

## **The Application of Conflict of Interest for Value Creation in Family Businesses**

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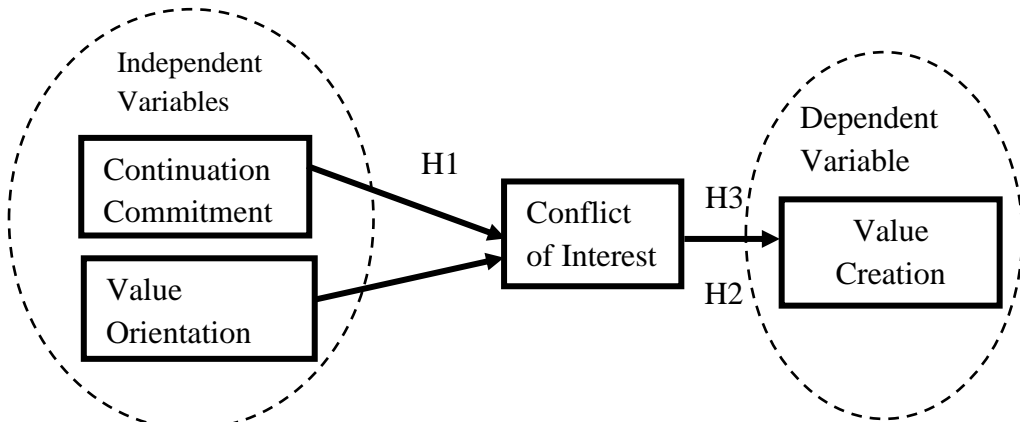
**Keywords:** *Family-oriented; Value Creation; Value Orientation*

### **Introduction**

Family-oriented small and medium businesses have a greater contribution to the economy of Sri Lanka as they account for approximately 80 percent of all businesses. Murzina et al. (2020) have elaborated that there are two types of values namely terminal values (preferred, ideal states of existence, end-state of existence) and instrumental values (preferred mode of conduct). Cross-cultural studies are integrated to identify the value orientation (VO) of family businesses in various countries (Iaia et al., 2019). The preferences of the next successor in line to get engaged with the family business and the capability of the founder and successor to avoid conflicts are considered the catalysts for the business continuity of family businesses (Merchant et al., 2018). The triumph of family businesses is dependent on the strategic planning articulated to achieve value creation. Family involvement stimulates conflicts at three interfaces, namely family business, family ownership, and family business ownership, and in the overall context, they are defined as family-related conflicts (Qiu and Freel, 2020). Deep insights into family values and how they stimulate value creation are extremely important for family businesses (Pradhan and Ranajee, 2012).

### **Objectives**

The key objective was to study the behavior of conflict of interest along with continuation commitment and value orientation to achieve the optimum level of value creation in family businesses.

**Figure 2: Conceptual Framework**

Source: Authors' compilation

The hypotheses to be tested through the research can be implied as below.

H1: There is a positive association between continuation commitment and conflict of interest.

H2: There is a negative association between value orientation and conflict of interest.

H3: There is a negative association between conflict of interest and value creation.

H4: Conflict of interest mediates the association between continuation commitment and value creation.

H5: Conflict of interest mediates the association between value orientation and value creation.

## Methodology

The quantitative approach was adapted to conduct the research. The population includes all family-oriented small and medium businesses and a sample of 111 family businesses was selected using a stratified random sampling technique. Data was collected through a survey method with the adaptation of a semi-structured questionnaire. The validity of the questionnaire was determined using a pilot study conducted among 5 family businesses. The medsem package of Stata 14 software was used to evaluate

the mediating effect of conflict of interest and to perform other analyses regarding the research study.

**Results and Discussion**

Cronbach’s alpha coefficient was adapted to determine the reliability of the constructs developed in the research. The value obtained for Cronbach’s alpha which is 0.5444 illustrates that it is lower than the reliability threshold of 0.7.

It can be interpreted according to the frequency distribution that the highest numbers of businesses are operating in the first generation and the minimum numbers of businesses are prevailing in the 3<sup>rd</sup> generation.

**Table1: Determination of correlation coefficients between variables**

	<b>Total_cc</b>	<b>Total_vo</b>	<b>Total_ci</b>	<b>Total_vc</b>
<b>Total_cc</b>	1.0000			
<b>Total_vo</b>	0.2720	1.0000		
<b>Total_ci</b>	0.4249	0.3896	1.0000	
<b>Total_vc</b>	0.0232	0.1465	0.1240	1.0000

According to Table 1 above, continuation commitment has a positive relationship with the conflict of interest and proves H1. Based on value orientation and conflict of interest correlation coefficient, H2 should be rejected. The results posit that there is a weak positive relationship between conflict of interest and value creation, but H3 is not satisfied. The alternative hypothesis cannot be accepted as the t-value is less than the critical t-value.

**Table 2: The Mediating effect of conflict of interest continuation commitment and value creation**

	<b>Coefficients</b>	<b>Z</b>	<b>P&gt; z </b>	<b>95% Conf.Interval</b>	
<b>Structural</b>					
<b>Total_vc&lt;-</b>		.			
<b>Total_ci</b>	0.14043	1.34	0.180	-0.06494	0.34581
<b>Total_cc</b>	-0.0318	-0.35	0.729	-0.21201	0.14827
<b>_cons</b>	2.32247	7.37	0.000	1.704667	2.94028
<b>Total_ci&lt;-</b>					
<b>Total_cc</b>	0.37264	4.94	0.000	0.224932	0.52036
<b>_cons</b>	1.99285	9.32	0.000	1.573649	2.41205
<b>Var (e. total_vc)</b>	0.57587			0.442658	0.74917
<b>Var (e. total_ci)</b>	0.47250			0.363202	0.61470

Table 2 above implies that coefficients for both indirect paths are not significant, which posits according to Baron and Kenny's approach to testing mediation that conflict of interest does not have a mediating effect for the correlation between continuation commitment and value creation where alternative hypotheses H4 should be rejected and accept the null hypothesis. The existence of value zero in the confidence interval represents that there is no influence of indirect effect.

**Table 3: The mediating effect of conflict of interest - value orientation and value creation**

	<b>Coefficients</b>	<b>Z</b>	<b>P&gt; z </b>	<b>95% Conf.Interval</b>	
<b>Structural</b>					
<b>Total_vc&lt;-</b>					
<b>Total_ci</b>	0.079560	0.78	0.437	-0.121246	0.280367
<b>Total_vo</b>	0.093811	1.14	0.255	-0.067695	0.255317
<b>_cons</b>	2.098667	6.29	0.000	1.444534	2.752800
<b>Total_ci&lt;-</b>					
<b>Total_vo</b>	0.313331	4.46	0.000	0.175529	0.451132
<b>_cons</b>	1.930158	7.75	0.000	1.441992	2.418325
<b>Var (e. total_vc)</b>	0.569842			0.438023	0.741331
<b>Var (e. total_ci)</b>	0.489069			0.375935	0.636251

Table 3 above implies that coefficients for both indirect paths are not significant, which posits according to Baron and Kenny's approach to testing mediation that conflict of interest does not have a mediating effect on the correlation between value orientation and value creation where alternative hypotheses H5 should be rejected and accept the null hypothesis. The existence of value zero in the confidence interval represents that there is no significant influence of indirect effect.

## **Conclusion and Policy Recommendations**

Through the research study, it can be concluded that the continuation commitment level of the successor leads to an increase in the frequency of conflict of interest as the H1 hypothesis is satisfied. According to the results, as the H2 hypothesis is satisfied it can be posited that more value orientation efforts can generate more conflicts. In contrast to the H3 hypothesis in the conceptual framework of the research study, the existence of more conflicts pertaining to decision-making in family businesses can optimize value creation. But this is not very significant and has a weak positive correlation. As the mediating effect of conflict of interest was rejected for both continuation commitment and value orientation, it can be recapitulated that both continuation commitment and value orientation can directly influence value creation capacity. This study posits that when family owners are more focused on succession planning or in other words continuation commitment, they suggest diversified plans and strategies for the continuation of the business which leads to family conflicts and ultimately more conflicts exhort more creative ideas where the final result is value creation. Through value orientation, the values pertaining to the business sphere and family spheres can be differentiated to clearly understand what they intend to achieve. When more value orientation is activated, many family owners share their perspectives on operating businesses which can generate conflicts in decision-making. The adaptation of more value orientation creates opportunities for family businesses to evaluate what goal or objective is important to them which can generate many innovative plans for the revitalization of the business. There can be situations where some family owners are more focused on the costs pertaining to various investments to benefit their family portfolio while others are more emphasized on reaching creativity of conducting business to satisfy their customers. But these conflicts positively impact businesses as more avenues for value creation can be created through idea conflicts which help to identify the best solution. The research study provides an overview of the behavior of continuation commitment, value orientation, and conflict of interest with value creation and this can support family businesses in Sri Lanka to align their strategical directions according to the behavior of these variables to achieve optimum value creation.

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