Top 15 Sources of Conflict in Family Businesses

– *Wayne Rivers*

Conflict is unavoidable in family businesses as it is an amalgam of individuals (family and non-family members) who are more likely to hold different opinions on a matter that result in disagreements on strategic or tactical issues. In fact, if there is no conflict, it reflects that people are not either thinking or trying to improve or have no power to assert. All of which are not good signs for a family business. In order to effectively deal with conflict it is important to understand the source of the conflict first. In this article the author, an expert family business practitioner, lists 15 sources of conflicts. Once a family identifies the source of a conflict, it can adopt appropriate measures to resolve them.

Sources of Conflict

The author identifies the following 15 sources of conflicts –

1. Direction for the business - Lack of commonly shared vision and values often leads to disagreements among family members. If the business is not directed towards a set of shared strategic goals, conflicts are bound to arise.

2. Decision-making - Another major source of conflict is lack of clarity on the decision-making process and the authority over decisions that respective family members have. In addition, lack of a conflict resolution mechanism in cases of disagreements over major decisions aggravates the situation.

3. Roles and responsibilities - Lack of clarity on the roles and responsibilities of individual members and their understanding of the same are potential sources of conflict. Role-overlaps and poorly described performance expectations also become potential sources of conflicts.

4. Compensation/benefits - Remuneration and rewards are among the most frequent sources of conflict. If these are perceived to be unjust or inequitable, a solid ground for potential conflicts is generated, especially among next generation members.

5. Ownership - Family ownership of business is a major responsibility. The actual ownership of the stake and the terms of its transfer to the next generation need to be clearly documented and communicated to family members. Failure in doing so can result in conflicts.

6. Distributions to non-employee shareholders - Shareholders expect fair treatment and distribution of dividends and earnings. Inequitable distributions are invitations to conflicts.

7. Personality Differences - Family businesses that fail to acknowledge and accommodate differences in the personalities of individuals involved are more prone to conflict. Interpersonal differences often crop up and spill over to the family business.

8. In-laws - In-laws and spouses may have different perspective and interests. In some instances, they may unknowingly generate conflict. It is important to clarify their terms of engagement with business.

9. Accountability - Family members need to be accountable and perform as per expectations. Disciplining may be needed if resentments grow into confrontations.

10. Succession - Clear and mutually agreed decision regarding the successor is important to save family business from conflicts in leadership transition stage. Everyone must be taken into confidence regarding the transition process and time.

11. Sibling Rivalries - It is natural for siblings to vie for parents' attention in childhood. However, if these rivalries continue even after growing up life stages and into the business, these can result into bitter conflicts. Parents need to treat children equally and help them resolve differences.

12. Entry/Exit Rules - Entry in the family business must be based on merit and not considered to be a birthright. Clear rules of entry and exit can reduce conflicts in family businesses.

13. Communication - Unclear, infrequent, partial communication leads to gaps in understanding and create conflicts. Family businesses must devise forums for open communication where members can say what they need to say to others.

14. Estate Plans - Lack of clarity on the estate plan formulated by the senior generation raises anxiety among other members. If family members do not have a clear idea of what will be their share in the inheritance, conflicts are bound to arise.

15. Finances - Money matters often become major sources of conflict among family members. These differences are compounded in cases where there is no or little distinction between individual and business funds. A financial management mechanism that takes care of needs of all family members must be devised in a way that does not over burden the business.

Practical Implications

It is very important for family businesses to identify the potential sources of conflict and proactively work to ensure that adequate measures are adopted so that those conflicts do not arise at the first place. If there are differences, they must not be avoided. This will only postpone the issue and create bigger problems in future. Family managements need to equip themselves with conflict management skills and work towards their effective resolution.

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