

Avoiding conflict in family firms

A major challenge facing family businesses is how to create an environment where both family and non-family members can work together and capitalise on the capabilities of all involved



By Grant Gordon, director general of the Institute for Family Businesses (UK)

Integrating non-family members into the company at all levels – Board, senior management and workforce – can be a severe test for many family firms. The areas where the greatest challenges arise are generally at Board and senior management level.

Areas of potential conflict

1. Decision making: The first of these is the manner and level at which decision making takes place. For example, will non-family members be allowed to take decisions without unnecessary interference from family members? Will non-family be constantly overruled and deprived of any true influence over the strategy of the business?

2. Career development:

Is the policy for promotions based purely on merit or could non-family members find their career path obstructed by a family member being promoted although lacking the essential competencies? Are there ceilings

above which family members take all the jobs, restricting the firm's ability to capitalise fully on non-family talent?

3. Remuneration and incentives: The final layer concerns the matter of fair reward – remuneration in terms of salaries, bonuses and the broader matter of company

Solutions to the conflict

1. To ensure that the evolution of company strategy includes input from the management team and the Board, family and non-family members alike, it is advisable that sound governance structures are in place. One of the best ways to ensure this is undertaken

unemotional decision-making is an integral part of the policy making process.

2. In respect of career development, a policy should be put in place that promotes a performance culture to drive the business forward. This policy should encompass the principle of promotion on merit,



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is to appoint non-family members as independent non-executive directors. They can help underpin objective policy making at Board and senior management level. This will foster more open and constructive debate, and ensure logical and

regardless whether individuals are family members or not, as well as seeking accountability for results.

It is also important to ensure that the company has an effective appraisal mechanism, which is objective, open to scrutiny and treats all



employees, including family, in the same manner.

3. Rewards for either family or non-family members should ideally be based on fair market rates for all positions. It may be useful for the company to benchmark remuneration using external market data from time to time, to provide a reference point. Owners should also be prepared to debate the value of offering a share-ownership incentive scheme to key employees.

Systems to minimise conflict arising

To reduce the possibility of friction interfering with the efficient running of the business, it is advisable to operate a system based upon accountability, with clear lines of reporting. This should go in tandem with the monitoring of performance

and the recognition of achievement when agreed objectives are attained.

A proper system of accountability helps non-family managers to be clear on their roles and their place in the management team. Clearly defined areas of responsibility, a set chain of command and agreement on what each person is expected to deliver, gives non-family managers more scope to lead and make decisions on an objective basis. This benefits the business as a whole.

Monitoring for signs of potential conflict

One of the obvious signs of potential conflict is an unwillingness on the part of senior non-family managers to take initiative on their own, or that they are focusing on

trying to second-guess family members and not openly expressing their own views.

It is not an unusual situation, particularly at the start-up and subsequent early growth stages in a business, for strong willed entrepreneurs to cast a shadow over the rest of the management team. Such highly driven individuals may, perhaps without realising it, be over-dominating. In such an atmosphere, the contribution that can be made by non-family members is often limited as they struggle to be heard or are even fearful of speaking out.

Other signs of conflict can include:

- views that financial rewards are not being shared fairly between family and non-family;
- high staff turnover as a result of blocked careers, where

good people are hired but leave because there is no room to progress as a family member stands in the way of their career progression; and

- decisions not happening in a timely manner due to a failure to devolve sufficient responsibility into the hands of non-family management.

Obtaining objective input

This can be achieved by the use of independent Board members, such as non-executive directors, who can bring to bear a rigorous and objective overview, for example, of the firm's HR policy.

The Board can ensure that written policies are debated and implemented, covering issues such as remuneration, appraisal and promotion policy. These policies ideally will be equally applicable to family and



non-family members of staff. Additionally, it is helpful if family members are good listeners. They must be attentive to what non-family members are really saying to them and understand

the issues that they are articulating. The on-going input from non-family members involved in running the business will help fuel the strategic debate that must take place.

A good example of a privately owned family firm that is run along professional lines is Clark's Shoes. This is a leading business, with non-family members occupying the majority

of positions on the Board and non-family management running the business. The company is supported by a large and effective family shareholder base that relies on sound governance processes. Non-family members are fully accountable for the business's success in this case.

In successful family firms, the loyalty level of non-family management can be very high. This comes through the development of mutual trust. The family observes the performance of non-family members and gives them responsibility, recognising and rewarding their achievements. Family members can earn their managers' trust by demonstrating responsibility and careful thought in their actions. This can create a virtuous circle, which can be a powerful driver for business success.

Dos and don'ts

There are a number of key points that family members can try and adhere to.

- Do:**
- listen and openly communicate with non-family members.
 - establish effective governance structures.
 - clearly define responsibilities and accountability.
 - establish fair and just reward systems.

- Do not:**
- make special rules for family members.
 - give special privileges to family members.
 - take important business decisions around the kitchen table.
 - take staff loyalty for granted.

Ultimately, family and non-family can benefit when, united by a common goal, there are mutual benefits from the relationship for both parties. Owners and non-family directors and managers all have to work hard to earn each other's mutual respect. In the end, the best outcomes are most likely to arise when non-family contributions are properly recognised and fairly rewarded.