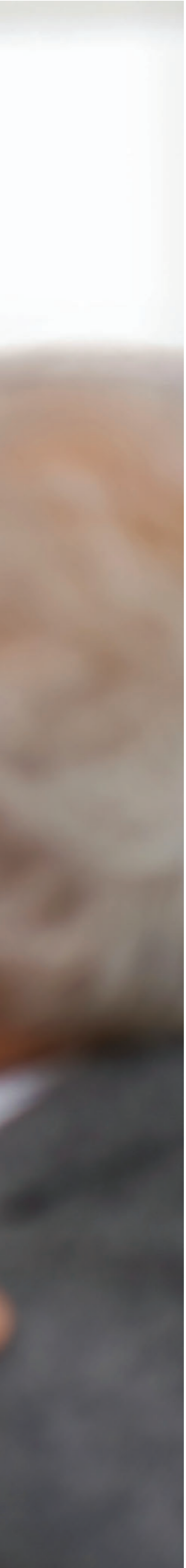

The ties that bind

Managing family business conflict

Families in business gain great personal, operational and market advantages by their very nature, but the added complexity of family matters becoming intertwined with business matters cannot be ignored.

The ownership and management constituencies of any business will influence the day-to-day running and strategy. In a family-owned business, there are often family members who sit outside the formal ownership and management structure but who wish to exert control and influence.

This situation presents conflicting needs, priorities and expectations–from all stakeholders–that need to be continually balanced if both family and the business are to be served effectively. Often, these various groups, who sit outside the formal structure, are either not represented effectively within the business or their views are not effectively managed, which often leads to conflict.

Conflicts in family businesses differ from those in non-family businesses. Family-related issues tend to take precedence over business issues, sometimes even dominating day-to-day interactions within the operating business, which can ultimately jeopardize the future prospects of that business and the family it was initially meant to serve.

Family disagreements can arise on many subjects ranging from company strategy, management, commercial partnerships and appropriation of earnings. All of these (and more) are critical issues that can threaten the process as well as progress, of both family and business succession strategies by diverting time, energy, and money away from the longer-term family and business goals.

These disagreements are even more critical at a phase where a business has yet to find suitable successors to steer the family and the business through the next cycle of ownership. Family businesses in the Middle East, particularly in the Gulf Cooperation Council area (GCC) have reached a critical transition period, with a significant number of families likely to be handing over the management and ownership to the next generation over the next five years.

To better ensure that the needs and wants of both the family and business constituencies are addressed, it is necessary to put in place the right forums, systems and processes.

What is required is a Family Governance framework that defines a common system of values and objectives, as well as a structure for solving conflicts. In the first instance, agreeing on, and documenting a common system of values and objectives to which each family member subscribes, can reduce the chances of disagreement and subsequent conflict, and in the worst case scenario it provides a method to resolve such conflict.

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The key to building conflict management mechanisms is to understand the predictable roots, as well as what exacerbates conflict, and building around both of these. So what are some of the key tools and methods that are essential to help resolve conflicts? Techniques for managing a family business disputes include the following:

Communication - It is important to communicate openly and honestly while being sensitive to everybody's needs. Often conflicts arise as a result of repressed historical issues that have been brought to the surface. While it is important to understand the past, we always suggest that family members only raise topical or current issues and discuss them only with those directly concerned. This helps to avoid "going round in circles" and allows family members to resolve practically the issue(s) at hand. In such a situation, we would encourage everyone to acknowledge that each family member has a right to raise their concerns and voice their opinion. Furthermore we stress to the family the importance of understanding one another's positions and points of view.

Inclusion – It is critical that all parties are involved in the communication process. Often however, some family members may not voice an opinion. But it is essential that we identify such individuals and ensure that the rest of the family engages them by asking questions and prompting them to answer. However, we balance this advice by also strongly advocating that the family listen to others, which allows them to get a better understanding and awareness of the issues at stake.

Negotiation – It is necessary to review and rank all the areas of disagreement. Once issues are ranked, it is possible to reach a middle ground with the parties involved. This process also allows for low-priority, or less significant problems, to be resolved by the family coming together and reaching a mutually acceptable outcome. Thus existing common ground among the parties is reinforced, and trust and understanding are built, which are the foundations required when trying to negotiate the more critical issues and conflict.

Objectivity – It is important to maintain an objective approach when dealing with other parties to establish trust, credibility and respect. We understand that conflicts often can become emotional and that objectivity is difficult to maintain. In such instances, involving a neutral outsider or mediator can be of paramount benefit and can help the parties explore settlement options and move towards a solution upon which all can agree.

Timing – When dealing with family business conflicts, timing is of the essence. It is imperative that the matter is addressed when the time is right. Problems can be caused and conflicts exacerbated both by moving too soon or by acting too late. Of course, there are many contextual conditions that determine when the time is right to address a subject, but it is important also to recognize that in the life-cycle of a conflict there are multiple opportune moments to resolve an issue. All too often, the concept of "the right time" is misused as an excuse for procrastination, which can be damaging as it often leads to even more procrastination, making intervention at a later stage much more difficult.

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All being said, however, we also acknowledge that conflict is not always necessarily a bad thing. Properly managed, moderate doses of conflict can be beneficial. Conflict is the root of change and allows people to learn and grow. In many cases, after conflict and subsequent resolution, closer unity and stronger relationships may even be established. Knowing how to manage and resolve these conflicts is what is ultimately important for the overall success of the family business.

by **Walid Chiniara**, Partner and Deloitte Private Leader in the Middle East and **Yasmine Omari**, Manager, Family Enterprise Consulting, Deloitte Middle East