
Understanding family dynamics and family conflicts

*This article is written
by Amin Nasser ,
Partner - Private
Company Services
Leader at PwC Middle
East.*



Understanding family dynamics and family conflicts

Conflicts and misunderstandings always exist in families and are the family businesses' greatest enemy. Managing conflicts is key not just to the survival of the business but to the survival of the family itself. Family members need to establish strong and well-structured business relationships. Being brothers, sisters or cousins may not be enough at times.

What role do family businesses play in the Gulf's economy?

Family businesses have been the very foundation of the GCC economies. In fact more than 80 percent of the GCC businesses are either family run or controlled indicating that they are the basic fabric of the society and the regional economies. A large percentage of the commercial activity in the GCC is controlled by family business groups who are involved in several sectors and constitute the majority of the gross domestic product (GDP) not related to oil.

The family businesses in the GCC also employ a substantial percentage of the regional workforce and therefore the transformation of the family business will have a significant impact on the region's economy.

Family Businesses in the GCC began as entrepreneurs and over the years diversified their business interests. A significant number of these businesses started in the early 1960s and are accordingly considered relatively young. GCC family businesses are mostly managed by family members of the first or second generation, and only few are in the third generation.

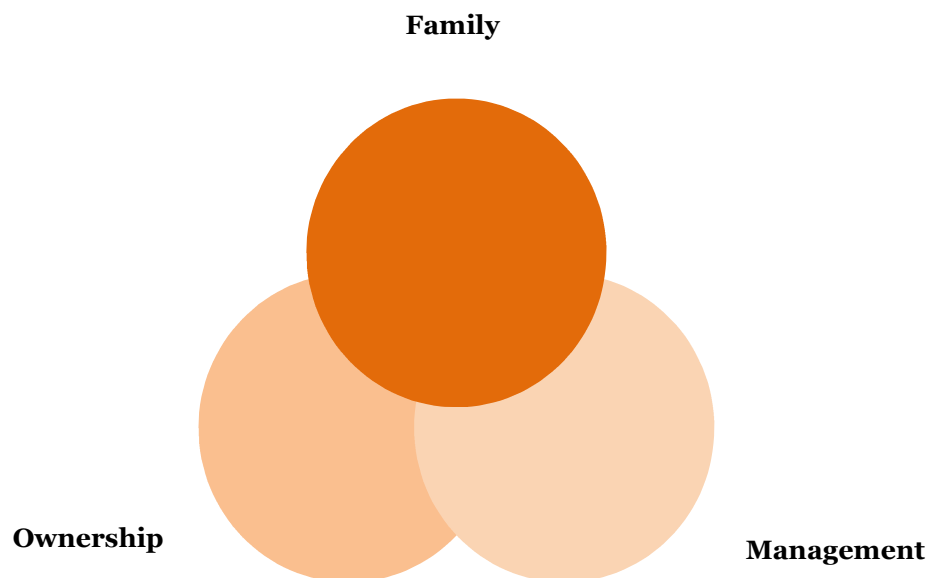
Some of these families have created a number of successful conglomerates which play a significant role in employment in the region. In addition many family businesses in the GCC have multi location / multi business activities, including retail, automotive construction, importing, shipping and travel, insurance, agriculture, financial services, real estate, and manufacturing. Some have synergistic operations which have enabled them to participate in the development projects shaping the region over the past few years.

Although strong cultural traditions including respect for the elder generation have to a certain extent protected the families from conflicts, we are beginning to see a number of families in the GCC going through some family feuds. However most of these families have managed to keep their family feuds private.

Why do conflicts occur in Family Businesses?

Most family businesses wish for business prosperity and family harmony; however they often confronted with underperforming business units and unresolved family conflicts.

The two greatest threats to the successful continuity of family businesses are conflict and succession. Conflicts in family businesses are rarely caused by poor business performance; most conflicts arise because the family owners perceive that their needs are not met. Conflicts also surface when situations are unclear or not properly understood. The management of these conflicts becomes the key to survival of both the business and the family. Indeed, the main reason behind the emergence of conflict in family businesses is the lack of understanding and communication between the three family dimensions, namely the family, owners and management. These dimensions are presented in the three circle model (below) which views family enterprise as a complex system comprising each of these overlapping sub-systems:



Understanding and managing these dynamics become extremely important as everyone within the family will have their own strong point of views. The individual views will differ based on personalities but also based on where the individual family member is positioned within the three circles. Some family members will be active shareholders involved in running of the business while other family members may just be passive shareholders. However there can be a huge communication issue. When you are actively in the business, you understand the business challenges; but when you are not in the business, often nobody provides you with insight into the working of the business. This divergence in knowledge often gives rise to conflicts.

The core issues likely to cause tensions or make tempers fly in a family business include:

- Decisions about the future strategy of the business.
- Performance of family members actively involved in the business.
- The setting of remuneration levels for family members actively involved in the business.
- Decisions around who can and cannot work in the business:
- Family members actively involved in the business not consulting the wider family on key issues
- Deciding between the reinvestment of profits and the payment of dividends
- The role 'in-laws' should or should not play in the business:
- How can family shareholders exit?
- Agreeing on the basis valuation of shares in the business for those exiting the business
- Choosing the future leaders of the family and business- succession

PricewaterhouseCoopers Family Business Survey

- A recent PricewaterhouseCoopers Family Business Survey revealed the following:
 - ✓ Nearly half of the family firms interviewed told us that they have argued about the future direction of the family business.
 - ✓ Nearly two – fifths said they have argued about the performance of family members employed in the business.
 - ✓ Over a quarter of the family businesses argued about the setting of remuneration levels for family members actively involved in the business.
 - ✓ Over 70 percent of the family businesses surveyed did not have any procedures for dealing with disputes between family members.

Impact of conflicts on family wealth?

Destroying successful family business

Sadly, unresolved conflicts between family members usually leads to the destruction of the family business in terms of reputation and structure as it disintegrates into smaller less effective units.

Negative impact on family harmony & relationships

As family members start fighting with each other, the family cohesion and harmony is negatively affected. These conflicts end up in family members not only leaving their family business, but also leaving the family and destroying their relationships.

Freezing of assets and family wealth

In the Middle East a number of family disputes have ended in courts who implement strict rules on the management of the assets under dispute. In certain cases, the assets of the business could be frozen until satisfactory resolution of the disputes.

What do successful families do to minimise conflicts?

Most family businesses have reasonable governance procedures to deal with the business dimension. Few, however, have set up formal governance structures for the family and owners dimensions. As a result, a number of family businesses have created family councils to deal with family issues and shareholders' assemblies to deal with ownership issues. These councils provide a forum for all the family owners to debate family and ownership issues.

Establish the Family Rules

Through the family council or the shareholders' assembly, the family usually build and agree a set of rules which address key ownership issues. These values are often referred to as family protocols or family constitution. Successful family businesses have adopted these rules and understood the need to establish strong intra-generational business relationships. Being brothers, sisters or cousins may not be enough at times.

Creating the family constitution lies at the heart of building a base for family business success.

Decouple Family Issues from Business Issues:

Very few family businesses in the Middle East have clear lines between family and business activities and this lack of clear separation increases the potential for conflict between family members.

Families that decouple or separate the ownership issues from management issues and keep a balance between their relationship as family members and their contractual relationship as business owners have a more viable family business.

Establish a Family Forum (Family Council)

Families create family councils and shareholders' assemblies for the family owners which is a separate forum from the board of directors and management of the company. The family council becomes a forum which allows family owners to be actively engaged in the debate surrounding ownership and family issues – the emphasis here being on the fact that all family members can participate, regardless of whether they are actively involved in the management of the business. In this way, the threat of family conflict is lessened and the chances of the next generation embracing and supporting the family business are improved.

This practice has been followed by families all over the world and in some cases the family council and the shareholders' assembly occupy as much time as the management of the company.

Transitioning the Next Generation

Aligning the vision of the senior generation and the incoming generation is crucial to the success of the transition of the next generation. It is important that the next generations are involved and encouraged to learn about the business and its operations as early as possible in order to provide them with the necessary experience and to develop a sense of ownership and commitment to the family business.

Managing the expectations of the next generation clear communication and greater transparency are key ingredients to minimize any future conflicts.

Concept of fairness in the family

Fairness in the family means that all family members should be treated in a consistent and fair manner.

Divisions and fragmentation between family members can be caused by family members suspecting others of benefitting at the expense of the family.

The whole family should have a real commitment to fairness. This in turn calls for the family constitution to be created with the fairness concept as the key ingredient.

Conflict Resolution Mechanism

A recent PricewaterhouseCoopers survey of Family Businesses indicated that although most of the families interviewed admitted to having conflicts, over 70% of the families did not have any mechanism for dealing with disputes between family members.

Family businesses are increasingly creating formal conflict resolution mechanisms which provide a forum where the family members in dispute can air their differences and hopefully resolve the issues in an amicable way. However, in family businesses, emotions are sometime quite high which makes it difficult to resolve issues in an effective way. Therefore, families set up conflict resolution committees which include the involvement of an outsider, a person who is trusted and well respected by the family, who offers that independent voice. The role of the independent outsider is extremely important as they bring in objectivity when they are called to help resolve family conflicts.

The use of such impartial go-between provides a neutral forum in which the disputants can air their differences without being intimidated. The process is more structured than 'ordinary' negotiation and the results are often more long-lasting.

For more information on Family Business issues in the Middle East please contact:

Amin Nasser

Partner

Private Company Services Leader

T: +971 (0) 4 304 3100

D: +971 (0) 4 304 3120

Email: amin.nasser@ae.pwc.com

Dubai, United Arab Emirates

PwC helps organisations and individuals create the value they're looking for. We're a network of firms in 157 countries with more than 184,000 people who are committed to delivering quality in assurance, tax and advisory services. Tell us what matters to you and find out more by visiting us at www.pwc.com.

This content is for general information purposes only, and should not be used as a substitute for consultation with professional advisors.

© 2014 PwC. All rights reserved. PwC refers to the PwC network and/or one or more of its member firms, each of which is a separate legal entity. Please see www.pwc.com/structure for further details.