

Can embracing conflict spur positive change?

How the world's largest family businesses resolve disagreement

Special report based on a global survey of the world's largest family businesses



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Download the survey executive summary at ey.com/stayingpower and a copy of this report at ey.com/conflict.



Carrie Hall
EY Americas Family Business Leader
carrie.hall@ey.com
+1 404 817 5740
Twitter: @CarrieGHall



Steve Harpole
EY Americas Family Business Tax Leader
steven.harpole@ey.com
+1 314 290 1235



Jeff Brodsky
EY Americas Family Business PCS Leader
jeff.brodsky@ey.com
+1 312 879 3871



Bobby Stover, Jr.
EY Americas Family Office Leader
bobby.stover@ey.com
+1 214 969 8321

About the Cox Family Enterprise Center

Since 1987, the Cox Family Enterprise Center at Kennesaw State University has been dedicated to the education, recognition and research of family businesses. As one of the first university-based centers of its kind, the center remains focused on connecting people, ideas and knowledge to create a dynamic community to transform the family business ecosystem and further economic development.

Visit familybusiness.kennesaw.edu for more information.

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Visit kennesaw.edu for more information.



Joe Astrachan, PhD
Wells Fargo Eminent Scholar Chair of Family Business
Professor of Management and Entrepreneurship
Cox Family Enterprise Center at the Coles College of Business
Kennesaw State University
jastrach@kennesaw.edu
+1 470 578 6045



Torsten Pieper, PhD
Academic Director, KSU DBA Program
Research Director
Cox Family Enterprise Center at the Coles College of Business
Kennesaw State University
tpieper@kennesaw.edu
+1 470 578 6724



Shawn Wilson
DBA Candidate, Coles College of Business, Kennesaw State
VP & GM, Beaulieu of America West
Cox Family Enterprise Center at the Coles College of Business
Kennesaw State University
swils115@students.kennesaw.edu
+1 714 333 7848

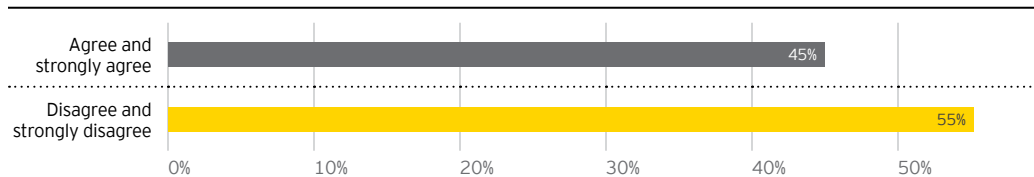
Transform conflict to transform business

Disputes and friction are inevitable in family business, but can actually be quite healthy when managed well. The world's largest family businesses are certainly no strangers to dealing with conflict. In fact, in our survey, nearly half report some level of dysfunctional conflict (see Figure 1). It's how they deal with that conflict that makes the difference between success and failure and family happiness and distress.

Reducing unhealthy conflict has benefits for family businesses beyond a tranquil workplace. It's also a positive for long-term family health and business prosperity. As we reported in *In harmony: family business cohesion and profitability*, our research has shown that family cohesion leads to greater business return on equity (ROE), and our research suggests that the same mechanisms that lead to cohesion also reduce family conflict.

In this report, we explore the effects of dysfunctional conflict and explain how to make conflict benefit business and family, rather than disrupt either. We pinpoint the behaviors and traits that family businesses use to help reduce unhealthy conflict, and we suggest actions that business owners and families can take to help manage disputes more effectively, enhance communication and family cohesion and, in the process, help the business and the family thrive.

Figure 1. Percentage of companies reporting the existence of dysfunctional family conflict



Healthy vs. unhealthy conflict

“The most important component of a family business is the family. Disagreement is inevitable, but if everyone makes an effort to communicate often and to really listen, they can keep bonds strong and avoid potentially explosive outcomes.”

– Carrie Hall, EY Americas Family Business Leader

For most of us, conflict is, at best, uncomfortable. In a business setting, it can lead to a host of unproductive and often dysfunctional behaviors. Experts in family business say there are three types of conflict:

- Task
- Process
- Relational

Task conflict refers to goals and strategies, and process conflict is about how things should be done. These are generally healthy when other issues are not in play.

Managing relational conflict

The most potentially harmful of the three is relational conflict, which is characterized by mistrust, anger, frustration, jealousy and other negative feelings. Unfortunately, family businesses are not immune from common expressions of relational conflict, including screaming, bullying, playing victim, passive-aggressive acts, acquiescence and avoidance.

Emotions in the workplace can be hard to address, but hidden and unresolved relational conflict in a family tears at the fabric of both the family and the business. Over time, it becomes harder and harder to contain, and the business can suffer along with the family. It changes family members' attitudes toward one another, eroding the trust and goodwill that are needed to remain unified in troubled times. Such families, when they face difficult business problems or other externally imposed challenges, often implode and turn on one another in an explosion of past grievances and arguments – leaving devastating effects, such as intra-family lawsuits and public disputes.

People are watching: the impact of family conflict on the business

Family conflict is not just about the family. Its impact is felt throughout the business and even in the market. When dysfunctional conflict arises, you need to worry about its effect on:

1. Employees

When family members have conflict, not only do they model dysfunctional behavior, but also their employees are often caught in the middle. Though employees may try to avoid taking sides, this is often impossible. Conflict increases friction in the company, reduces effective communication and leads to uncertainty about strategic direction and tactics.

Witnessing emotional conflict (screaming, bullying and so on) from family members, who are often business leaders, in the workplace can reduce employee motivation and commitment and may lead to increased turnover.

2. Family who work in the business together

For family members working in the business, family conflicts rarely stay at home. Dysfunctional conflict makes small work disagreements worse and can lead to family employees avoiding one another. Avoidance leads to delayed decisions at best and power vacuums at worst. Fueled by emotional conflict in the workplace, conflict among family outside of the business can grow as well, creating a negative feedback loop.

3. Corporate image and reputation

Family conflict can have devastating effects on the reputation and brand of a family business. The competition may publicly and privately cast aspersions on the business. As rumors grow, the stability of the business can be called into question, affecting the willingness of suppliers and others to extend credit, and customers can be dissuaded from making purchases. And last but certainly not least, family conflict in the business will make the business less attractive to top talent.

What is healthy conflict?

While resolving conflict should be top of mind for all family business leaders, and clearly is for our survey respondents, it's important to remember that not all conflict is bad. For families that have developed ways to keep emotions out of conversations and decisions, conflict can:

- Stimulate needed change
- Spur creativity
- Encourage the use of outside experts to bring in fresh ideas
- When resolved, build family cohesion as the family shares the experience of resolving problems for the benefit of all while learning new things about one another

Within a family business, task conflict and process conflict can have positive results. If there is no relational conflict, task conflict is generally healthy, as resolving it builds commitment and motivation. The result is a sense of inclusion. Similarly, when resolved, process conflict leads to greater coordination and often brings about improved appreciation of one another's abilities.

Moving from harmful relational conflict to productive task and process conflicts should be a goal for all family businesses. Those that do so are considered healthier than those that either ignore or simply do not recognize their conflicts. For example, new conflicts often arise in times of change, when family members disagree about what to do next. These disagreements are often based on differing experiences, values, willingness to change and risk tolerance.

When families are skilled at working through conflict, it means they can quickly develop solutions, making the necessary adjustments to weather external changes and even prosper from them. And there is an added benefit: working through differences and successfully resolving problems tend to make people feel closer to one another, thus enhancing family cohesion.

However, when relational conflicts are particularly strong, it's best to seek outside help. (See "A formal process for resolving conflicts" on page 7 for more information.)



Conflict in the world's largest family businesses

Nearly half of the 525 family businesses in our survey report some level of dysfunctional family conflict (see Figure 1).

The businesses we surveyed are some of the longest-lasting, largest and most successful family businesses in the world. If dysfunctional conflict is so prevalent, how have they managed to become and remain so successful? Our data show that the answer lies in handling conflict appropriately when it arises, encouraging strong family cohesion and communication, and inviting – then resolving – healthy conflict.

Family businesses in emerging economies are more likely to report the existence of conflict than those in developed countries. Forty-eight percent of the companies in emerging economies report having some level of conflict, while 43% of businesses in developed economies report experiencing dysfunctional conflict (see Figure 2).

We postulate that since the businesses in emerging economies tend to be younger (see Figure 3), they may not have evolved communication habits or other norms and systems that reduce conflict. There may be cultural factors at play as well.

Figure 2. Percentage of companies reporting the existence of dysfunctional family conflict in emerging vs. developed economies

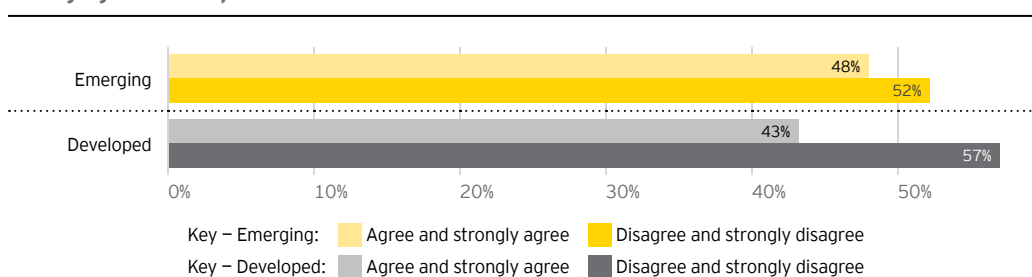
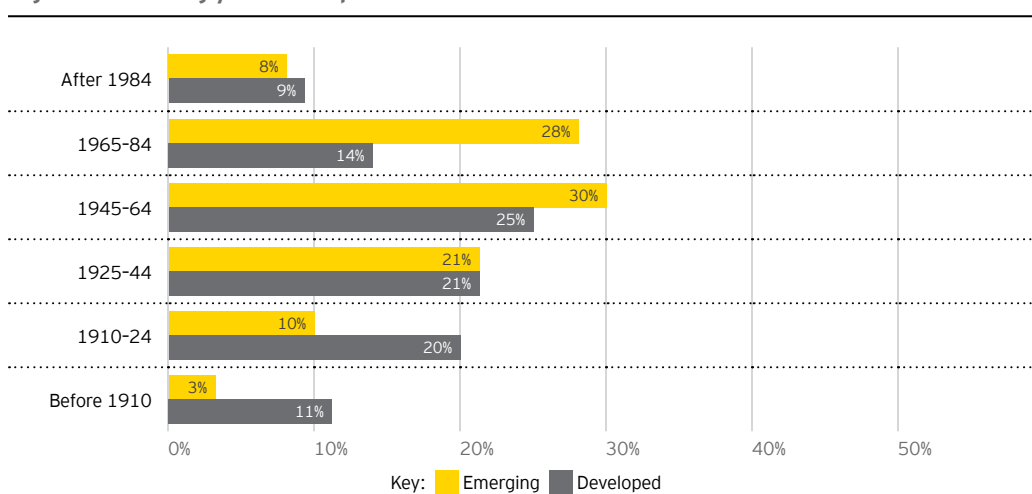


Figure 3. Founding year of companies

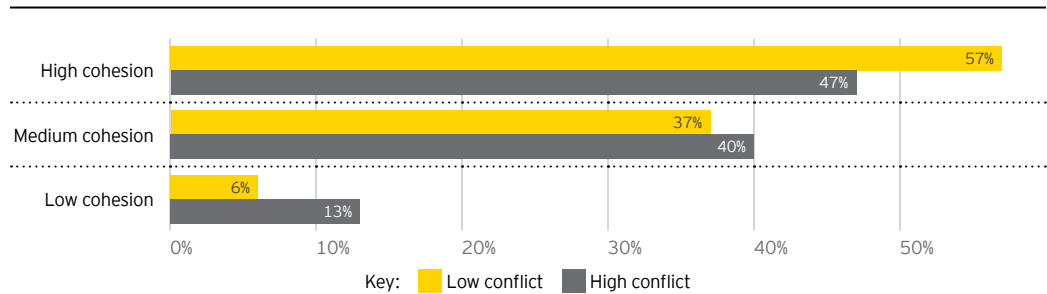


Build cohesion, reduce unhealthy conflict

Our survey shows that higher family cohesion leads to less family conflict.

Our data point to the important role cohesion plays in reducing conflict. Fifty-seven percent of low-conflict families had high cohesion, while only 47% of high-conflict families reported high cohesion. On the other end of the spectrum, just 6% of low-conflict families also had low cohesion, while 13% of high-conflict families also had low cohesion.

Figure 4. Percentage of high- and low-conflict situations by level of family cohesion



Our findings show that two activities are particularly important for reducing conflict in the world's largest family businesses:

1. Engage in frequent communication.

Communication is the factor most associated with lower levels of conflict for our survey respondents. Figure 5 shows a sample of communication mechanisms and topics from the survey. It is readily apparent that low-conflict families communicated more.

Participants in our survey report that 90% have regular family or shareholder meetings to discuss business issues, 70% have regular family meetings to discuss family issues, and 64% have a family council that meets regularly. Using social media to stay in touch is becoming increasingly popular as well. While the phone is still the primary communication channel for both business and other family-related communication, social media is used twice as much for business communication (43%) as for family communication (21%).

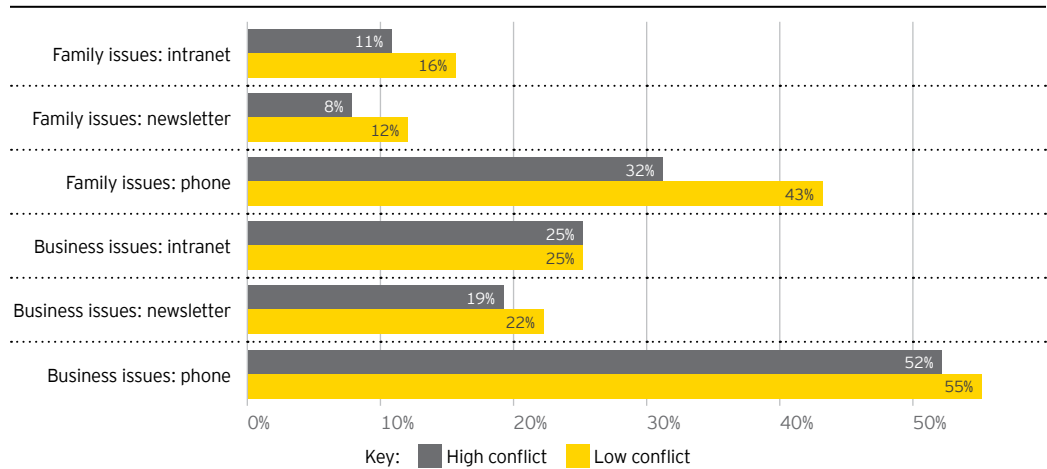
A formal process for resolving conflicts

For those conflicts that threaten to turn dysfunctional and have no easy solution, a formal resolution process is extremely helpful. It should outline responsibilities for detection, what steps should be taken, monitoring and accountability, consequences (if any) and post-dispute analysis and feedback. While families need to create personalized systems that meet their needs and have widespread support in the family, here's an example of what a conflict resolution process might look like:

1. Start by creating a standing committee of trusted family members (five to seven people).
2. All family members should have access to the committee.
3. The committee polls family employed in the business on a regular basis.
4. If a conflict is recognized, the committee decides if something needs to be done.
5. The committee should impose a cooling-off period, defined by the severity of the conflict.
6. The next step is mediation with the parties involved and two or more members of the committee.
7. If that does not work, the committee brings in professional counsel, such as a facilitator or mediator.
8. If resolution is still not found, the conflict goes to the full committee for adjudication.
9. Finally, if there is still no agreement, the last step before going the legal route is working to get the parties to submit to binding arbitration or binding agency negotiation.

Communication works to improve trust, reduce misinterpretations, enable rapid discussion of disagreements as soon as they arise, improve the chances that important information will be conveyed and understood, and strengthen relationships in general.

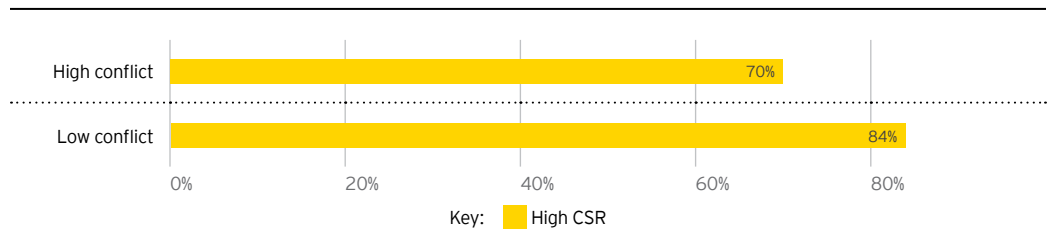
Figure 5. Family companies' use of modes of communication by level of conflict



2. Develop unifying emotional attachments through corporate social responsibility efforts.

In the world's largest family businesses, attitudes toward corporate social responsibility (CSR) activities inversely correlated with the incidence of conflict. In general, the more important CSR is to the family, the less conflict they reported. Figure 6 shows that when the family values CSR greatly, there is a greater probability that family conflict is low. Finding compelling CSR goals that all family members can get excited about is important for overall family health and is associated with a reduced level of family conflict.

Figure 6. Percentage of high- and low-conflict situations by attitudes toward CSR



These goals help to build a common view of the family legacy, which supports feelings of oneness, unity and pride and attachment to something greater than individual desire in family members.

“The feeling of ‘We’re all in this together’ can serve as a tremendous vaccine to conflict and encourages setting aside differences for the benefit of legacy preservation and achieving compelling goals that go beyond the family, and serve the greater good,” says Joe Astrachan, PhD, Wells Fargo Eminent Scholar Chair of Family Business Professor of Management and Entrepreneurship Cox Family Enterprise Center at the Coles College of Business Kennesaw State University.

Some other habits that can successfully reduce dysfunctional conflict in family businesses include the following:

3. Set expectations. If you agree on and set expectations ahead of time, the chances for conflict are greatly reduced.

Expectations can cover a range of issues large and small, such as who works in the business, the criteria for employment, how decisions are made, how salaries are set and who is a shareholder. These conversations are often difficult and time-consuming, but they are well worth the effort. It's harder to agree on difficult issues when in the midst of an emotional conflict, so resolving them before conflict erupts is good practice.

4. Build a sense of purpose and mission.

A unified purpose and mission that family members find compelling and personally important serve to build trust, as does a willingness to sacrifice short-term benefits for the long-term health of the family.

When such goals are in place – usually arrived at through lengthy and healthy discussion – family members are more likely to put aside differences and the need to “win” during interactions for the greater long-term health of the family. They see that helping the family succeed enables the achievement of unselfish goals about which they are passionate. This also dovetails with our findings about the connection between commitment to CSR and reduced conflict.

5. Create formal mechanisms for recognizing and resolving conflict.

In our report on succession, *Preparing or procrastinating?*, we noted that often just giving a person or group responsibility for achieving a goal goes a long way toward accomplishing it.

Charge a small subset of family members to identify destructive conflict and urge the parties to seek outside resources to help resolve it. A family council (a group charged with coordinating and in some respects “governing” the family) is ideal for this role. (For more information, see “A formal process for resolving conflicts” on page 7.) The board of directors, particularly outside directors, can also assist with conflict resolutions and even adjudicate business-related family conflicts.

Conclusion

While unhealthy conflict can prove devastating to a family business, not all conflict is dysfunctional, and there are many ways to calm any brewing storms.

For the world's largest family businesses, communication and commitment to CSR help keep families connected and cohesive, enabling them to stay focused and nimble, no matter what may come. Setting expectations among family members early and often and building a sense of shared purpose also help to build cohesion and reduce dysfunctional conflict and explosive disagreements that break the family and the business. If all else fails, having a formalized, written process for resolving conflict can mean the difference between renewed success and the shattering of the family and the business.

Family businesses shouldn't hide or shy away from conflict. Instead, they should work hard to reduce and resolve dysfunctional conflict and fully embrace the healthy aspects of conflict and the benefits it can generate.

About our survey

This report is based on survey results gathered from 525 of the world's largest family businesses. The responses represent 25 of the largest family businesses in each of 21 top global markets – Australia, Belgium, Brazil, Canada, China, France, Germany, the Gulf Cooperation Council (GCC) countries (Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates), India, Indonesia, Italy, Japan, Mexico, the Netherlands, Russia, South Korea, Spain, Switzerland, Turkey, the UK and the US. Valid Research, an independent research institute in Germany, used a questionnaire and conducted phone interviews in the specific country language with senior ranking family business leaders. Based on the number of companies contacted to achieve our desired sample size, we achieved a 42% response rate.

Additional insights

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