

10 TIPS FOR MANAGING FAMILY BUSINESS CONFLICTS

THE MAJORITY OF ASIAN FAMILY OWNED BUSINESSES ARE LIKELY TO FAIL BECAUSE OF INTERNAL CHALLENGES - WITH THE KEY ISSUE BEING INEVITABLE - AND DESTRUCTIVE - FAMILY CONFLICTS. SO IF A FAMILY WANTS TO PASS A SUCCESSFUL BUSINESS ONTO THE NEXT GENERATION, IT NEEDS TO DEVELOP ITS OWN TOOLS AND SYSTEMS FOR MANAGING CONFLICTS.



Christian Stewart. The majority of family firm conflicts are predictable. Conflict avoidance will do more harm

to a family than facing up to difficult situations; instead it is important to have an agreed “conflict resolution process”.

The tips on these pages will help to address:

- Conflicts over strategy and direction
- Conflicts because there are too many family member “bosses”
- Conflicts over who may or may not be employed
- Conflicts over the treatment of family members in the company
- Conflicts over compensation
- Conflicts over succession
- Conflicts among siblings
- Conflicts due to different ownership philosophies
- Conflicts between inside and outside shareholders
- Tensions involving spouses

1. Family meetings

One of the single most effective practices that a family which works together can implement is to hold periodic family meetings.

Holding periodic family meetings helps to ensure that there is a forum for family (and often also for ownership) issues to be discussed.

2. Establish shared family values, goals & objectives

Shared family values help to provide “family glue” and become a tool in joint decision making.

Shared goals and objectives for the business put everyone on the same page.

3. A conflict resolution process

Conflict is inevitable. A clearly agreed conflict resolution process for raising and working through conflicts might include:

- First, an agreement to attempt to resolve conflicts through facilitation or through the input of family elders;

- Second, engage in a formal mediation process with professionally qualified mediators;
- Third, that the dispute be resolved through binding private arbitration; and
- If all of the above fails, then litigation in the court system.

4. A code of conduct

It is very useful for families to develop a code of conduct which specifies the behaviour expected of family members.

Important code of conduct rules can include commitments that each family member will:

- Take responsibility for managing their own emotional reactions
- Invest time in the relationships with their fellow family shareholders
- Speak with one voice to the non-family directors, staff and the public

5. Family business policies

Many family business conflicts are predictable. Preparing written family policies before conflicts arise will mean there are specified ways to resolve conflicts -- if and when they do occur.

Family business policies help to define the boundary between family and business, and to strike a fair balance between ownership and business.

Examples include a family employment policy, a dividend policy, a liquidity policy and a compensation policy.

6. An exit plan

This is a process through which a family member shareholder can sell some shares in the family business, reducing their stake or ultimately completely exiting from ownership.

It is usually documented in a legally binding shareholders agreement.

An exit plan gives shareholders a way out if they do not believe in the direction that the business is being taken.

An exit plan can prevent disagreements over the valuation of shares.

7. Outside directors

One of the best ways to strengthen a family business is to ensure that there are several non-family, non-executive directors on the board of the company.

Outside directors can help to bring an objective view, particularly with respect to the performance and skills of family members in management roles.

Outside directors can help to mediate disputes between family members.

8. Family elders

In many Asian families, there is often a communication gap between the generations.

Electing someone who can be trusted by both the senior generation and by the next generation is a good way to help to bridge this communication gap.

A family elder can be an uncle, aunt or an in-law; or they could even be a well-trusted non-family member.

A family elder can help to mediate disputes between family members.

9. Family education & development

Family members that plan to work together should invest time to attend external training and development activities to learn tangible skills, such as:

- Listening skills
- Conflict resolution skills
- Approaching difficult conversations
- Developing greater self-awareness
- Understanding people & personalities

- Understanding family dynamics
- Understanding family owned businesses

10. A family constitution

A family constitution is a written document, developed collaboratively by the family members, usually incorporating all of the above tips & tools.

The family constitution can either include key family policies, or it can define the process for developing family policies.

It should set out a fair decision making process for the family to follow.

The process of creating a family constitution will also provide an opportunity for the family members to clarify the different roles and responsibilities that exist within their family business.

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