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5 strategies to minimize the impact of conflict

Policies function as a constitution for the business, laying out the organization's intentions to minimize disagreements

About 15 years ago, Ken Gilbert received a call from a client who was driving to see a divorce attorney.

"He told me that he had hired the most powerful divorce attorney in the state," says Gilbert, a founding partner at Business Consulting Resources. "His thinking was 'I have to clobber her, or she is going to take the business.'"

Gilbert convinced the client to come see him instead of the attorney. They discussed the couple's issues, which mainly stemmed from the husband's workaholic habits. His intense focus on work led him to neglect his family.

"I sat down and told him that if he got divorced, he'd probably lose the business anyway," Gilbert says. "Divorce is disruptive, and good luck fighting over the business in court."

They came up with a plan for the business and family, and today one of the couple's daughters runs the second-generation family business. The moral of the story? A neutral third party dedicated to finding solutions that work for both the family and the company can be an invaluable asset for a family business.

Depending on the family and the business, that third party could be a business consultant like Gilbert, a family therapist, or a financial adviser who specializes in multi-generational businesses.

Conflict — especially within families — is part of human nature, and experts say it's impossible to completely remove it from family businesses. That's because family conflict, in particular, can stem from childhood resentment or anger from which adults have never fully healed.

"If left unaddressed, those sources of conflict exert tremendous forces of separation on the family, and it pulls the family apart," says Joseph Astrachan, founder and chair of family business consultancy Generation6. "Those are the things that keep you from giving each other the benefit of the doubt, that keep you from being able to express your love and care and concern for one another."

That said, there are several strategies that can help minimize its impact on the business itself.

In addition to having trusted third-party advisers, families can use the followings strategies to minimize family conflict and effectively manage it when it does arise:

Have written policies in place

Written policies that clarify how the family will address potential pain points, like dividends or succession planning, establish a framework that the family can use to come to group decisions. These policies also provide a structure the family can turn to when conflict arises. Still, fewer than half of the family businesses that participated in a recent PWC survey (https://www.pwc.com/gx/en/family-business-services/family-business-survey-2021/pwc-family-business-survey-2021.pdf) [1] have codified governance policies.

Written governance is particularly helpful for family businesses once the second or third generation is running the business and making leadership decisions.

"With each generation, there tend to be more people to choose from, and often those relationships become more complicated," says Meredith Persily Lamel, CEO and founder of executive coaching firm Aspire@Work (mailto:Aspire@Work) [2]. "And those relationships become more complicated, especially if you're starting to deal with cousins and spouses. That's very different than just the parent to the child."

These policies they can function as a constitution for the business, laying out the organization's intentions to minimize disagreements about potentially contentious topics. Governance documents may also set out expectations around how the family will act both within and outside of the business, as well as repercussions for family members who do not adhere to the family policies. It's important to revisit and revise these policies over time, because growth of the family and generational change are likely to render some clauses obsolete.

Larger businesses should also have a codified handbook with human resource policies for staff.

"Even very successful family businesses sometimes don't want formalized HR practices or job descriptions," says Eddleston, a professor of entrepreneurship and innovation at Northeastern University. "They love the level of power and control, but not having things in place for hiring, promotions, or evaluations can create conflict when things start to go wrong."

Host regular family meetings

Regular family meetings serve several purposes when it comes to minimizing conflict. They allow a forum for structured discussion of sensitive topics and can strengthen family relationships. Best practices for effective family meetings include having a designated leader and a pre-established agenda of items that the meeting must address.

Astrachan suggests giving everyone who attends the family meeting an opportunity to talk.

"You want it to really be a meeting, not a debriefing, so you want to build in time for everyone to participate," he explains.

By sharing the agenda in advance, family leaders can ensure that no one feels blindsided by a topic or an issue. It also allows participants to prepare for items that might require discussion or input.

While the last two years have proved that virtual meetings are a viable option, the more that they can take place in person, the better.

Bring outsiders onto the board

Having external industry experts serve on your board can bring fresh perspectives to the family business and offer a point of view that puts the best interest of the business ahead of the family's interests. Independent directors' experience outside the family firm can also bring insight into how the company's salaries and corporate policies stand up against industry standards.

"The idea is that you get the board members who don't have a conflict of interest to be trusted by people who don't trust each other," Astrachan says. "Then they can start to build some internal trust."

A board with outside members can also advise on issues that can cause conflict, including succession planning and corporate strategy. In addition, non-family board members can boost accountability among family members through a more formal process that de-emphasizes interpersonal family dynamics. As with management, clearly defining the scope of work for directors—including internal leaders, family members and third-party advisers—allows a board to function properly and can minimize potential conflict later.

Plan for the worst

Often conflict in family businesses occurs during times of stress. The precipitating event could be within the family (a death, serious illness or divorce) or within the business (loss of a large client, shift in market demand), but when emotions run high the potential for family conflict runs high as well.

By planning for such events when times are good, families can take a rational approach to determining a course of action. These means having a succession plan in place (and updating it regularly) and discussing risk management scenarios during family meetings and board meetings. It's also important to make sure all family members know about and understand such plans.

"I've seen estate plans that were very well done technically, but they fail because they were not well communicated to the family," says Key Eyler, certified public accountant and CEO of Aquilance, a financial services company for highly affluent families. "Then, when something happens, people start to fight and argue."

While different family members might have different appetites for business risk, having such discussions ahead of time can make it easier to get on the same page.

Set expectations with the next generation early

If you expect your children to come into the family business, it's important to discuss whether they're on board with the plan—and set expectations

"I can't tell you how many times I meet the rising generation, and they say, 'I can't do anything right. I don't know what I'm supposed to do, but I can't do it right,'" says family business consultant and speaker Jolene Brown.

For many businesses, prerequisites might include at least a college degree and some work experience elsewhere.

"That's great for the family, but it's also good for the candidate," Persily Lamel says. "If you've only worked for your family business, there's always going to be some self-doubt about how much of your opportunity is just because you're part of the family."

Including siblings, cousins or other next-gen leaders in family meetings can also impress on them the unifying power of the family's values and the importance of working together as a team rather than competing against each other. Discouraging sibling rivalry from an early age can also set up families for success.

"Issues of fairness come up a lot because there are different institutional norms for a family and for a business," Eddleston says. "In families, resources are often allocated based on equality or need, but in business it should be based on merit."

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