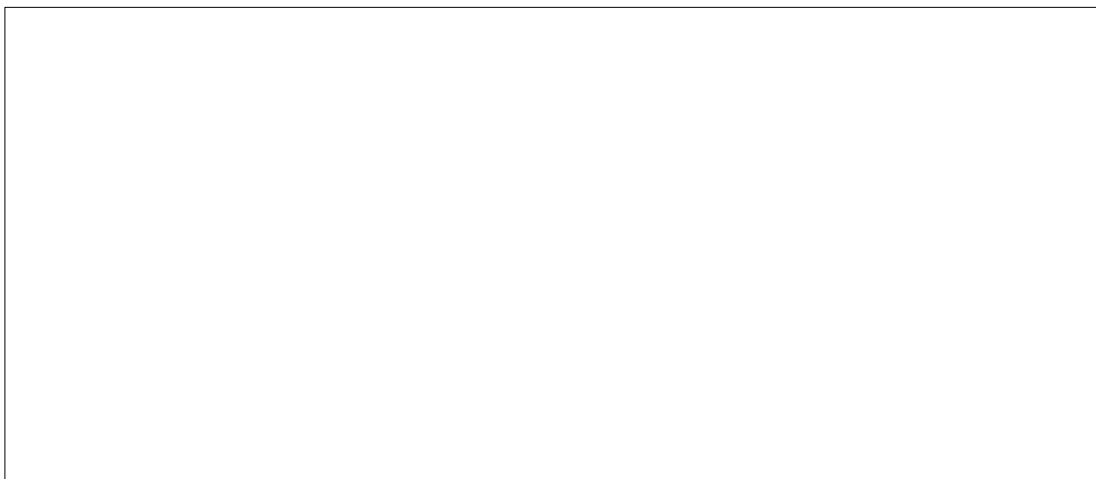
### High Risk

Authors, (Year)	Findings
Hannan & Freeman, (1989)	Corporate entrepreneurship, strategic change and diversification can be risky for family business.
Carney & Gedajlovic, (2002)	Owners of family firm considers retained earning as not desirable and treated as firm specific risk.
Zellweger, Nason & Nordqvist, (2012)	Family business has high level of ownership risk as it works on centralization structure and huge concentration of family financial resources in the business.

### Weak Entrepreneurial Drive

Authors, (Year)	Findings
Danco, (1975)	Entrepreneurial characteristics blocks the growth of the family business.
Covin & Slevin, (1989)	Entrepreneurial orientation in family business face the problem in challenging and volatile environment.
Dyer, (1992)	Financial challenge and time pressures diminishes entrepreneurial behavior in family business.
Chirico et al., (2011)	Family business does not work entrepreneurially that's why they suffer from nepotism.
Pimentel, Couto & Scholten,(2017)	Family business has low level of entrepreneurship orientation like low risk taking, lacks innovation and competitive aggressiveness.

**Figure No 10: Weak Entrepreneurial Drive Affects Family Business**





### Decentralization

<b>Authors, (Year)</b>	<b>Findings</b>
Kets de Vries, (1977)	Most family business are not successful as they refuse to formalize the organization by the owner.
Harvey & Evans, (1994)	There is a dominant presence of family which sets rules and have ultimate power and inadequate formalize system.

### Survival Issues

<b>Authors, (Year)</b>	<b>Findings</b>
Ward, (2004)	Small family business are unable to survive when business is in the phase of transition to second generation and intergenerational transitions face failure after second generation takes control.

### Inadequate Motivation

<b>Authors, (Year)</b>	<b>Findings</b>
Kets deVries, (1993)	Family business lacks hunger and motivation in next generation as it is the cause of risk avoidance and stagnation of business.
Stafford et al., (1999)	Inadequate motivation is the serious issues in providing sustainability of family business.

### Sustainability Issues

<b>Authors, (Year)</b>	<b>Findings</b>
Stafford et.al, (1999)	Family business competes with time and financial resources. Tension is the cause of competition that is good for short run but not for long run sustainability.

### Gender Discrimination

<b>Authors, (Year)</b>	<b>Findings</b>
Freudenberger et al. (1989)	Women cannot be like male as they are masculine and aggressive. Females are separated from the functioning of the business and they play more independently.
Salganicoff, (1990)	Women faces traditional biases in family business.
Dyer, (1992)	Marital conflict, divorce and neglect of children arises work family issues which are not managed in the family business.
Robinson &Sexton, (1994)	In comparison to male, women make less income in family business.



## Conflicts

Authors, (Year)	Findings
Levinson, (1971)	Intra-family conflict has destructive effects on working of family business this leads to lack of planning and rational decision making.
Jensen & Meckling, (1976)	Governance structure is affected with the conflict between principal and agent. Family members have the controlling problem which ignores opportunistic behavior this leads to low performance.
Beckhard & Dyer, (1983)	Family business faces the problem of relationship conflict. Family members feel that they are entitled to the wealth and power of the business this creates rise of distributive issues. Problem in family business occurs because individual standing in family business is by name of the individual and not by the work of individual.
Lansberg, (1983)	Conflict in setting cultural values and rules leads to management issues in family business.
Beckhard & Dyer, (1983)	High mortality of family firm has direct result of failure to control intra-family conflicts in family business.
Holland & Boulton. (1984)	Relationship between family and firm management increases the management problems and organizational complexities.
Ward, (1988)	In family business conflict arises because of inadequate interaction between family and business units. These businesses do not enjoy the participative environment of management and presence of inadequate organization mechanism. There are unclear role, responsibility and rights in the family business.
Salganicoff, (1990)	Role conflict are the problem faced by family business.
Friedman, (1991)	In family business there is a competition for getting parental love which leads to sibling rivalry.
Vries,(1993)	There are five conflicts in the family business like: role conflict, justice conflict, identity conflict, work conflict and succession conflict.
Gillis, (1996)	In family business where both parents and children works and has high obligation for work give rise to family work conflict for both adolescents and parents.
Jehn, Northcraft & Neale, (1999)	Process, relationship and task conflict leads to negative emotions which affects sentiments of family members.
Danes et al., (1999)	In family business there are various relationship , succession, and justice conflict including misaligned interests between business and family.
Frone, (2000)	In family business high level of work–family conflict is related to depression and psychological distress for adults.
Simons & Peterson, (2000)	Relationship conflict in family business is connected to stress, anxiety, animosity and unfriendly behavior. This leads to anger and mistrust. It decreases mutual understanding and goodwill among employees.
Schulze et., (2001)	Career alternatives and tight control increases the relationship conflict.
Cabrera-Suarez, Saa-Perez & Almeida, (2001)	Process conflict hampers the ability of family members to perform certain activities. Process conflict is more common in multigenerational performance of family business. Founding generations discourages the new generation from role and responsibility of leaders and participation of decision making. Usually incumbent generation does not allow the new generations to take part in decision which results in poor results. This leads to survival failure.
Stewart & Danes, (2001)	Destructive conflict between business and family goals affects the sustainability of family business.
Ibrahim & Ellis, (2003)	Conflict arises due to unfair succession process, rivalries between family members and founders, inadequate guidelines for career advancement of family members, improper boundaries between siblings and difference in status and power of family and non family members.
Kellermanns & Eddleston, (2004)	Long tenures of family firms creates the creativity and innovativeness in an organization which leads to cognitive conflict.
Ghoshal, (2005)	Conflict arises with the role and responsibility of outside professionals.
Zellweger & Astrachan, (2008)	Relationship conflict and negative emotions are the problems of family business.
Carr & Hmieleski, (2015)	Conflict arises because of role pressure which leads to tension. Tension and conflict affects the work and relationship within the business and family.

**Figure No 11: Conflict Affects Family Business**



### Conservative in Nature

Authors, (Year)	Findings
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Geeraerts, (1984)	Founder of family business are authoritarian, they are not willing to share power and strategically as they are conservative.
Backley, (1994)	Personality of owner of family business changes as they are more conservative and risk averse in nature.
Zahra, Neubaum & Huse, (2000)	In order to protect family business, leaders becomes strategically conservative which minimizes entrepreneurial behaviors.
Madanoglu, Altinay & Wang, (2016)	Family business lacks due to cautious and conservative attitude among family members.

### Multiple Objectives

Authors, (Year)	Findings
Colli & Rose, (1999)	Difference in the objective of family and business results in the variation in the family management and behavior.
Lumpkin, Brigham & Moss, (2010)	Presence of multiple family generation and goal in the family business.
Kotlar & De Massis, (2013)	Business and family leads to complex and unique problem in setting goal in family firms.

### Cultural Issues

Authors, (Year)	Findings
Ward, (1988);	There is a vast difference in culture of business units and family business.
Whiteside & Brown, (1991)	Success of family business is dependent on issues of the family. Values and task plays role in opposition to family business.
Arregle et al., (2007)	Family business work with different cultures and it suffers from cultural barriers in comparison to non family companies.

### Inadequate Research & Development

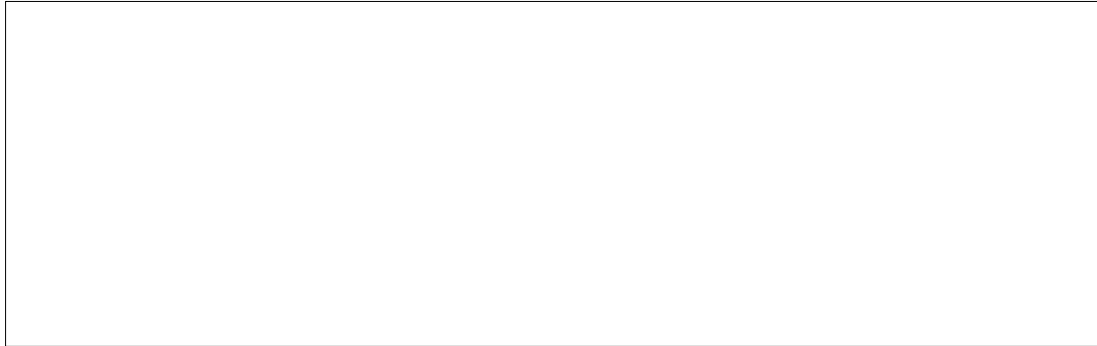
Authors, (Year)	Findings
Morck, (2003)	Member of family business are unwilling to take risk and involved in research and development which creates adverse affect on survival of family business.
Villalonga & Amit, (2006)	In family business research and development is low in comparison to non family business.



### Overlapping of Roles & Responsibilities

Authors, (Year)	Findings
Kahn et al., (1964)	Multiple roles and responsibility in family business creates confusion and conflict in the value system of family and business.
Vries ,(1993)	When family members work together they have high confusion and disorientation related to roles and responsibility.
Adams,King & King, (1996)	In family business work interferes with family dynamics. The family provides less emotional support.
Sirmon & Hitt, (2003)	Overlapping of roles, responsibility and identity creates problem for family members in business.
Valcour, (2007)	Family and work both influence each other. Work hour spend by family member is negatively linked to work family balance which results in distress in individuals rather absolute number of working hours.

**Figure No 12: Overlapping of Roles & Responsibilities Affects Family Business**



### Inadequate Diversification

Authors, (Year)	Findings
Carney, (2005)	Family firms are unable to diversify for innovation with the objective of long run survival.
Gomez-Mejia et al., (2010)	Diversification in family business is less in comparison to non family business as they are not willing to take burden of debt to fund.

### Improper Definition

Authors, (Year)	Findings
Lansberg et al., (1988)	Definition of family business is restricted to ownership, control of business and number of members involved in management of business. All these characteristics restrict the definition.
Chua, Chrisman, & Sharma, (1999)	Inadequate definition of family firm is because a family firm varies in term of family involvement in management, ownership and transgenerational intentions. Inadequate and unclear definition of family business creates difficulty in classification of family business



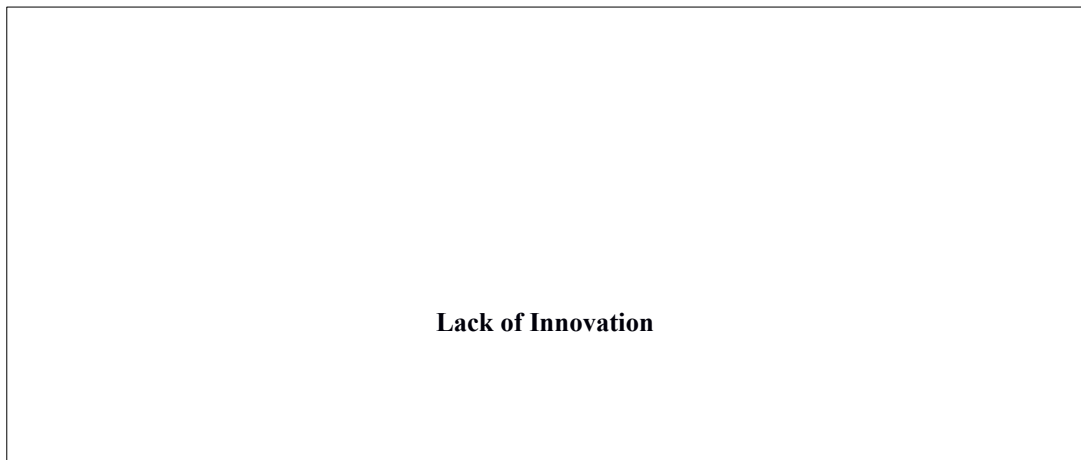


	and differentiating from non family enterprises from family enterprises.
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### **Governance Problem**

<b>Authors, (Year)</b>	<b>Findings</b>
Jensen & Meckling , (1976)	Internal and external governance system limits the management opportunities.
Ward, (1997)	Governance structure is not taken seriously in family business.
Schulze et al., (2001)	Family firms is unable to transfer to second generation of family ownership. Costly internal governance mechanisms like high monitoring cost, agency cost, and agency problem occurs in the family business.
Carney, Gedajlovic, & Strike, (2014)	Multiple family firm owners does not have the common goal as it faces the governance challenge.
Steier et.al , (2015)	There are various governance challenges of family business: agency problem; process of setting decision making limits are complex, setting rules for team formation is complex and functioning of multifamily business; generation of tacit reputation and need of resources for facing competition with uncertainty in terms of demand, quality and value, way of nurturing family successor in competence and commitment; occurrence of conflict between founders of family and non family firms.

**Figure No 13: Governance Challenges Affects Family Business**



**Lack of Innovation**

### **Problem of Innovation**

<b>Authors, (Year)</b>	<b>Findings</b>
Bessant et al. (2010)	Business face difficulty in pursuing incremental innovations.
Salvato, (2004)	Founder of family firms lose their innovative skill until second and third generations joins the reviving of the firms and encourages entrepreneurship. Founder of family business has difficulty in finding innovative ideas without motivating second generation members.





### High Competition

Authors, (Year)	Findings
Kaye, (1991)	Competition is the cause of the tension which is good for short run but in long run sustainability of family business is affected.
Stafford et al., (1999)	High competition is the cause of tension in family business.
Casillas & Moreno, (2010)	Relationship between competitive aggressiveness and performance of family firm are not linked.
Peters & Kallmuenzer, (2015)	Family firm is rooted by its community and goodwill of the firm this generates competitive aggressiveness.

### Complex Decision Making

Authors, (Year)	Findings
Danco, (1980)	Most of the family business fails as they do not take decisions with the complex changing environment.
Blondell, Carlock & Heyden, (2000)	Family business face the problem of unfairness in the decision making process of the business.

### High Influence of Family Members in Family Business

Authors, (Year)	Findings
Lansberg, (1983)	In multigenerational family business, family members work as employees not because of qualification but because of status in the family. Children of owner of family seek the opportunities within the family business only.
Davis, (1983)	Family firms carry both family and business values but business is not free from influence of the family. Family member of business is unable to balance efficiency and equity.
Beach, (1993)	Children are socialized into home based business this adversely affects the aptitude and attitude of children and business performance.
Astrachan, (1988)	Family members in central position have high influence on decision making.
Barber, (1996)	In family business parents supports their children for self sufficiency and encourages them to pursue their own interest and values but unfortunately parents has psychological control over their children, so children follow the same values and standards of parents which further hinders internalization and avoids the development of adolescents. Adolescents are in less touch with inner self which creates difficulties in personal commitment.
Douglas & Shepherd, (2000)	Family members of business found problem of utility maximization between higher salary and entrepreneurial career path.
Vansteen et al., (2005)	In family business parental psychological control has adverse impact on the development of children like anxiety, depression and maladaptive perfectionism. There is low autonomous motivation and extra control on family members. Interference of parents creates difficulties in decision making of their children in family business.



### **Restrict from Internationalization**

<b>Authors, (Year)</b>	<b>Findings</b>
Gallo & Pont, (1996)	Family business restrict from internationalization because of inadequate financial resources, unwilling to form alliance, struggle of intra firm and decision making problem.

### **Restricted Social Capital**

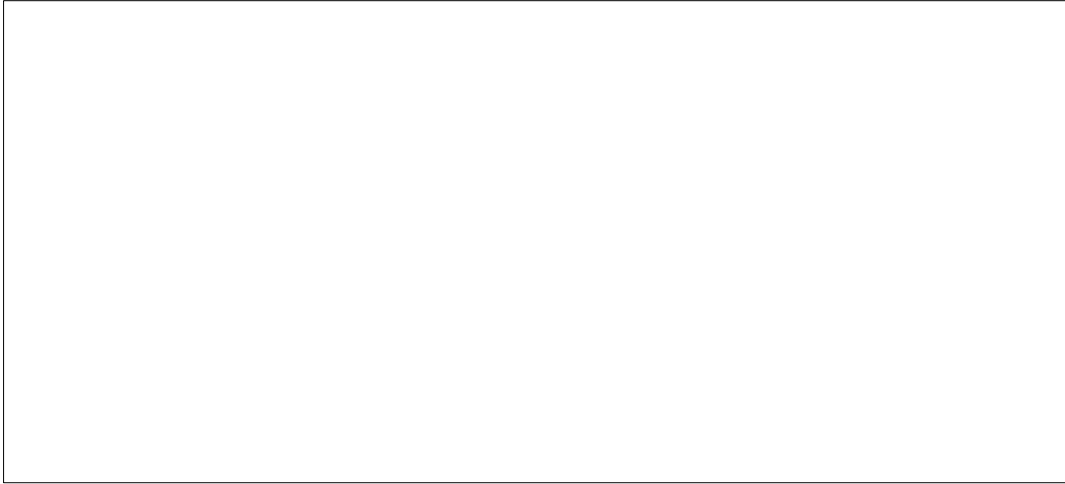
<b>Authors, (Year)</b>	<b>Findings</b>
Arregle et al.,(2007)	Young family members are not involved in the family business which has severe consequences than the classical work family conflict. Competitive advantages of family business suffers due to decrease social capital of the business.
Zahra, (2010)	Family business has restricted social capital, weak tie of family business increases risk and reduces chances of survival.

### **Management Problems**

<b>Authors, (Year)</b>	<b>Findings</b>
Levinson,(1971)	Founder holds the family business for long period tightly which makes business inflexible, uncontrollable, short-sightedness and more fighting spirit. Family businesses are usually not properly administered.
Dyer,(1989)	Family business suffers from inadequate management talent.
Walsh & Seward, (1990)	Family business suffers from negative attributes, hiring consultants to legitimize decisions, manipulating information and not designing proper strategies.
Donaldson & Davis, (1991)	Managerial opportunism is not relevant in family business.
Kofodimos, (1993)	Owner of the family business face the problem of lack of participation this leads to high stress, illness and fatigue associated with imbalance which affects individual and organizational effectiveness.
Gersick et al., (1997)	Family members cannot leave the business because of high cost and member can lose experience, status, inheritance, business specific knowledge, legacy and various privileges of employment in the family business.
Onuoha, (2013)	Family member are facing problems as inadequate trust in relations, fear of control loss and educated employees are unwilling to work in family business.
Kubica & Szaruck (2016)	Limited employees and resources affects the durability and development of family business.



**Figure No 14: Management Problems Affects Family Business**

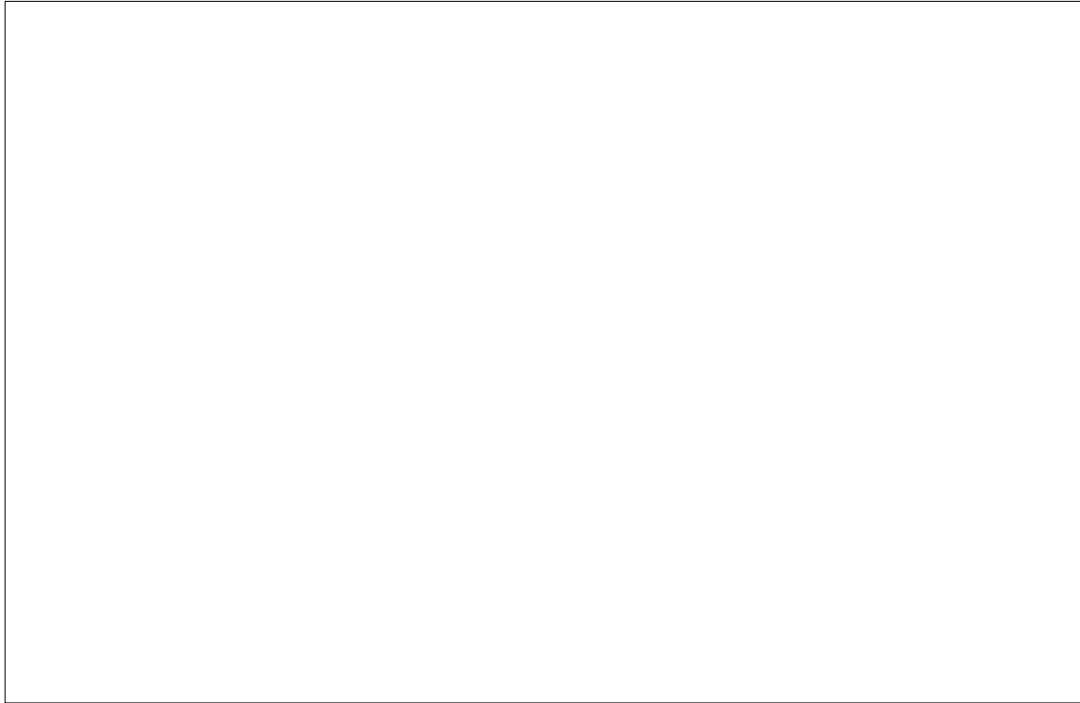


### **Finance Issues**

<b>Authors, (Year)</b>	<b>Findings</b>
Arrow,(1974)	Growth of the family business suffers from inadequate capital.
Fama & Jensen, (1983)	Capital markets are inefficient, high monitoring cost and low incentives are problems of family business.
Ward, (1987)	Inadequate capital it creates problem in payment of taxes.
Vries, (1993)	Family business faces the problem of obtaining external capital which creates problems in acquiring high costly innovative projects.
Birley et al., (1999)	Family owners are reluctant to debts use and usually sell equity to outsiders. Families are reluctant to seek external expertise.
Danes, Fitzgerald & Doll, (2000)	Financial constrains affects problem-solving dynamics within the family business.
Scherr & Hulburt, (2001)	Family businesses are unable to access the capital structure and prefer external financing for maintaining control of the business.
Koropp et al., (2014)	Insufficient financial resources have adverse effects on the growth and survival of family business.



**Figure No 15: Financial Issues Affects Family Business**



### **Altruism and Self Control**

<b>Author, (Year)</b>	<b>Findings</b>
Kahneman & Tversky, (1979)	Self control and overconfidence among family members are the serious problem of family business.
Schulze, Lubatkin & Dino, (2003)	Altruism has adverse affect on the survival of family business.
Chen & Hsu, (2009)	Self control affects the recruitment, selection and promotion process of non family professional managers. Altruism and self-control has adverse effect on manager quality of family business.

**Figure No 16: Altruism & Self Control Affects Family Business**





## **5) Discussion of the Study**

The various problems faced by family business are inadequate planning, communication, trust, motivation and innovation; ownership and governance issues; improper definition; gender discrimination; resistance; survival and sustainability issues; conflicts and complexities; agency issues; cultural and finance issues; multiple objectives; conservative in nature; stress; low autonomy; inadequate diversification, research and development; management problem; restricted social capital; unhealthy relationship; restricts from internationalization; high influence of family members; unprofessionalism; centralization and decentralization; overlapping decision making and succession process; high risk and competition. Conflict is the biggest problem which raises other problems in the business and has adverse effects on the performance of the business.

## **6) Research Gap**

From year 1932 to 2017 literature review is covered but there is a need to study the area of family work conflict, impact of conflict on individual performance and also to identify the factors which contributes to work strain in family business.



**Figure No 17: Problems Faced By Family Business**







## 7) Conclusion

Family business has strong impact on the economy. Family business does not have the universal definition. In family business employees quality and dedication is significant issues in promotion and employment. Skill and individual determination leads to less commitment and high turnover rate which results in low productivity. All this reduces the competitiveness of family business which reduces the life span of business. Nepotism has negative impact on working of family business as new employees are not welcome. Commitment, trust and devotion of family members are beneficial to family business but create many problems for their own business.

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