

Building the capacity to manage conflict in Asian families

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Introduction

Conflict among enterprising families is a major issue in Asia today as we see the first generation wealth creators start to pass on their wealth. Most frequently these conflicts seem to arise in Asian families once they reach the second, sibling generation. Culture plays a large part in the origin of these conflicts, including a hierarchical family culture, a communication gap between generations, and first generation business founders who have not modelled accountability for their children. Many business founders have also made the mistake of not cultivating in their children the ability to work together as a collaborative team of shareholders. The solution to avoid destructive conflicts in Asian family firms is to actively pursue the adoption of best family firm governance practices, preferably while the first generation can participate.

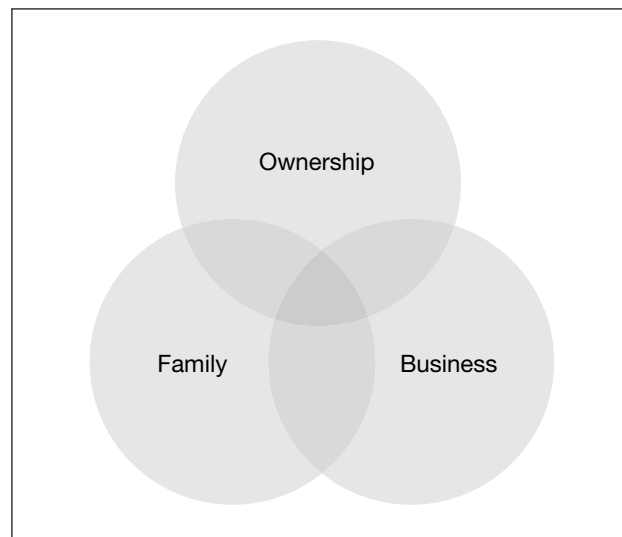
Conflicts and the family enterprise – five key points

- First, the majority of Asian family-owned enterprises are likely to fail because of internal challenges with the key one being destructive family conflicts.
- Second, the majority of family firm conflicts are actually predictable.
- Third, many conflicts in family enterprises are caused by the different perspectives that come from the different positions that family members occupy in the “Three Circle Model” (see below).
- Fourth, conflicts in family enterprises are inevitable – so if a family wants to pass a successful business on to the next generation they need to start developing their own tools for managing conflicts as early as possible.
- Fifth, conflict avoidance (ie, not discussing it) will do more harm to a family than facing conflicts; it is very important to have an agreed process for working through conflicts (a ‘conflict resolution process’).

What causes conflicts in family enterprises? The ‘Three Circle Model’ (Davis and Tagiuri 1982)

- A family business can be analysed as a complex system comprising of the overlap among a family emotional system, an ownership system

and a business (or management) system. This popular model of family business is usually depicted as a Venn diagram of three overlapping circles: a family circle, an ownership circle and a business circle.



- The Three Circle Model can be used to predict the majority of the conflicts that will occur within any family firm or family office, anywhere in the world.
- Family values and business values can be very different. Conflicts will arise when there are poor boundaries between the family circle and the business circle. Conflicts can be reduced by strengthening this boundary.¹
- It is predictable that there will be conflicts caused by the different perspectives of family members who are in the family and ownership circles (outside shareholders) and those who are in management roles (inside shareholders). Over time, ownership will ‘pull away from’ management. Family firms need policies, agreements and outside directors to help balance these two different perspectives.
- Each circle needs its own forum for communication and decision making. If there is no forum for family or ownership issues to be discussed then this is another source of conflict. Holding proper family meetings helps to address this.
- The Three Circle Model shows that family

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enterprises are very complex systems – conflicts often arise because of role confusion and a lack of a clear and agreed understanding within the family on the different roles that exist. Therefore, defining and clarifying roles is a critical process.

- Finally, the family circle, the ownership circle and the business circle are always changing with time and times of change are often times of increased anxiety for a family, and anxiety fosters conflict.

Ten examples of common family enterprise conflicts

1. Conflicts over employment

- Many families fight over the topic of whether their children are entitled to work in the family business, including a family office, or whether jobs should only be offered based on merit.
- A family employment policy can help resolve these conflicts.

2. Conflicts over compensation

- Many family firms will start off by following the rule that all family members in the business get paid the same. This approach might work to start with, but it starts to break down once you have some family members who own shares but who do not work in the business.
- Over time it helps to start to differentiate between dividends and compensation for work and to move to a system of paying an arm's length compensation for the role and for performance.
- Distinguishing between dividends and salary means that not every family member is forced to work in the business.

3. Conflicts over entering the family enterprise

- It is usually very helpful to encourage family members to obtain several years of outside work experience first before joining the family enterprise.
- In some family firms, when the younger generation enter the family business, conflicts can arise because they are treated like they are

owners of the business (eg, the son of the boss) – a role which they do not have the skill or experience for at that early stage – when they should really be treated as having only a junior employment role.

- Conflicts can also arise if a parent of a young employee (a parent who is not working in the business or who works in a different part of the business) interferes in the working relationship between the young employee and their direct manager/supervisor. It is important that the parent should not interfere in the working relationships of his child.

4. Conflicts over succession

- Conflicts will arise if the successor does not hold him or herself accountable to the family member shareholders.
- Conflicts will arise if the family stakeholders do not have a shared vision or dream for the future of the business.
- Conflicts can arise if some family members think that the successor should be determined based on hierarchy within the family, while other family members think the successor should be determined based on merit.
- Succession is best treated as a process and one that includes input from the other family stakeholders.
- Outside directors can help.
- First generation business founders can help prevent future family conflicts if they make an effort to teach their children how to work together collaboratively and by modelling accountability.

5. Conflicts among siblings

- Siblings will often renegotiate their relationships once the founder passes away.
- When advising siblings tell each of them: "It is not possible to change your siblings. The only thing you can work on changing is yourself and your own reaction to them".
- Encourage siblings to learn how to *listen with empathy* to each other and to be curious about understanding how each other sees the world.

- It helps if siblings can learn how to have adult-to-adult conversations.
- It helps to define roles and responsibilities and accountabilities.
- It helps to agree to separate family issues from business issues.

6. Conflicts because of different ownership and investment philosophies

- It is common to see conflicts arise – or families get stuck, because some shareholders see themselves as stewards of the family legacy, while other shareholders see their shares more in purely commercial terms, just like any other investment that they can realise if the return is not adequate.
- It is best not to force siblings – or other family members – who have incompatible ownership or investment philosophies to stay together.
- It is important that family members understand each other's different ownership and investment philosophies.
- Do not try to change the ownership or investment philosophy of another family member. It won't work.

7. Conflicts between inside and outside shareholders

- Outside shareholders want more dividends; inside shareholders want to reinvest. This is a classic conflict. A dividend policy can help.
- Outside shareholders might be suspicious of the remuneration and perks received by inside shareholders. A compensation policy can help and it is important to ask what would an arm's length professional be paid?
- Outside shareholders and inside shareholders might have different concepts of what is an appropriate risk level for the business, or for the investments.
- Family meetings, outside directors and a strategic planning process can all help.

8. Tensions between spouses

- On Monday morning, two brothers go to work and end up in an argument. On Monday night, they each go home and tell their respective spouses about the argument. On Tuesday, the brothers go back to work and mend their relationship and go back to working together happily. They forget to tell their spouses. At the weekend the spouses meet at a family gathering and they start glaring at each other and won't speak to each other because of the conflict between their husbands – which they did not know had been cleared up last Tuesday morning!
- Conflicts and misunderstandings can arise where spouses are not kept as informed as the rest of the family members.

- Therefore, it makes sense to find ways to include spouses in family meetings, so they can hear first-hand what is happening with the business and the family, and can ask questions.

9. Conflicts because there are too many family member bosses

- In some family businesses, and family offices, each family member is treated as the boss; there is no clear structure chart or organisational hierarchy. One family member can walk in and tell the employees to “steer the ship to the left”; the next family member can walk in and tell them to “steer it to the right”.
- The origin of this kind of conflict is a family rule that every family member should be treated equally, which is a family system rule that is not appropriate for the business system or the family office.
- This could also be because of confusion between ownership roles and management roles.
- Clear boundaries would prevent this kind of scenario.

10. Conflicts over strategy and direction

- Where different family shareholders have different views on strategy and direction for the business, or family office, an exit plan (see tools below) will help.
- Outside directors will help, and could be used more in family offices.
- Agree on the process by which the strategy is set and give all owners and beneficiaries a voice in the process.
- A family leader who can listen to all of the family will help.

Ten tools to manage family conflicts

1. Family meetings

- One of the single most effective practices that a family who jointly own assets can implement is to hold periodic family meetings.
- Holding periodic family meetings helps to ensure that there is a forum for family (and often also for ownership or investment) issues to be discussed.
- A family meeting is actually the vehicle through which the family members can develop most of the rest of the conflict management tools described below.
- A family meeting can also create a safe environment in which to defuse some family conflicts. Where there are existing conflicts, consider bringing in an outside facilitator for the meeting.
- For the definition of a ‘family meeting’ see below.

2. Shared family values, shared goals and objectives

- Shared family values help to provide the ‘family glue’ and become a tool in joint decision making.
- Shared goals and objectives for the enterprise or family office puts everyone on the same page.
- Successful families are those who develop the ability to collaborate together, which will include a concept of ‘we’ being greater than ‘I’.

3. A conflict resolution process

- Conflict is inevitable. Families will have the best chances of successfully managing that conflict if they have a clearly agreed process for raising and working through conflicts.
- A common formal conflict resolution process will be an agreement to first attempt to resolve conflicts through the input of family elders; failing that then through facilitation; failing that the next step is formal mediation with professionally qualified mediators; failing that the next step is binding private arbitration; then if all else fails, the final step might be litigation in the court system.

4. An exit plan

- Here ‘exit plan’ refers to a clear process by which a family member shareholder can sell some shares in the family business, reducing their stake or ultimately completely exiting from ownership. It also applies to a family member’s ability to withdraw their share of the investment assets.
- This is usually documented in a legally binding shareholder’s agreement.
- Having an exit plan is a way to ‘let off steam’ and to allow shareholders who do not believe in the direction that the business or family office is being taken to leave.

5. A code of conduct

- Especially in the case of siblings who have to work together it is very helpful to develop a code of conduct which specifies the behaviour expected of family members. The code of conduct can also specify the ground rules for how to have a ‘fair fight’.
- Important code of conduct rules can include commitments that family members will:
 - take responsibility for managing their own emotional reactions;
 - invest time in the relationship with their fellow family shareholders;
 - speak with one voice to the non-family directors, staff and the public;
 - treat each other with respect;
 - deal with each other directly in the event of any disagreements.

6. Outside directors

- One of the best ways of strengthening a family enterprise is to ensure that there are several non-family, non-executive directors (outside directors) on the board of the holding company or on the board of a family office.
- Outside directors can help to bring an objective view, including with respect to the performance and skills of family members in management roles.
- Outside directors can help to mediate disputes between family members in management roles.
- Outside directors can help to balance the interests of those who are outside shareholders and those who are inside shareholders (ie, those in management roles).

7. Family elders

- In many Asian families, there is often a communication gap between the generations.
- A family elder is someone who can be trusted by both the senior generation and by the next generation and who can help to bridge the communication gap between them.
- A family elder can be an uncle or aunt or an in-law; or they could be a very trusted non-family member.
- Family elders are typically respected for their wisdom and capacity to see the big picture.
- A family elder can help to mediate disputes between family members.
- Family elders can help keep the family united by reminding them of their shared values and family stories.

8. Family education and development

- Often siblings come into conflict because they are never taught how to work together as a collaborative team. This points to the importance of finding as many learning opportunities as possible for siblings to work together collaboratively while they are young adults, if they are all going to inherit an ownership stake in the enterprise.
- Family members who are stakeholders or investors together need to learn to differentiate among family, ownership and management issues and they need to learn about the different roles, responsibilities and accountability that make up the governance system of their family enterprise.
- Family members who are going to work together or share the ownership of pooled family assets, should also invest time through attending external training and development activities to learn tangible skills including:
 - listening skills;

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- the ability to have difficult conversations (see Stone, Patton and Heen, *Difficult Conversations, How to Discuss What Matters Most*);
- conflict resolution and negotiation skills;
- understanding and working with different personality types;
- developing mindfulness and greater personal self-awareness;
- understanding family dynamics (seeing the family as an emotional system); and
- understanding family-owned enterprises and family offices.

9. Family policies

- Many family conflicts are predictable conflicts and preparing written family policies is a way to specify how the family will resolve the conflict before it occurs.
- The best time to develop family policies is before they are needed.

10. A family constitution

- A family constitution is a written document, developed collaboratively together by the family members, which would normally incorporate all of the above tools. Therefore, a constitution is 'the tool for organising all the other tools'.
- The family constitution can either include key family policies or it can define the process for developing family policies.
- A family constitution should set out a fair decision-making process for the family to follow.
- A family constitution should set out the conflict resolution process for the family.
- The family constitution should also refer to the ongoing family education and development activities expected of family members.
- The process of creating a family constitution will also provide an opportunity for the family members to clarify and agree on the different roles and responsibilities (and accountability) that exist.

How should a family develop its own set of conflict management tools?

- The best way for a family to develop its own set of conflict management tools as described above is based on having widespread input into the development of the tools from as many different family member stakeholders as possible.
- If the process for developing these tools is regarded as fair, then the tools will have wide family support. If the tools are imposed 'top down' they may not be honoured by the family.
- To be effective the tools need to be developed by the family members in an environment which has the right kind of foundation, which is the ability of family members to listen to each other very carefully and with empathy. They usually need to use a skilled facilitator.
- The tools need to be internalised by the family members in order for them to be effective.
- If implementing these tools represents a change for the family – and usually it will – then there needs to be a process of periodic follow up and maintenance to ensure that the change will stick. The facilitator can help with the follow up.

What is a family meeting?

- Not every meeting of family members can qualify as a family meeting. The term 'family meeting' as used in this article has a particular definition and it means a meeting where:
 - a safe environment is created making it possible to have important but perhaps difficult conversations;
 - each person has a voice;
 - relationships are *horizontal* not hierarchal;
 - communication is *honest*, but respectful;
 - each family member can listen with empathy to the others;
 - the family can disengage and explore.
- In practice, for a family meeting to be effective and to meet the above definition, expect that the family will require a neutral outsider who can facilitate the meeting.

- When do you stop holding family meetings? The answer should be 'never'; families should have an ongoing process of holding family meetings.

What about trusts and trustees – can they help too?

Can a trustee help to avoid family disputes?

Potentially yes, if:

- The trustee encourages the family members to hold periodic family meetings and to develop the other tools listed above.
- The trustee provides one or more directors for the enterprise (who does more than just act as an observer).
- The trustee is the one who is making or approving ownership decisions, and in doing so is helping to balance the interests of the outside family members with those who are inside.
- Every trust is unique so it is essential to study the relevant trust deed terms.
- *However*, if the trustee plays a hands-off role *vis-à-vis* the ownership, then it is likely the trustee cannot be relied on to help resolve conflicts that come up concerning the enterprise.

Other points to remember about trusts that hold shares in a family enterprise

- Make sure there are family meetings to talk about the trust(s) and how the trust(s) will work in the future.
- Make sure family members are provided with an education on the roles involved and an understanding of the trust(s).
- Make sure there is a family governance mechanism for the trust.
- As a rule of thumb, give each sibling their own trust.
- Just because the family enterprise is owned under a trust, this does not mean the family do not have to do succession planning and it does not mean the family can avoid conflicts.
- You cannot use legal structures to bottle up or repress family emotions.

- It will cause conflicts if family members are put into legal relationships where they do not have the relationship skills to make it work.

What is the best way to handle family disputes?

- If a conflict cannot be resolved through the involvement of family elders or facilitation then a formal mediation process should be the next best step in order to resolve the conflict.
- Mediation is a confidential process.
- In a mediation process the parties to the dispute are the ones who make the final decision on how to resolve the dispute. The mediator helps facilitate the resolution of the dispute by the parties involved.
- Mediation is a preferable form of conflict resolution process for family conflicts when compared to arbitration and litigation because mediation offers the ability for the parties to find their own win-win solution and leave family relationships and communication intact.
- For mediation to be successful in a family context, it is important to engage a professionally qualified mediator or mediation team with experience in family conflicts and family dynamics.
- The mediator has to be a neutral party.

What is more dangerous to a family enterprise than family conflict?

- Conflict avoidance (ie, ignoring the issues) which leads to apathy and false harmony – and the potential for things to explode later. Families need a conflict resolution process so that conflicts can be addressed constructively as they arise.
- If the outside family members lose their emotional commitment to the enterprise and stop supporting the decisions of the family managers. Keeping emotionally committed members requires:
 - planning for family participation;
 - ownership education;
 - having an exit plan so that family members remain of their own free choice.

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As a family office executive what can I do to help my clients?

- Review the above list of conflict management tools with your clients.
- Encourage all of your client families to hold periodic formal family meetings with an experienced facilitator.
- If it does not already have this function, recommend that your family office should be providing support on family learning and development. This might include creating the role of chief learning officer for the family office.
- Never become a go-between for family members. Always encourage direct communication.
- Stay objective and neutral – don't take sides. In a family system, remember there is no room for blame.
- Learn to listen to your clients with empathy.
- Don't try to be an expert; instead help them to think things through carefully for themselves.
- Ask them questions which will encourage them to separate in their own minds family issues, ownership issues and management issues.
- Ask them "who are your family elders?"

- If the family are going through a transition, encourage them to be aware of this change and to see the big picture. Ask them what plans they should be making to deal with the transition?

Conclusion

For Asia's enterprising families, the best way to develop the internal capacity to manage conflicts so that they do not become destructive is to build boundaries² between the family circle, the ownership circle and the business circle and to ensure that each circle has its own forum for communication. There is a view (see *The Cycle of the Gift, Family Wealth and Wisdom*, by James E Hughes Jr, Susan E Massenzio and Keith Whitaker) that of these three circles the most important is the family circle, hence the critical importance of ongoing family meetings and the development of trust, communication and conflict resolution skills among family members.

Unfortunately, Asian families often make the mistake of assuming that the family emotional commitment or family glue will last forever, and so they fail to take active steps to preserve it. By giving priority to developing the family circle, this can help to sustain the family glue and preserve family harmony.

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1 The boundary between the family circle and the business circle can be strengthened by the following kinds of activities: (i) developing a family philosophy which clarifies whether the family enterprise is to be run in a 'family first' or 'business first' fashion or follow an 'enterprising family model'; (ii) steps to enhance role clarity including developing a table of decision-making authorities which states for each major decision whether it is a family decision, an

ownership decision, a board decision or a management decision; (iii) having non-family directors who can help act as a 'balancing point' between the interests of family/ownership and those of management; and (iv) teaching family members the practice of learning to 'manage your hat collection'.
2 See footnote 1.

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