CONFLICT IN A FAMILY BUSINESS

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Failures in family-owned businesses can often be traced to friction between family members.

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FAMILY BUSINESSES are relatively straightforward to start, intricate to manage and exceedingly complicated to exit. Empirical research and anecdotal evidence both suggest that many failures in these businesses can be traced to personal conflict between family members. Television programmes present such conflicts as entertainment—and indeed they often produce good ratings. But while programmes such as Gordon Ramsey’s *Kitchen Nightmares* may attract millions of viewers who want to see conflict played out on their television screens, for those involved in conflict in a family business the reality can be the thing of nightmare.

One of the questions this poses is: why might people want to watch family conflict portrayed as entertainment?

A possible answer is that we are all members of families and can therefore relate to the various conflicts we see being acted out on screen and the pain that can result. We are also perhaps intrigued as to how these conflicts might be resolved and, when the conflict is in the context of the family business, how its resolution impacts the sustainability of the business.

**Case Study**

ONE EPISODE of *Kitchen Nightmares* featured a Greek family-owned and run restaurant, and whilst on the surface we might assume that the difficulties arose from business issues, it soon becomes obvious that there is a serious breakdown in communication stemming from conflicts between mother and son. The mother carried all of the business debt and although the son was head chef he assumed none of the debt burden. The resulting tension caused the son to lose interest in the restaurant. As the programme unfolds, it becomes obvious that not only did the son not want to work in the business, he did not want to be anywhere near it. Every time he appeared in the restaurant his mother and his Aunt, who also worked there, gave him a hard time over the high level of debt carried by his mother. There was an eventual “clearing of the air”, and having regained some of his enthusiasm for the restaurant the son again took charge of the cooking as head chef. The restaurant was revitalised by Ramsey’s makeover and it seemed that everything was back on track. However, the final part of the programme shows that after a couple of months the restaurant closed. We are not told why, but it is highly likely that the conflicts over the debt and other relationship issues may well have been the central cause. This is a recurring theme in our work with families in business. Family members often treat each other with far less respect than they treat complete strangers and this can lead to hurt, anger, pain and a complete breakdown in communication. It is all too easy for individuals to get caught up in the emotional dynamics at the expense of logical decision-making.

Many family businesses recognise the usual signs of problems in the business, such as poor cash-flow, declining balance sheet and a drop in profitability. At such a point they can, and often do, seek the help of an “expert” such as a marketing specialist, an accountant or a lawyer, who can usually assist and give support in specific areas of the business. However, the family is often reluctant to seek assistance with family issues. Clarity of thinking is often the first casualty when the business confronts the family dynamics. It is as if entrepreneurs and owners feel on safe ground when dealing with financial capital, but when confronted by the problems of dealing with their emotional capital they lose their perspective. In our experience, one of the major reasons for this unwillingness to confront and deal with the family issues is the role of the head of the business. The vast majority of family businesses are still controlled by men and the approach to succession reflects a male view of the world. In simple terms this is a style of knowing and telling which lead to assumptions and truths that largely go unchallenged. The past ten years may have seen some changes, but not fundamental ones. On the whole, men still “do the business”. Being the head of a family business, like any other enterprise, can be very lonely and it is often difficult to find the right person with whom to discuss the various issues that arise. When a family head behaves as if immortal by avoiding a planned transition, he is only being true to the drive which is part of the secret of success, but which becomes his Achilles’ heel. It is therefore all the harder to realise that the final consummation may be to “bequeath”.

Although family business consulting is well established in the United Kingdom and the United States, it is still a relatively new field in New Zealand and one that needs to be developed. To be effective, consultants must have the necessary skills and experience to work with families. The process must be both confidential and transparent,
and this requires a high level of skill and understanding on the part of the consultant and a high degree of trust on the part of the client. Alongside transparency it is also important to understand and articulate expectations. Typically, the absence of a planned transition in the family business, involving all of the key stakeholders, will more than likely lead to expectations not being met and will result in conflict—usually between generations of the family.

**Common Causes of Conflict**

Many issues can cause conflict and affect the sustainability of a family business. Here we concentrate on three: ownership, control and envy.

**Ownership**

Handing over ownership of the family business is an emotionally sensitive process with the potential to create significant conflict between parents and their children and between siblings. In the past there were unwritten rules about how property was transferred. Farms, for example, were passed down to the eldest son and whilst daughters may have found this unfair, it was accepted as “the way it was done”. Sons and daughters knew the unwritten rules and what they meant in practice. Each gender was groomed differently for their future roles with the family business.
There is no right or wrong answer to the question of ownership succession and it is rarely possible to achieve an outcome that is seen as equitable by all involved. Fairness is in the eyes of the beholder and its application to passing on the family business is likely to be the source of an almost infinite variety of interpretations.

There is no right or wrong answer to the question of ownership succession and it is rarely possible to achieve an outcome that is seen as equitable by all involved. Fairness is in the eyes of the beholder and its application to passing on the family business is likely to be the source of an almost infinite variety of interpretations. Peter Senge, director of the Centre for Organisational Learning at the MIT Sloan School of Management, writes of mental models as “deeply ingrained assumptions, generalisations or even pictures and images that influence how we understand the world and how we take action.” Sometimes the real world perception of an individual is not wholly accurate, perhaps due to a lack of real knowledge about a particular situation. Or it may be a topic that is difficult to discuss — often referred to as “the elephant in the room”. But if such issues are left unchallenged, the underlying assumption or perception can become so ingrained that when a different perspective is offered it causes conflicting emotions.

In the context of family business, mental models can create expectations that may be unrealistic, and when a person’s expectations are not met, powerful emotions can be released that often result in conflict. For example, when key family members are not informed of ownership succession plans they are pre-determined to act in a certain way, based on incorrect assumptions. If a son assumes he will take over the family business, and hasn’t realised that his sister has been identified by the outgoing generation as the best future leader, it would only be natural for him to act as a future chief executive. We can imagine the conflict that could arise if his sister was unexpectedly given that role. Individual values, beliefs and upbringing can influence a person’s mental model. Therefore it is important when working with a family that we investigate each key stakeholder’s deepest and most profound goals, values and aspirations through a process of structured and non-judgemental enquiry.

Control

GIVEN THE complexity of ownership transition, the question of who has control represents a crucial decision. “Insider” and “Outsider” owners (i.e. owners who work in the business and owners who don’t) typically have different perspectives on share ownership. Outsiders often regard the insiders as plunderers of their legacy. They view their shares in the family business as poor investments because they are too concentrated, offer too little return, and are subject to too much control by insiders who divulge

little information and pay inadequate dividends. Insiders, on the other hand, view the outsiders as parasitic, detached investors who are uninterested in the growth of the business, too focused on distributions, overly vocal with advice and criticism and too willing to inject family concerns into business decisions. Such differences can breed a resentment that is detrimental to the effectiveness of the ownership group as a whole or harmful to personal relationships.

Regardless of how well the family gets along, old rivalries, new in-laws, or something completely unforeseen can trigger a conflict between “parasites” and “plunderers”.

One way to reduce the risk of resentment and tension between inside and outside owners is for the family to develop a governance system (structures and processes) to direct and control the family business.

The objectives of the family governance system are to:

• Provide clarity on the roles, rights and
responsibilities of family members, owners and business members

- Bring the right people together at the right time to discuss the right (important) things
- Provide the means to resolve differences and minimise conflict
- Reconcile individual rights, values and expectations concerning the business
- Reconcile the different concerns of the family and the business (see figure 1)
- Enable the sharing of information
- Help the board of directors and senior management focus on the best interest of the business (not on the interest of any particular individual or branch of the family) and resolve business issues by regulating appropriate family and owner participation in business decisions.

The process of working together to develop a governance system that articulates the family’s vision and core values can itself help align the family and make family members feel closer.

Frequently, families attempt to develop a governance system without the assistance of an outside specialist, which risks opening up issues that cannot be easily dealt with and often leads to greater conflict. Without an outsider facilitating these development sessions, family members can be cruel and act with a complete lack of respect for each other. It is amazing how much bad behaviour family members endure from one another; but equally surprising how that behaviour changes when there is a non-family member present.

Developing a family governance system takes time and many business owners are so busy with day-to-day operations that they keep putting it off. Generally, families initially take some time out to develop a system of governance, but find it takes more time than they anticipated. It is an on-going process, requiring reviews and amendments to accommodate changes in the family and business. A family governance system won’t necessarily identify a specific person or persons to assume ownership,
management or control, but it provides a written set of rules and policies to give members a sense of identity and mission that transcends their rights as owners and their roles in the business.

Envy

ENVY IS another contributing factor to conflict in the family business, and in surprising ways. It is often related to conflict around business succession and control decisions that a family may make and the mental models that family members have created. Left unresolved, envy has the potential to fragment the family and do real damage to the business. Commonly when there is envy between siblings it can be seen by other family members and is often evidenced in snide comments and put downs, but often these issues are not addressed for fear of creating conflict.

Envy has its roots in childhood and can stem from anxieties about being rejected, unfair treatment between siblings from parents, or expectations put on one. Sometimes it comes from distorted perceptions and sometimes it is justified in fact. For example, it may be that a father sees his son as the family’s future business leader, and so grooms the son to take his place. The daughter may be envious of her brother as a result, but her perception may lead her to believe that her father loves her less. In reality, the father may believe that the son is the right person to lead the business, which he plans on transferring ownership on a 50-50 basis. He may therefore want his son to head the business in order to best protect his daughter’s share. Another example of envy in the family business is when a father does not want to surrender control of the business to his son in case the son does a better job than he did and consequently diminishes the father’s image.

Envy can be a very damaging element in the constellation of the family, and when transferred to the family business and combined with all of the other emotions facing the family when they work together, it can be even more destructive.

Conflict

WHEN THERE is conflict in a family business, most of the problems are caused by individuals within the family. They do have a say in their problem and the power to alter the outcome. Achieving this may mean working with professionals who understand the dynamics of family businesses.

If the family and their advisers get it right the often painful journey they have taken together will have been worthwhile and the devastating consequences experienced by a significant number of families in business can be averted.

Surely it will only be a matter of time before reality-television producers will see the abundance of opportunity to expose the unique human elements of families in business. They have scraped the surface of some issues that have intrigued us in Gordon Ramsey’s Kitchen Nightmares and the UK programme Country House Rescue. But we are yet to see a closer examination of the specifically unique issues and the possibility of the unique solutions available for families in business. If, or when, this happens one benefit will be the message that help is available.

KEY TAKE-OUTS

- Many failures in family-run businesses can be traced to personal conflict between family members.
- The organisational structure of family businesses makes them less likely to seek outside assistance over such issues as ownership, control and envy that threatens their viability.
- When consultants are engaged, the process must be both confidential and transparent, and this requires skill and understanding on the part of the consultant and trust on the part of the client.