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Conflict management and resolution in family-owned businesses

A practitioner focused review

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Abstract

Purpose – The purpose of this paper is to review the literature concerning the negative effects of conflict among family businesses and to make practitioner focussed recommendations for the prevention, management, and resolution of conflict. This paper discusses the prevalence of conflict in family firms, differentiates the types of conflict present, and recommends proven approaches to prevent and manage the conflict, with a focus on corporate governance tools. Examples of well known companies are presented.
Design/methodology/approach – A review was conducted of the literature concerning family business conflict and corporate governance.
Findings – Conflict is a common problem in family firms that has significant consequences for the business and the family. Research has shown effective governance may reduce and manage conflict.
Research limitations/implications – This was a literature review. As such it did not perform original research.
Practical implications – This paper has practical implications for family business practitioners. The paper offers the negative aspects of conflict and recommends effective mechanisms such as governance tools to enable the prevention, management, and resolution of conflict.
Social implications – Implications exist for practitioners and policy makers in order to reduce conflict and increase the viability of family firms.
Originality/value – The scholarly literature has been reviewed and synthesized into distillation for family business owners.

Keywords Family business, Impact of family dynamics on management behaviours, Communication, New/best practice and interventions, Corporate governance, Conflict avoidance
Paper type General review

Introduction

As a family firm increases in age and the number of family employees and owners, as well as in wealth, conflict increases due to differences in goals and strategy. Commonly, interpersonal conflict is caused by rivalry among family members.

The vast majority of businesses in the world are owned or controlled by families. As many as 80-95 percent of all businesses in the USA are family owned or controlled (Astrachan and Shanker, 2003; Ward, 1987). Over one-third of the companies on the standard and poor 500 indices are family owned or controlled, as are 35 percent of the Fortune 500 (Miller and Le Breton-Miller, 2005). In Europe, Asia, and Latin and South America, family firms dominate the economy. Even large corporations such as Ford, Novartis, Samsung, Volkswagen, Michelin, AstraZeneca, Tyson Foods, Cargill, Ikea, and Wal-Mart can be considered family businesses. The majority of family firms, however, are small to medium-sized businesses, which are most often privately held with no outside-the-family stockholders.

Family businesses fill a significant space in business ownership. These businesses, regardless of their size, have unique complexities, issues, and problems that

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non-family-owned enterprises do not encounter. Some examples are sibling rivalry, non-working family members, divorce, substance abuse problems, interpersonal conflict, incompetent family employees, and multi-generational succession issues that encompass ever-expanding generations of family members. When the numbers of family members increase within an organization, the volume of dysfunctional interpersonal conflict also increases (Kets de Vries, 1993).

Background

Beginning with the first sibling rivalry between Cain and Abel, dysfunction and conflict have been present within families, creating the age-old problems 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 to 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. It is relatively easy for other families to bury deep-seated resentments when members are not in contact with each other on a regular basis, but the 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 the conflict. Family members do not expect to be mistreated by members of their own family, which multiplies the hurt, anger, and bitterness.

The addition of the family unit to the business can be both a positive and a negative. When the family is healthy, a competitive advantage can occur (Miller and Le-Breton Miller, 2005). "Family businesses may be able to make decisions more quickly and therefore take advantage of opportunities that others may miss. Quick decision making is critical in business and "tight-knit families in business move fast" (Poza, 2009, p. 15).

Family firms often have a long-term rather than the short-term view so common among non-family and many publicly owned firms. Families have a lasting and important mission and vision for the future: they desire to create a caring and nurturing community for both family members and non-family members and to act as stewards of the company for successive generations. Their goal is to build bonds with customers, suppliers, and the community (Miller and Le Breton-Miller, 2005). The lasting legacy of the founder is an important differentiator, and many families gain significant pride and social status based on their company's work within the community. A family business may actually have several altruistic, non-financial goals, such as employing a black sheep family member or being loyal to employees during a recession by keeping them on the payroll.

A family's communication style is less formal than others in business. Some families communicate with respect, love, forgiveness, and understanding, while others communicate with argument, distrust, accusations, resentment, and jealousy. A family business can be similar to a marriage: both parties bring positives, but can bring negatives as well.

The characteristics of family include unconditional acceptance, an inward focus, sharing, and lifetime membership. Families are emotional and are based on love. Conversely, most businesses look outward, are unemotional, and are based on tasks. Other businesses encourage change and reward good performance. The philosophy is to "perform or leave." The two systems of family and business are diametrically opposed to one another.

Family conflict in business is commonplace and inevitable (Levinson, 1971; Poza, 2009; Ward and Aronoff, 1994). When the family system with its often petty yet deep-seated resentments, emotions, interpersonal conflicts, rivalries, mistrust, favoritism, and one-sided altruism is combined with the business system in which family members' employment, social identity, and financial wealth are closely intertwined, the problems are immensely multiplied (Hilburt-Davis and Dyer, 2003; Poza, 2009). Conflict grows exponentially with the age and growth of the business (Kets de Vries, 1993).

By the third generation, there are typically several grandchildren working in the business, often cousins who may have differing goals and objectives (Gersick *et al.*, 1997). A study of 1,454 top managers in small and midsize family businesses found that 34 percent had argued about the future direction of the company and 27 percent had argued about the contribution of other employed family members. In total, 20 percent experienced tension over roles of in-laws, who was and was not allowed to work in the business, and lack of consultation with other family members on key decisions (PricewaterhouseCoopers, 2007/2008).

Family businesses are often rife with dysfunction and conflict (Grote, 2003; Hilburt-Davis and Dyer, 2003; Poza, 2009; Ward, 1987). Familial conflict and bickering are associated with poor succession rate in family businesses (Gersick *et al.*, 1997; Ward, 1987). The second and third generations may decide to leave the family firm (Stavrou, 1999). Such generations are often overwhelmed with guilt at the prospect of leaving the family business and abandoning their family (Grote, 2003), yet if they stay, many become bitter and engage in infighting (Kellermanns and Eddleston, 2004).

Issues, controversies, and problems

Conflict has both positive and negative elements, and there are various types of conflict (Jehn, 1994, 1995; Kellermanns and Eddleston, 2004; Ward, 1987). Businesses, and especially family businesses, need to strike a fine balance between too much conflict and not enough (Pelled *et al.*, 1999; Simons *et al.*, 1999). Task conflict is associated with goals, strategies, and the discussion of differing strategies. Process conflict is associated with how work should be accomplished, the proper utilization of personnel, and how much responsibility should be given to whom (Jehn, 1997). When these two types of conflict are present in moderation within an organization, better decisions result (Eisenhardt *et al.*, 1997; Jehn, 1994, 1995; Kellermanns and Eddleston, 2004; Simons *et al.*, 1999).

Conflict is usually expressed in communication and behavioral problems (Hilburt-Davis and Dyer, 2003). Researchers recommend differentiating business conflicts into two categories: simple and complex. Simple conflicts are easily resolved and do not impede effective decision making. Common sense and rationality usually prevail.

Conversely, complex conflicts are emotionally charged, often resulting in a lack of productivity and a failure to make decisions. This type of conflict is often chronic and can cycle through a company on multiple occasions. The remedy for complex conflict is to enlist outside resources. Therapists or family counselors, as well as organizational development experts, can help a family work through the issues (Hilburt-Davis and Dyer, 2003).

The most destructive type of conflict is relationship conflict. Unfortunately, this negative form of conflict often emerges in family business (Hilburt-Davis and Dyer, 2003, Kellermanns and Eddleston, 2004; Ward, 1987). Such conflict is characterized by anger, resentment, and worry (Eddleston *et al.*, 2008), which can result in a complete lack of productivity (Grote, 2003; Hilburt-Davis and Dyer, 2003.)

Disruptive conflict can lead to poor decision making or even a lack of decision making (Levinson, 1971). Irrational decision making can become rampant and decisions may be made on an emotional rather than a rational basis (Kets de Vries, 1993).

Often when a decision is made, a lack of acceptance or buy-in is exhibited by dissenting family members (Kellermanns and Eddleston, 2004). When the final outcome is internal family competition, "The business is lost" (Grote, 2003, p. 123).

Generational conflict

In the spirit of family harmony and togetherness, many family businesses squelch any differences of opinion and thus stifle and prevent constructive and healthy debate. It is difficult for sons and daughters to disagree with their parents, because such action often appears as disloyal or disruptive (McCann, 2007). Such lack of open communication has the effect of limiting healthy discussion, missing potential business opportunities, or forgoing the entire strategic planning process. The results are a forced dependence upon the status quo, resulting in reduced market share, lack of investment in new and emergent businesses areas, failure to recognize competitive threats, and product stagnation (Ward, 1987).

Much of the conflict at family firms seems to occur between siblings. One study found little conflict between second-generation family members and their parents, yet found significant conflict among siblings (Alderson, 2009). However, family members who have a conflict with their parents often self-select out of the family business. It is not uncommon for such family members to eventually receive a call asking them to come back to the family firm because a parent is severely ill.

A heavy dependence on a single entrepreneurial founder underscores the centralized decision-making process common in the majority of first-generation firms (Dyer, 1986, 1988; Feltham *et al.*, 2005). Aronoff *et al.* (1996) found that in family businesses, 34 percent of founders made the decisions themselves, 48 percent searched for a consensus, and 6 percent discussed the issue and took a vote. Among family businesses, 53 percent of the voting group consists of the third generation of family leadership, the cousin consortium. Aronoff *et al.* (1996) suggested this situation entailed a higher level of governance and professionalism.

A common issue among future generations in a business is the continuing influence of the founder that towers or hovers above the entire organization, a phenomenon referred to as "founder centrality" (Kelly *et al.*, 2000, p. 27) or "generational shadow" (Davis and Harveston, 1999, p. 311). Such influence can include both positive and negative factors. It helps future generations, in that they tend to follow the original mission or vision of the organization as set by the founder, including caring for long-term employees, the community, and their customers.

The influence becomes negative if the successive generations are not allowed to make their own decisions or are constantly second-guessed by a meddling founder who has not fully retired, also known as "sticky baton syndrome," (PWC, 2014, para. 9) where the leader transfers leadership in name but in actuality hangs on to it. Such negative influence has been a major reason for succeeding generational members to exit the family firm (Stavrou, 1999). In a study of children from family-owned businesses in their first year of college, 20 percent said they wanted to work at the family business within five years, 38 percent said they planned on returning to the company "sometime," and 42 percent said they would never return. Seventy percent of the respondents rated their family business as very high in authoritarian management practices (Birley, 2001).

In a survey of 1,143 US family firms, 60 percent did not have a strategic plan, 38 percent of shareholders were not aware of the senior generation's estate plans and ownership transfer intentions (MassMutual Financial Group and Raymond Institute, 2002).

A significant majority (79 percent) of the senior management of 89 mid-sized family companies in the USA did not have procedures to aid or prevent conflict resolution. The most contentious issues are disagreements over the future strategy of the business, reported by fully one-third of the respondents (PricewaterhouseCoopers, 2007/2008). These serious issues can be highly divisive and can affect the performance and effectiveness of the family firm.

Succession

The most serious issue for family business practitioners is leadership succession from one generation of ownership to the next. Studies have generally agreed that approximately 30 percent of family businesses transfer to the second generation, while only 10-15 percent pass from the second generation to the third generation (Poza, 2009; Ward, 1987), and only 4 percent manage to stay in the same family for the fourth generation (Poza, 2009). This can spell disaster for the entire family, as the great majority of their wealth is commonly within the family business itself, with little diversification. The family loses much of its social status as well. One survey reported 77 percent of failed family businesses that declared bankruptcy did so after the death of the founder (Dascher and Jens, 1999). A small family business is more likely to fail due to the lack of a succession plan than through financial or competitive market forces.

Many family business researchers agree that one of the main reasons for failed successions is a lack of effective decision making (Shepherd and Zacharakis, 2000; Ward, 1987) and lack of proper planning (Poza, 2009; Ward, 1987). The problems of poor communication, poor planning, poor decision making, and interpersonal familial conflict among family members slow decision making and thus business effectiveness.

In a study by accounting firm KPMG, 36 percent of surveyed firms were found to have no strategy for firm continuation, over half had no process in place for replacing a CEO, and over a third had no process for choosing and training a successor. In total, 60 percent of respondents said they had faced family conflict in the last 12 months. The biggest challenge was balancing the pressures of the business with the needs of the family (KPMG and Family Business Australia, 2013, Family Business Survey). The study showed the serious issues affecting family-owned businesses.

Compensation and owner benefits

One of the most prominent areas of conflict can be the various roles family members play in the business. The two methods of family employee remuneration and reward – payroll and dividends – should be separated. Family members can include employees, management, and owners. Some family members may have all three roles; some may only have one role.

For example, if a company needs to invest heavily in new technology to stay competitive, employees and managers would logically understand the need for the expenditure and see it as a positive. However, if a family member did not work at the company and instead only received dividends, the individual might not as readily understand the importance of the investment and might vote against it because it would shrink his or her ownership income. The non-employed owner still has a vote due to partial ownership of the firm.

Non-employed shareholders are problematic for firms managed by owners; the two parties have two different goals. This is why communication is vital for all stakeholders in the firm. To avoid compensation issues, pay ranges for various jobs in the business should be decided by benchmarking current rates within the marketplace. In this manner, compensation is perceived as fair.

Estate planning

Surprisingly, regarding estate planning, an owner's good intentions to split the family firm equally among all children may have disastrous consequences by the second or third generation. For example, an owner may have two children who each inherit 50 percent of the firm. If one of those siblings has one child and the other sibling has four, by the third generation, a single person will own 50 percent of the firm and wield considerable power. The other four individuals will own only 12.5 percent each. The four siblings must band together 100 percent of the time to have a balance of power. This type of system can create serious conflict, with various branches of the family owning more than others do. The situation was not the original intent of the founder, who had good intentions and tried to be fair to everyone.

Destructive entitlement

A perceived injustice earlier in life can have devastating results later when families are in business together. The aggrieved party or parties may band together to "punish" others for what they perceive as an injustice, a concept called destructive entitlement. Such a situation may continue for generations, with one branch of the family taking offense on the part of others, keeping a conflict alive. Any attempt to repair or compromise can be seen as a betrayal. Victims of unfair treatment in the past feel entitled to mistreat and ignore others.

As the pattern of hurt, offense, and retaliation repeats itself through many generations, it becomes a way of life. If allowed to progress, this type of bitterness can result in an emotional cutoff (Rhodes and Lansky, 2013). To avoid pain, the two sides decide not to talk with each other again. This type of behavior may be passed on to children and become generational, even though the so-called solution does nothing to repair the underlying problem. This type of dynamic is extremely destructive and must be addressed proactively with professionals who can engage the parties to rebuild trust and communication. Having the original mission and vision of the company as the objective to which all subscribe can be a good place to begin the healing and reconciliation of past injustices.

Gender conflict

For generations, families in many Europe, the Middle East, and South America have followed the law of primogeniture, which states the oldest male will inherit the estate. Many well-qualified women have left their family firms and gone to seek their futures elsewhere. In the last decade, however, women increasingly have been leaders of their family businesses, and the rate of a woman as the successor has increased. In 1994, only 2 percent of CEOs were women, but by 2005, 9.5 percent of family business CEOs were women (Vera and Dean, 2005).

Women have significantly fewer conflicts with their fathers, usually marked by less competition between them. Conversely, male successors have more problems with their fathers when they are in their twenties and thirties and the father is in his forties and fifties. Once both are older, however, there is less competition and they have a far better working relationship. Awareness of the life cycle stages of various family members can be beneficial, creating a primary reason why future successors are advised to work somewhere else first, before joining the family firm. Joining the business with different skills, expertise, and knowledge increases the respect the younger generation receives and reduces the conflict.

In-laws

Another potential flashpoint for family firms is the question of in-laws. Integrating an in-law into the business requires a structural change and is similar to an owner being a non-family member. In case of divorce, for example, questions abound: should in-laws be employed? Should in-laws be allowed to advance to the CEO position? Will they supervise other family members? This type of issue is ideal for discussion by the family council. On the positive side, both parties may find benefit. The in-law benefits by having an increased sense of family and belonging, and the company benefits from new blood and potential new skills (Whiteside *et al.*, 2011).

Triangulation

Triangulation, a common event in family firms, occurs when two warring family members bring in a third party in an attempt to gain influence. As an example, a sister and a brother are at odds and they each enlist the help of their mother to explain their viewpoints and lobby in their favor. The third party acts as a sounding board, which temporarily relieves the tension. However, continuing this type of communication is not healthy. Often, the advocacy of the triangulated person on behalf of another can make the conflict larger. The result is a problem with three people rather than only the original two. The best solution in this scenario is for the triangulated person to refuse to become involved and to individually counsel each family member to talk directly with the other (Rhodes and Lansky, 2013).

Communication

Another prominent issue for family firms is a lack of communication. Families communicate in a very informal manner. Effective and open communication from all family members in each of the various generations is crucial for the survival and performance of the family business. The ability to communicate should be considered a core competency. In studies of successful and long tenured family-owned companies, communication was one of the most important attributes and families called it indispensable (Ward, 2004). Without effective communication, the business will not likely succeed to the next generation.

Well known family business conflicts

U-Haul

Leonard Shoen developed the trailer and truck rental industry at the end of Second World War. He was married three times and widowed once, producing 13 siblings who were often in conflict against each other and against the patriarch. All the children were stockholders. A fist fight among the siblings occurred at one board meeting, as did accusations of a murder of a family member (Groves, 1990). A group of siblings successfully forced out the patriarch, but was later successfully sued by their father for a $461 million dollar judgment. Leonard Shoen committed suicide in 1999 (Ramos, 1999). The Schoen family still controls the firm.

Gucci

This international design firm has enough drama for a Hollywood movie. Boardroom fist fights and a battle where family members threw thousand-dollar handbags at each other. During the latter, the bags were left outside and employees called the police, thinking their store had been robbed. The founder served time in prison for tax evasion. The conflict and dissension was originally caused by a disagreement with estate planning. The firm was divided up 50/50 and certain family members objected, since another family member was a movie star and had not contributed to the success of the firm. To balance the perceived injustice, a perfume division was created and the aggrieved family members kept 80 percent of the profits. This started one of the most infamous family feuds in business history, ending in a prison sentence for a notorious murder-by-hire. Patrizia Gucci hired a contract killer to kill her estranged husband, Maurizio, over fears of loss of her income and status. The family firm was eventually sold (Forden, 2000).

Dart Group/Crown books

Herbert Half started Dart Drug and built it to a chain of 70 drug stores before selling out. His children, Linda, Ronald, and Robert, joined the family firm, and Robert started Crown books, eventually becoming the third largest book retailer, behind B. Dalton and Barnes and Noble. When a newspaper article suggested Robert was the sure successor, Herbert, sensing his own immortality, unceremoniously fired his successful son by fax, curtly telling his son not to come into the office that day. The event played out on national news because Robert was the face of Crown Books as its TV pitchman. Robert successfully sued his father for $38 million. The effect of the conflict was the book chain filed for bankruptcy and Robert never spoke to his brother. After Robert started an online vitamin company, Herbert started one as well. Blaming the feud on estate planning and the tight purse strings of the family fortune controlled by Herbert, Robert set up trust funds allowing his children to access their money at age 21. Robert advised people in similar conflict situations to "go back and work it out" (Morrow, 1999, para. 20).

Gallo wine

The California wine-making family of Ernest and Julio Gallo (E and J Gallo Wine) is one of the largest producers of table wine and is now in its fourth generation of family leadership. However, there is another brother who is not as well known. Ernest and Julio's younger brother, Joseph, sued his two older siblings for excluding him from what he considered his inheritance, the family vineyards and farm. He was significantly younger and the two brothers believed they were the major reasons for the firm's success. When Joseph found success separately as a milk and cheese producer, his brothers successfully sued him to avoid any confusion between Gallo wine and Joseph's firm, which was called Gallo Cheese. Joseph's company is now called Joseph Cheese (Keppel, 1986).

The Pritzkers of Hyatt Hotels and Marmon Group

In this family feud, 19-year-old Liesel Pritzker and her 21-year-old brother Matthew sued their cousin, father, and other family members for $2 billion over improprieties in their trust accounts. The younger siblings accused the family members of looting their trust funds. The family members and trusts, some held by charities, fought the suit for years. The two siblings won and the family fortune from hotels, real estate, industrial companies, and 25 percent of Royal Caribbean Cruise Lines was eventually divided among 11 family members, paying a total of $560 million to the two siblings. Warren Buffet bought the industrial companies of Marmon Group (Dunn, 2005).

Henry and Edsel Ford

A family feud less well known but very instructional to the older generation on what not to do concerned the family of Henry Ford. Henry's only son, Edsel, was made president of Ford Motor Company, but Henry constantly scrutinized and second-guessed his son. Edsel fought with his father to reduce company dependence on the Model T and to create the Model A. Edsel created the Mercury division and was instrumental in the creation of the Lincoln division and the addition of hydraulic brakes. He was a sensitive leader, a gifted mechanical designer, and very different from his hot-tempered father (Bak, 2003).

The constant infighting led to health issues for Edsel, and Henry's wife and Edsel's wife blamed Henry for the early death of Edsel at age 49. After Edsel died, Henry once again took over control of Ford Motors at age 77. The elder generation's inability to let go and allow the next generation to have power is one of the primary reasons why the younger generation of leaders decides to exit the family business (Davis and Harveston, 1999; Kelly *et al.*, 2000).

Adidas and Puma shoes

This is a tale of two hypercompetitive brothers who had a sibling rivalry for over 60 years, until their death. The firm started as Dassler Brothers Shoe Company in Germany. Adolf (Adi) Dassler was the shoe designer and his brother Rudolf (Rudy) was a gifted salesperson. Sales exploded after Jesse Owens wore their shoes during the Berlin Olympics. Although both families lived in the same house, the wives of the brothers did not get along, which caused conflict. Rudy was accused of abandoning his post during Second World War. The Americans arrested him and accused him of being in the Gestapo, eventually sending him to a prisoner of war camp. But Rudy found proof that his brother was behind the leaks causing his arrest and imprisonment.

The animosity between the brothers continued after they divided the Dassler Shoe Company in 1948. Adi named his company Adidas, a play on his name, and Rudy called his company Puma. The brothers built their competing companies on opposite sides of the river in the same Bavarian town. The two shoe companies dominated the local economy. The townspeople entered the feud as well, with restaurants not serving members of one company and marriages not allowed to employees of a certain firm. The focus on fighting each other blinded the brothers to the threat of the upstart Nike, which would eventually become the largest athletic shoe firm in the world. When the brothers died, they were buried at opposite ends of the cemetery (Akhtar, 2013).

The Ambani brothers and Reliance Industries

Mukesh and Anil Ambani are two of the richest people in the world. After their father died without a will in 2002, the two brothers attempted to run the company together. Mukesh tried to fire Anil from the corporate board. After numerous back-and-forth lawsuits, they eventually split the company in 2005 after their mother got involved and asked them to settle. Mukesh, presently the richest person in India, took control of oil and gas refining, petrochemicals, and manufacturing. Anil took over the telecommunications, electricity, and financial services divisions.

But the animosity continued and Anil filed a $2 billion defamation lawsuit. Mukesh raised the price of the natural gas needed by Anil, which was met with a lawsuit by Anil in the Supreme Court. The Indian Finance Minister called on the brothers to stop their feud for the national interest of the country. Once again, their mother intervened, made them stop the feud, and sign a new no-compete agreement (Badkhar, 2011; Gordon and Nicholson, 2008). This huge conflict was caused by the lack of an estate plan and will. Its resolution highlights the power of certain family members to intercede.

Many of the conflicts highlighted had common causes: failure to have a succession plan, a poor estate plan, squabbles over money, sibling rivalry, failure of the patriarch to fully retire, lack of communication, lack of forgiveness, and simple greed. Below are two positive examples of well-run family firms.

Clarks shoes

Venerable UK-based Clarks shoes has over 400 individual family shareholders. The firm started in 1825 and is in its seventh generation. The family owns 84 percent of the firm's stock, and the other 16 percent is owned by employees and institutions. The family and the firm successfully endured a crisis in the 1990s due to a flood of cheap Asian shoes in their market, as well as the inability to compete because all Clark's shoes were still made in the UK. The family was at war with each other and split into two camps: those who wanted to sell out and those who wanted to keep the business in the family (Clarks.com, 2014).

A 15-member family council was created, with each member accounting for 4.5 percent of the equity. The board of directors was reconstructed with several non-family executives. The council was where the family fought and discussed their personal issues, out of sight of the board. A vote was held, and the decision was to keep the business in the family but to hire professional, non-family management to run the firm. This was a successful solution to the crisis: profits went up, the infighting stopped, and the firm is still firmly in the hands of the family (Clarks.com, 2014; Tyler, 2003).This is an example of how good corporate governance tools can be used to stifle conflict, increase communication, improve cooperation, and make better decisions.

The McIlhenny Company

The McIlhenny (Tabasco Sauce) family of Louisiana has 145 extended family shareholders and is in its fifth generation of family leadership. Their hot sauce is sold in 130 countries around the world. The company has a board meeting/retreat every year that is a mixture of business and fun. The meeting consists of significant quantities of food, including all six of their hot sauces, and Bloody Marys. The event is held on company-owned Avery Island, which gives them a competitive advantage by supplying salt from a naturally occurring salt dome as well as seeds for their pepper plants. The island is now a tourist destination for seeing hot sauce manufacturing and visiting the bird sanctuary and gardens built by family members.

The company is governed by an eight-member board of family directors and is known for making good business decisions (Shevory, 2007). The company operates in a transparent fashion and issues financial statements to shareholders every quarter. Running the company in a professional manner with complete and open communication engenders trust among the shareholders and reduces the potential for conflict. Multiple offers to sell out have been presented, but none was high enough to bring to the family shareholders for a vote. The feeling seems to be that as long as the family is making money, everyone is happy (Shevory, 2007). This, again, is an example of good family business governance being used to increase communication, thereby allowing family members to air their views and cooperate in effective decision making.

Corporate governance tools unique to family businesses

Some of the main differences between family-owned firms and non-family-owned firms are the corporate governance mechanisms and tools unique to family firms. These tools can function uniquely in family firms as ways to improve communication and reduce conflict.

Family meetings

Family meetings are the first tool in family corporate governance. Family meetings are very informal, not regularly scheduled, and take place without an agenda. They can be as simple as a lunch or dinner together where the family talks about business and makes plans for the future. They are designed as an efficient way to increase communication among family members and can be regularly scheduled, or called as needed. Usually, these meetings consist of the members of the family who work at the business.

Family council

Convening a governing family council is a common recommendation of family business consultants to increase communication and decision-making effectiveness (Bianchi and Alderson, 2012). The family council consists of family members both inside and outside-the-family business who are stakeholders of the business. Members include in-laws and spouses. The family council focusses on the family needs of the business and recommends policy and procedures to the board of directors. It is a place where members of the family can discuss their views, become more informed and aware of issues, and set policies and procedures to benefit the family and the management of the business. Councils discuss such items as hiring and termination of family employees, fair family compensation policies, reporting procedures, and buyout policies of family members. Tools such as the family council are thought to enable a family to increase the level of communication in a family firm and professionalize the governance of the firm, thus resulting in reduced conflict. The family council and the family constitution (below) are two of the most important corporate governance tools used to improve communication and to prevent and reduce conflict.

When a family business engages the use of a specialized family business consultant, the formation of a family council is usually one of the first items recommended. Notably, research shows that few family-owned businesses actually have a council. In a study of boards of directors in 73 Italian family firms, only 10 percent had a functioning family council (Corbetta and Tomaselli, 1996). In a study of 192 first-, second-, and third-generation Finnish family firms, 75.4 percent had informal family meetings, 26.7 percent had formal family meetings, 17.3 percent had family plans, and only 7.3 percent had family councils (Mustakallio *et al.*, 2002). Accounting for the preponderance of council use in older third-generation firms, the percentage of council use was low, considering the emphasis placed on family councils by family business consultants. The creation of a family council is a broad area of opportunity for improvement of the professionalization of the firm.

In a large Australian survey of 570 Australian businesses by global accounting firm KPMG, the five most contentious issues were around vision, goals, and strategy, how decisions are made, how to manage growth, financial stress, and family member incompetence (KPMG and Family Business Australia, 2013, Family Business Survey). All of these contentious issues are the responsibility of the family council.

Family constitution

One of the most important tools of governance to aid in prevention and resolution of conflict is the writing of a corporate constitution. This should be considered a living document, open to change and update. The tremendous value of the constitution is its ability to prevent and settle conflict before it breaks out by agreeing on corporate policies in advance, before emotions are running high. As an example, discussing the hiring of a family member is an issue fraught with potential conflict. Biases come into play, and depending on whose side of the family, they could be pro or con.

The benefit of a constitution is to state in writing what has already been decided. Constitutions cover numerous topics such as rules for family employment and termination, who reports to who, compensation rates, how the firm would be valued in a sale to other family members, what happens to an employed family member with a substance abuse problem, and policies limiting to whom shares can be sold. The constitution is a lengthy document that can take months, even years, to complete. The creation of the constitution is one of the most important and earliest tasks of a family council, or during family meetings and retreats.

Family retreat

Most often used by successful family firms and larger multi-generational families, retreats can be anything from a weekend getaway to a weeklong vacation where all family members get together socially and reconnect with distant family members. It is a mixture of free time, fun events, planned activities as a group, and business meetings to allow non-working family members be more involved and knowledgeable concerning the business. Often, family business consultants sponsor dinners and attend and conduct business meetings designed to engage the family and increase understanding of the differences among the generations.

Board of directors

Family firms who sell shares to the public are required by law to have a board of directors. The directors have formal authority as well as liability and can hire and terminate the CEO. The board of directors is a strong form of corporate governance, if its members are made up of outsiders who add value by having specialized experience in various areas.

Most family firms are privately held and, as such, do not have a board of directors; instead, they may have a board of advisors. A board of advisors is made up of members who do not have formal decision-making power, and instead, their task is to give advice, which the CEO can decide either to follow or not. This tool is recommended for family firms as a way to increase professionalism and improve decision making through the counsel of outside successful business owners and other professionals. Firms with formal advisory boards performed better in terms of business performance as well as in attaining family goals (KPMG and Family Business Australia, 2013, Family Business Survey).

Generational meetings

One of the more popular activities provided by both university-based family business centers and professional family business consultants is to have cohort meetings for each generation. For example, if the first, second, and third generations are working together in the company or have shared ownership, disagreement, and misunderstanding may arise due to differing goals and strategies. Dividing the generations into separate cohort groups allows the generations to share thoughts, especially what frustrates them regarding the other generations.

The participants are able to share freely without worrying about offending the other generations. The consultant or meeting facilitator takes notes, and afterwards, convenes a meeting including all the generations to share the information in a confidential manner so no one knows who raised the concern. The facilitator then leads a discussion to help enable the family members to understand each other better and work together more effectively. This often takes place at a family retreat. This is a highly recommended way to begin the conversation concerning some forbidden topics, such as the patriarch's retirement, estate planning, and succession.

Other conflict management techniques

Pruning the family tree

Divergent goals of a large dispersed family may contribute to an increase in conflict. One technique firms have used effectively is pruning, or lopping off a branch of the family tree (Poza, 2009). This is accomplished by buying out one of the branches of family owners and may be a satisfactory solution to intractable or ever-present conflict among family members. Family members who are not happy with the management or with the direction of the firm may accept a buyout offer from other family members. The unhappy members are now free to leave the family business and receive capital from their investment.

Role of the spouse

The spouse plays a vital role in the family business. Spouses often mediate conflict between family members and act as the glue that holds the family together. Most commonly, family businesses are male-dominated concerns; however, the role of women has slowly increased and the spouse may now be a male (MassMutual, Kennesaw State University, and Family Firm Institute, 2007). The female spouse is often referred to as the CEO or Chief Emotional Officer (Poza, 2009). Women throughout generations have nurtured, loved, and negotiated with both sides of family disputes in order to keep the family intact.

Co-CEOs or revolving offices

Research has shown that 12.5 percent of surveyed firms have Co-CEOs (MassMutual Financial Group and Raymond Institute, 2002). This form of management is relatively unique to family-owned businesses. Among surveyed firms, 35 percent said they would have Co-CEOs in the next generation of leadership. Another solution is for two equally qualified family members to share the revolving office of president or CEO for a two-year term. These represent attempts to circumvent conflict and avoid having extended family take sides among the possible successors.

Participative decision making

In a first-generation family firm, the founding owner usually makes the majority of decisions (Feltham *et al.*, 2005). The second generation, the sibling partnership, may have two to six or more siblings. One study showed such siblings tended to use the participative consultative approach to decision making (Alderson, 2009). The third generation tends to be a large consortium of cousins that embraces democratic participation and makes decisions mainly by a majority vote. Participative decision making can increase the amount of positively related cognitive conflict in multiple-generation firms; however, in first- and second-generation firms, this was not the case (Eddleston *et al.*, 2008). Eisenhardt *et al.* (1997) showed that conflict tended to delay the decision process; conversely, the resolution of conflict was associated with fast decision making.

Use of consultants

When conflict is so severe and intractable that it threatens the effective operation of the business, engaging professional consultants who specialize in family firms may be necessary. General family business consultants consist of teams of specialized professionals who may be called in to address a certain situation. In the case of dysfunctional interpersonal conflict, a family business consultant could utilize a psychologist or marriage and family therapist to work through the issues.

Rarely, family businesses can devolve into such unhealthy situations that neither family business consultants nor therapists can help. Due to a lack of development on the part of the parents and the children's anxiety stemming from a need to both please and break away from parents, the business can become a "sickness" (Kaye, 2004, p. 347). The consultants may have no other choice than to recommend the children explore different avenues than the family business, since being in business together is "unhealthy" (Kaye, 2004, p. 347).

Due to the private nature of family firms, many families are reticent to call in outsiders. Families try to maintain the status quo for as long as possible and try to keep everything in-house, but the two main reasons why a family finally calls a consultant is for help with succession planning or with intractable conflict.

Restructuring the organization

Another solution to intractable conflict is to restructure the organization so family members can avoid dealing with people with whom they are in conflict. This can go so far as to have the company break into two separate divisions, or at the extreme, two separate organizations that do business with each other.

Conclusion

Conflict is a common issue within family businesses. It is surprising that more firms do not use some of the tools that have been effective at limiting conflict. Among firms that will have a succession of leadership within five years, fully 25 percent had no retirement planning or succession planning in place. A third of respondents had method for transferring ownership (KPMG and Family Business Australia, 2013, Family Business Survey).

In a similar 2007 survey of 1,000 American businesses with owners desiring to retire within five years, only 45.5 percent had selected a successor. A third of respondents had no estate plan other than a will. This sure recipe for an interfamily conflict (MassMutual, Kennesaw State University, and Family Firm Institute, 2007) accounts for the poor succession rates in family-owned businesses. Considering the importance of effective succession to the long-term survival of the firm and the potential level of interfamily conflict the choice of successor could cause, it is confounding that owners seem to feel no sense of urgency surrounding this most important decision.

This paper has attempted to emphasize the prevalence of family businesses and the vital role they fill in the global economy. Conflict is common in family-owned firms. As the firm grows and ages, the number of family members multiplies. With increasing numbers of people, conflict becomes more prevalent, especially when money, employment, status, and family wealth are concerned.

Dysfunctional conflict can delay and prevent communication, prevent effective decision making, and act as a barrier to strategic planning. Conversely, task or process conflict can improve decision outcomes by sharing views not previously considered.

This paper included suggestions for several ways to prevent and manage conflict in the family-owned business. The use of corporate governance tools, many of which are unique to family firms, was emphasized. Governance tools such as family meetings, family councils, a written constitution, boards of advisors, and family retreats are commonly recommended by family business consultants as a way to increase family communication, improve decision effectiveness, and prevent and deal with conflict within the business. If a family business practitioner is undergoing conflict or does not have common corporate governance tools in place, is the primary recommendation is for them to start the journey by beginning to institute effective governance tools and calling a family business consultant.

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