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Why Families and Their Firms Behave Badly

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Across a range of disciplines, researchers have sought to identify the "bad behavior" of family firms as well as its causes and effects. Such topics include family conflict, sibling rivalry, nepotism in hiring and promotion, poor decision-making, unethical behavior, and corruption. This research strives to understand how dysfunctional family dynamics affect a family business, and, increasingly, how the bad deeds of a firm affect the owning family. To help business-owning families prevent and deal with their family's and firm's bad behavior, we reviewed many other studies to glean some universal insights. These are useful in helping family businesses to understand why bad behavior occurs at the family and firm levels, and how they can eliminate the triggers that cause it.

What we found is that many characteristics of family firms that have been regarded positively can actually lead to dysfunctional behavior. More than non-family businesses, family businesses prize socioemotional wealth – the intangible benefits that business ownership can bring. This might include preserving the firm for future generations, and the non-financial benefits that flow from being family owned, such as strong identification with the business, special privileges for family members, and warm relationships with a range of stakeholders including customers and suppliers. We saw that sometimes to preserve these non-tangible affective benefits, family firms will resort to behavior that may be morally questionable, if not illegal. For example, to ensure control over their firm's strategic direction and operational decisions, the business-owning family might place a family member into a board or upper management role even if he or she isn't qualified.

In developing our academic article, we had three main goals: 1) identify the types of dysfunctional behavior that have been studied in family firms, their causes and effects, 2) examine why dysfunctional behaviors have different impacts on these firms and their stakeholders, and 3) explore why some family members and firms are more like to engage in dysfunctional behavior.

What We Studied

We performed a systematic review of research on dysfunctional behavior and family firms. We found more than 8000 articles but reduced that number to 160 highly relevant studies from 64 journals. We catalogued types of behaviors, what can trigger them, and what impact they can have inside and outside the family firm. The research included surveys, interviews, and conceptual papers. The journal articles included in the review were published between 1990 and 2023; the top five journals in terms of number of articles published were Journal of Family Business Strategy, Journal of Business Ethics, Journal of Family Business Management, Family Business Review, and Entrepreneurship Theory and Practice.

What We Found

We classified dysfunctional behavior in family firms as either internal (those directed toward individuals within the business and/or the firm itself); and external (directed toward entities in the firm's environment, such as competitors, government regulators, and other stakeholders.)

The types of internal dysfunctional behaviors the research addressed included:

- Counterproductive work behaviors (e.g.,

resistance to change, secrecy, theft of company property, bullying, insubordination).
- Bias against non-family employees.
- Gender discrimination (often against female family members).
- Firm-level conflicts (e.g., favoritism, governance disputes).

External dysfunctional behaviors included:

- Fraud, financial misconduct, bribery, and corruption.
- Tax avoidance/evasion.
- Negative environmental performance.
- Corporate social irresponsibility.

Relationship conflict within the family -- characterized by animosity, personality clashes, and negative emotional interactions -- was the top source of firm-level conflict, negatively impacting company performance in several ways. We found that the triggers of internal “bad” behaviors focused on family members’ attitudes and the work context, combined with personality traits and their relationship with dysfunctional behavior. In short, a family that doesn’t get along or suffers from a lack of trust between family members is more likely to exhibit bad behavior at work.

In addition, the research suggests that external dysfunctional behaviors can be motivated by factors beyond the family’s control. For example, a business-owning family may be pressured to pay a bribe to get a business license or receive supplies. They might be tempted to indulge in dysfunctional behaviors such as tax avoidance or corporate social irresponsibility in order to keep the business afloat and financially provide for the family. These behaviors can hurt external stakeholders, but often benefit the family firm in the short term via unmerited competitive advantage, lower expenses, lower tax payments, and increased access to outside funds.

In identifying the triggers and consequences of family and firm bad behavior, we found that they could be present within the individual, firm, and environment. Common individual drivers include problematic personality traits such as narcissism and psychopathy, entitlement, a sense of unfairness, parental altruism, and deficient communication. At the firm level, the most common drivers are nepotism and prioritizing socioemotional goals that maintain family control, family firm longevity, and family firm identity. Sometimes external factors can breed family firm dysfunction, as the family weighs what is right to do versus what is right for the family. These external factors include weak institutions, weak legal protection and property rights, and pervasive corruption.

Consequences of family and firm dysfunctional behavior can be serious: high employee turnover, low job satisfaction, succession problems, poor governance, damaged external relationships, and poor firm performance.

Takeaways

Dysfunctional behavior in family firms may initially seem to bring benefits, but it ultimately leads to bad outcomes for the family, the family business, and society. Within the family, it can result in a sense of entitlement among family members, tarnished reputations, and shame for past transgressions . Within the firm, the repercussions could be decreased performance, higher employee turnover, legal issues, financial penalties, and even legal consequences for the leaders. Societal impacts include social and environmental harm, unfair competition, and increased business challenges. Thus, while anticipated benefits from dysfunctional behaviors may motivate families and their firms to behave badly, the “benefits” tend to come with severe costs.

Our research gives family business leaders several things to think about:

- Problems in the family will show up as problems in the business. On an individual level, parent/child relationships, sibling rivalry, peer influence and an influential older relatives’ attitude can shape how that person behaves within both the family and the business. And toxic dynamics within the family -- such as family disharmony and unresolved conflict and aggression -- tend to spill over into the firm.
- Relationship conflict within the family is at the heart of most dysfunctional behaviors within family firms. Along with causing counterproductive behaviors at work, it can poison necessary processes like succession planning and how the firm is managed. Effective rules, policies, procedures, and other governance mechanisms can prevent relationship conflict from turning into firm-level conflicts. Our findings also stress the

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importance of building and maintaining family harmony. A healthy family is a healthy business.

- Nepotism is considered a type of dysfunction on its own, and it often causes other types of bad behavior. For example, when poorly qualified family members are favored over non-family members in hiring, promotion, and salary decisions, the resulting feelings of resentment can cause counterproductive work behaviors among both family and nonfamily employees. Thus, besides not hiring and promoting unqualified family members, family businesses need to assure all stakeholders that the ones they hire and promote are deserving.
- The desire for family firms to last for generations may make them more likely to do whatever is necessary to survive, even bribery and corruption. When outside stakeholders, institutions, and legal protections are weak, the temptation to do "what it takes" is even stronger. To combat such ethical dilemmas, improvements in the business environment tend to help. Additionally, business-owning families should consider their reputation, since those who have a strong family firm identity and care about their image tend to be less likely to commit unethical acts.

Conclusion

Understanding dysfunctional behavior is crucial for maintaining family harmony and ensuring the long-term success of family businesses. By addressing these negative behaviors proactively, family firms can create healthier work environments and enhance overall performance.

Family firm leaders should recognize that the seeds of dysfunction are often sown in early family interactions and understand that parent-child relationships, parenting style, sibling rivalries, and dysfunctional family systems play a role in behaviors that later transfer to the family firm.

Whereas nepotism and the pursuit of socioemotional wealth (non-economic goals) can be important in preserving the values and longevity of family firms, these factors – if mishandled - can also lead to dysfunctional behaviors that have detrimental effects. Therefore, it is important for business-owning families to weigh how their decisions affect the credibility and performance of their business. By putting family "first," they may jeopardize the health and longevity of their business.

Explore the Research

Kidwell, R.E., K.A. Eddleston, L.A. Kidwell, J.J. Cater, & E. Howard. 2024. Families and their firms behaving badly: A review of dysfunctional behavior in family businesses (https://journals.sagepub.com/doi/10.1177/08944865241226739) , Family Business Review, 37(1), 89-129.

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