



IFB Research
Foundation

FAMILY BUSINESS CHALLENGES

No. 7

MANAGING DIFFERENCES

Practical guidance for family business owners and managers

SECOND EDITION

Section 1. INTRODUCTION

Family businesses are especially vulnerable to conflict. Within a non-family enterprise, expressing conflicting views is generally encouraged as a healthy part of business creativity. But business families are often wary about this, with family members preferring to avoid disagreeing with each other, resulting in suppression of normal communications.

Relationship conflict. Difficult family relationships, manageable under normal circumstances, can break down when placed under the amplified pressure of running a business (see Exhibit 1). Also, arguments can be passed down the generations, their roots lost in family mythology, with quarrels triggered by surprising and seemingly unrelated events. But regardless of how they're "dressed up", most family conflicts involve relationship issues.

Exhibit 1: Interpersonal conflict in family firms

"Beginning with the first sibling rivalry between Cain and Abel, dysfunction and conflict have been present within families, creating the age-old problem of jealousy, bitterness, lack of forgiveness, perceived unfairness and battles for parental attention. Conflict within a family is different from most other types of conflict. Families tend to deal with their problems internally and do not discuss the issues in public. Family members are emotionally attached to each other, and they are in long-term relationships. Families in business with each other interact every day, rather than merely on holidays and special occasions.... Resentments bubble over when family members see each other on a daily basis and must work with each other. The emotional attachments increase the depth of conflict. Family members do not expect to be mistreated by members of their own family, which multiplies the hurt, anger and bitterness."

Source: Keanon Alderson (2015) "Conflict Management and Resolution in Family-Owned Businesses: A Practitioner-Focused Review", Journal of Family Business Management, 5(2), pp.140-156, at p.141.

In the long term, relationship conflict can have disastrous consequences and lead to the demise of family firms. Dysfunctional relationship conflict centres on negative emotions like annoyance, anger, frustration and dislike, breeding animosity, distrust and rivalry among family members. While harmonious and close family relationships are a source of competitive advantage for family businesses, relationship conflict has the potential to weaken stewardship, undermine cohesion, reduce performance and damage a family firm's ability to compete.

Common causes of conflict. It's not hard to predict potential battlegrounds for business families:

- **Unequal access to scarce family resources.** Stresses within business families often concern who has the power to assert his or her interests, and conflicts thrive on inequality of access (real or perceived) to family resources – like power and influence, money and time, love and appreciation. In older family businesses, power struggles can arise between owning families.
- **Family psychology let loose in the business.** Sibling rivalry and inter-generational conflict are normal, arguably healthy parts of growing up. Usually they fade when family members "grow apart" and take their separate paths in life, but family businesses can lock rivalries in place.
- **Entitlement culture.** Where the next generation feel they have a right to a well-paid

- **Unconfirmed or false assumptions.** For instance, “Some day this will all be yours” ... but will it? Seniors sometimes make “promises” when the next generation are pressing them to retire. Interpersonal conflict, poor communication and poor planning in the lead-up to succession leads to the demise of many family firms.

- **Financial matters.** Disagreements about remuneration and rewards. These can include seniors taking money from the business to provide financial security in retirement, which may be seen by the next generation as depriving the company of resources for investment.

- **Culture-based conflict.** Sons being favoured over daughters, for example, regardless of talents and skills.

- **The role of in-laws.** Often welcomed into the company to increase the family talent pool, although sometimes barred from involvement, spouses represent another potential flashpoint for family businesses.

Preventing and managing conflict. Business families need to create and maintain positive, healthy relationships. They should understand how conflict arises – particularly the special tensions created by being in business together – and be prepared to work as a team to monitor the causes of conflict, build trust, and prevent or solve problems.

Spotting this foreseeable challenge. Family business conflict will surface from time to time – it’s a foreseeable challenge. Keeping an eye on potential hotspots and risk factors provides an opportunity to think about where the next problem may arise so it can be addressed in advance.

Building a conflict prevention environment.

- **Maintain clear values and vision.** Conflict often arises when values and priorities become confused or are disregarded, so keep family values and goals under review. This reinforces family commitment, respect and trust. (See the “Maintaining Family Values” Challenge in this series.)

- **Encourage honesty and transparency.** Families can be prone to secrecy and “hidden agendas” (see Exhibit 2). A family culture of integrity and openness promotes engagement, confidence and collaborative thinking. Competent, confident people tend to feel less need to blame others, and be more willing and able to compromise and see the other’s perspective.

- **Communicate.** Improve your communication skills and create opportunities for constructive family dialogue. This helps identify and resolve issues before they escalate into conflict. (See the “Strengthening Family Communication” Challenge in this series.)

- **Establish governance protocols.** Lay down written rules about how decisions are to be taken and disputes quickly resolved. This depersonalises the situation reducing emotion around the process. (See Exhibit 3 on governance and conflict management.)

Exhibit 2: Elephants in the room – the “undiscussables”

“Undiscussables are typically highly charged emotional issues where pain, guilt, embarrassment or shame often lurk. Heightened emotions prevent family members from feeling comfortable enough to open discussions without hurting feelings or causing mayhem. Sometimes topics are undiscussable because family members are afraid of pushing someone further away emotionally and psychologically.... In a family business, too often the issues break loose in an unsuspecting manner where pent-up emotions spill forth in a destructive way. Unfortunately this reinforces the family’s fear of these topics, leading to more avoidance and creating more tension.”

Source: Deb Houden and Wendy Sage-Hayward (2016) “Undiscussables: Dealing With the Elephants in Business”, The Family Business Advisor Newsletter (available at: www.thefbcg.com/undiscussables-dealing-with-the-elephants-in-family-business).

Exhibit 3: Good governance and effective conflict management

“Experience shows that those who agree when things are going well how they will deal with any differences that may arise between them in future stand a much better chance of keeping their conflict circle virtuous. Good governance is crucial to effective conflict management; equally, good conflict management is a fundamental part of effective governance.”

Source: Ian Marsh (2009) “Conflict management and dispute resolution”. In Part VII of Ian Macdonald and Jonathan Sutton (eds), Business Families and Family Businesses: The STEP Handbook for Advisers, London: Globe Law and Business, pp.229–240.

What if prevention fails? Where conflicts do arise, families need to intervene decisively to prevent polarisation, stop situations running out of control and to repair relationships. Remember:

- With suppressed family conflict, years of genuine and imagined grievances may have to be “unpacked” before there’s any chance of dealing with the real problems.
- For sibling and inter-generational partnerships to work, family members must continually invest in their relationship. Rivalry can be reduced by carving out for protagonists’ managerial autonomy within the company, providing space to grow and mature.

Take outside advice. Sometimes there’s so much “history” and positions have become so entrenched that the family alone may struggle to deal with the situation. In these cases, third-party intervention by family business advisers can be valuable: a neutral outsider as facilitator or moderator can introduce a fresh perspective. Advisers may be able – through the process of conflict resolution – to improve family interactions and communication.

Section 2. ACTIONS TO CONSIDER

- **Education:** How well do members of our family understand the sources of conflict?
- **Governance:** Have we developed a structured framework for family and corporate governance? Do our governance rules include clauses on conflict management to heighten awareness among family members?
- **Communication:** How often – and how well – do we communicate as a family?
- **Empathy:** When tensions arise, how good are we at putting ourselves in others’ shoes and understanding how they see things?
- **Rules:** What processes do we have for dealing with conflict? Do we have a “go to” person, to serve as regulating authority addressing family conflict?
- **Decisiveness:** How good are we at addressing problems quickly, or do we tend to put things off?

Add Your Questions

CASE STUDY: Linn Products



Ivor Tiefenbrun MBE founded the Glasgow-based hi-fi company Linn Products in 1973, but in the early 2000s illness forced him into temporary retirement.

His son Gilad then joined the company after an initial career in related high-tech businesses. "It was not planned that we'd work together," Gilad explains, "in fact it was a pre-condition of me joining that we would never work together, because we both recognised how this would surely lead to conflict."

A wise friend of Ivor's recommended Gilad attend the Owner/President Management programme at Harvard Business School, which he completed in 2008. Then, with health restored, Ivor re-joined the business, and it was at this point that father and son grasped the nettle of how to set about building a working relationship.

Gilad's studies supplied helpful ideas about communication and governance in family firms, and they quickly established an independent board, including non-family non-executive directors, with Ivor as Executive Chairman and Gilad as MD.

But it was at a personal level that father and son had to work hardest. Instead of informal conversations, which tended to deteriorate into spontaneous conflict, they set up regular, diarised, agenda-based meetings with each other.

These meetings – held weekly for the first year, and now every two to four weeks – have served to "de-emotionalise" their working relationship by providing structure and discipline. But they've also helped change Ivor's ad hoc "founder's approach" to running Linn Products – tried and trusted (and thoroughly appropriate) in the early years of the business, but now needing modifying in favour of a more collaborative and professionalised approach.

"In effect," says Gilad, "what we've done is to make sure that it's no longer all about father and son. We've replaced informal father-son interactions, which were a recipe for conflict, with solid structures and procedures that are more like chairman and managing director relationships found in non-family companies.

There's obviously still tension from time to time, but the framework is now in place for managing our differences in a much more effective and thoughtful way."

Section 3. RESOURCES

Articles and reports

Conflicts that Plague the Family Business

Harry Levinson (1971), *Harvard Business Review*, March–April, pp.90–98.

Although written almost 50 years ago, Harry Levinson's pioneering article is still the best starting point for gaining an understanding of the main causes of conflict in family companies.

Conflict Management and Resolution in Family-Owned Businesses: A Practitioner-Focused Review

Keanon Alderson (2015), *Journal of Family Business Management*, 5(2), pp.140–156.

A readable and comprehensive review of the academic literature concerning conflict affecting family businesses. After differentiating the types of conflict present, the author draws together recommendations for effective mechanisms (especially governance tools) to help prevent, manage and resolve conflict. The article also includes case note examples of well-known family business conflicts.

How to Manage Chronic Conflict in Your Family Enterprise

Deb Houden (2016), *The Family Business Advisor Newsletter*, published by the Family Business Consulting Group (and available at: www.thefbcg.com/how-to-manage-chronic-conflict-in-your-family-enterprise).

Practical guidance on chronic interpersonal conflict, and the resulting confusion, anger, frustration and defensiveness: "How can you start to better handle that one sibling, that one cousin, that one uncle or aunt who drives you nuts?" The article explains how an individual's response to a conflict situation can be repeated so often it becomes a habit that's difficult to break. In effect, we encounter a cue, which triggers our response, which provides a reward. The author offers useful suggestions about how to break this cycle, by learning to identify cues and the behaviour patterns they trigger, and by developing ways to modify behaviour.

Books

Managing Conflict in the Family Business: Understanding Challenges at the Intersection of Family and Business

Kent Rhodes and David Lansky, published by Palgrave Macmillan (2013).

The book identifies patterns of family business tensions and conflict, and offers practical guidelines for managing them. The authors present the problem of conflict as understandable and normal, and address common sources of tension in family-owned businesses, including compensation and ownership; triangulation; scapegoating; sibling rivalry; and divergent attitudes to money. The book analyses how to spot these triggers, and concludes with sections on how to reconcile differences, manage outcomes and resolve conflict.

Siblings and the Family Business

Stephanie Brun de Pontet, Craig E. Aronoff, Drew S. Mendoza and John L. Ward, published by Palgrave Macmillan (2012).

Although a normal part of family life, sibling rivalry carried over into the family business can have a corrosive impact. The authors emphasise the importance of understanding the nature and causes of sibling rivalry before taking steps to control conflict. Shareholdings, reward structures and task allocation should be negotiated to ensure the next generation feel motivated and rewarded for their participation in a family company that they all wish to see succeed.

Conflict and Communication in the Family Business

Joseph H. Astrachan and Kristi S. McMillan, published by Family Business Enterprises (2003).

Following a perceptive introduction on understanding the causes of conflicts and their psychological and emotional content, the book goes on to focus on improving communication as the most effective approach to managing differences in family businesses. "Good communication doesn't eliminate conflict," the authors argue, "but it does help you manage it effectively so that it does not become poisonous, overly emotional and destructive."

Unconventional Wisdom: Counterintuitive Insights for Family Business Success

John L. Ward (ed.), published by John Wiley & Sons (2005).

See Chapter 7, “Resolving Conflict in Family Businesses: Don’t Be a Hostage to Family Harmony”, by George Kohlrieser. An unusual and thought-provoking discussion of conflict in family businesses.

Family Wars: Stories and Insights from Famous Family Business Feuds

Grant Gordon and Nigel Nicholson, published by Kogan Page (2008).

Dramatic accounts of conflicts and feuds that have threatened to bring down some of the world’s greatest businesses. These stories highlight how universal, age-old sources of family tensions – usually manageable under normal circumstances – can turn out of control when subject to the added burden of a family running a business. The book includes (in Chapter 9) symptoms and warning signs to look out for and practical advice on managing family business risks.

Family Business Challenges

The Family Business Challenges second edition series includes 18 guides overing three areas:

Family business dynamics

- No.1 Understanding Family Business
- No.2 Maintaining Family Values
- No.3 Developing Stewardship
- No.4 Engaging the Next Generation
- No.5 Planning Succession

Family business governance

- No.6 Building Family Governance
- No.7 Managing Differences
- No.8 Fostering Responsible Ownership
- No.9 Strengthening Family Communication
- No.10 Professionalising the Board
- No.11 Enhancing Communication with the Board
- No.12 Employing Advisers

Family business management

- No.13 Fostering Entrepreneurship
- No.14 Embedding Long-term Orientation
- No.15 Promoting Sustainability
- No.16 Maximising People Capital
- No.17 Branding the Family Business
- No.18 Selling the Family Business

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Simon Perry, Author. Simon is a law graduate and trained as a barrister. He moved into publishing in the early 1990s. His work focuses on family businesses, writing academic and practitioner analyses and family enterprise histories.

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FAMILY BUSINESS CHALLENGES

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