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Getting a grip on conflict

BY DOUG BAUMOEL

WHY IS CONFLICT in family enterprise often so extreme and intractable? It is extreme because roles in a family business, or access to family wealth, are not as negotiable as these issues would be in a non-family enterprise. This is true in large part because family members tend to take their role in the business very seriously. The disagreement is about more than just a job or money, it's about what these signify to the stakeholder. Dismissing conflict in a family enterprise as greed is too easy. More often, stakeholders are fighting about very real emotional needs, such as self-purpose and personal identity.

Whether they are motivated by the desire for financial security, access to society's upper ranks, acknowledgment by the family or the resources to be all they can be, stakeholders go to great lengths to preserve (or advance) the status quo when their position is threatened. When coupled with the highly emotional system that is family, the enterprise becomes a crucible for extreme conflict to develop.

> *When ongoing relationships are at stake, taking a systems approach to conflict management ensures sustainable success.*

Conflict is complicated

Conflict in a family enterprise is often multilateral in nature and built in to the overlapping systems that make up the enterprise (ownership, business, governance and family). Attempts at individual dispute resolution rarely have more than a temporary impact and can actually make matters worse. Simply applying a "best practice" to the individual systems often fails to produce long-lasting outcomes.

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Managing conflict in a family enterprise is particularly challenging because of the importance of the family relationships. Unlike civil disputes, in which the parties may battle and then walk away, enterprising families remain connected. Therefore, it is important to consider how the conflict will be managed, the impact of the settlement on the parties' relationships going forward and how the other interconnected relationships will be affected.

Understanding systemic conflict

A systems approach to managing family enterprise conflict may be understood best by breaking conflict down into its component parts:

Historical impasse: Families who work or own assets together bring their history with them into the enterprise. Often these histories are difficult—containing past hurts, betrayals and compromised trust buried under the happier experiences they would prefer to remember. As the dynamics of business challenge the family relationships, old feelings surface and give rise to active grudges and distrust.

Incompatible values: Families breed a variety of personality types, each with their own talents, skills and values. Such divergent values may give rise to conflict when the stakeholders rely on each other in a business or shared wealth setting. Differences in risk tolerance, frugality and work ethic as well as issues around substance abuse, personal ethics and even personality clash may lead to untenable working relationships and conflicting visions for the enterprise. Or, simply put, family members may not like or respect each other (or each other's spouses), but are forced by circumstances to work and own assets together.

Opposing goals: Whether driven by different values, facts or needs, stakeholders' visions for the enterprise may not always be aligned. As a result, decision making can become stalled, or worse.

The trigger: Some families may have all the ingredients that underlie conflict but seek to avoid it at all costs. They remain stuck and unable to make timely decisions, potentially bringing about devastating effects on the business, the estate plan and the family. Active conflict, however, requires a trigger. For example, when a stakeholder exerts power in a manner perceived by others as arbitrary, without moral or legitimate authority, lacking factual basis or with malicious intent, active conflict is triggered.

Managing systemic conflict

There are three principal approaches to managing conflict: bargaining, force and development. Once the sources of conflict have been identified and broken down into their constituent parts, matching the appropriate approach to each component is critical.

1. Bargaining: Conventional dispute-resolution techniques, such as direct negotiation and mediation, may effectively address economic issues of money, power and control. However, one cannot bargain the values of affection, talent and commitment—nor history. Bargaining, therefore, is effective only for negotiating specific goals and deciding how decisions are made.

2. Force: Any attempt to force an outcome to one's advantage through the use of power (i.e., litigation or threats of retaliation) runs the risk of exacerbating the conflict. After all, if conflict is triggered by the disrespected use of power, any additional use of power to manage it is likely to make matters worse. As with bargaining, whatever the motivation for using power may be, it can address only issues of opposing goals and how decisions are made. Feelings, history, talent and psychological issues do not respond to force.

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3. Development: While not a term usually associated with managing conflict, development—both structural and personal—can be the most effective approach to managing the systemic conflict that is unique to a family enterprise. It is especially effective when continuing relationships matter. Development is the process of identifying deficiencies and improving them.

• *Structural development.* Often in a family business, reporting structures, compensation schedules, policies and procedures, agreements and strategy may be the breeding ground for conflict. Ambiguity in documents, inappropriate reporting mechanisms, and inefficient communication and process can cause conflict because these all represent structural power entities. It is much easier to change such things than to change the people involved. Often the "low-hanging fruit" in family enterprise conflict management may be found in structural development of the system.

Specialists in the functional areas of the enterprise can have great impact by evaluating documents and structures, and then providing best-practice advice and independent guidance—for example, by suggesting ways to improve governance. Rather than merely professionalizing the company, the intention should be to support the enterprise in growing itself out of conflict-generating systems by addressing structural issues that underlie or exacerbate conflict.

• *Personal development*. Stakeholders can seek to grow themselves out of conflict through coaching and education, by developing increased empathy for and understanding of others, and by addressing psychological issues and longstanding resentments.

The development approach

Development, both structural and personal, is the only one of the three conflict-management approaches that can address values and historical impasses. In fact, as individuals learn more about themselves and the structures they are engaged with, many opposing stakeholder goals may get resolved.

For example, if a sister with a low tolerance for risk has been fighting her brother's attempts to grow the company but then makes the effort to learn more about the market and the company's finances, she may become better able to manage her fears and therefore support the goals for growth.

Moreover, when values and historical impasses are addressed first, it is likely that any subsequent negotiations will be more successful. If litigation is still considered, there's a greater probability that the focus can be on the search for truth and justice rather than revenge and coercion. Arbitration or mediation then becomes an option.

It is important to be aware of cases in which the family bond cannot work to leverage compromise or a commitment to personal change. When the family lacks the will to rebuild trust, address old resentments and develop a vision for how to be family in the future, litigation or separation might be the likely outcome.

Collaborative teamwork

Following a comprehensive systematic approach such as this will lead to a list of opportunities for structural and personal development. It will also help family members to identify those issues that may be resolved through mediation and those that may require third-party intervention.

An effective conflict management team may include attorneys for document review, estate planning and expert opinion; business consultants for organizational and strategic analysis; a wealth manager for planning purposes; accountants; valuation experts for historic and comparative performance evaluation; and a psychologist or clergy member to address emotional, personality and forgiveness issues.

This team of professionals may guide the effective and reliable management of systemic conflict by working collaboratively with a common understanding of how the various systems interact and by being mindful of the importance of the ongoing relationships.

Understanding the systemic nature of family enterprise conflict leads to approaches that improve the individual skills of family members and other stakeholders. It also strengthens the organization's processes, policies and agreements. The result is a family and an enterprise that are sustainable and resilient. FB