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FAMILY BUSINESS CENTER

From family business conflict to family connectedness

Wealth management involves more than just numbers. A critical issue in many affluent families is a conflict that lurks beneath the surface. A family business adviser—who's also a fourth-generation business family member—explains that the key to moving forward is to develop policies and processes for family governance and communication.

By Dirk Junge

Wealth is a great amplifier. It tends to make good things better and bad things worse. It's no surprise that a family's wealth may intensify conflict, but family members may not recognize that these conflicts can simmer beneath the surface for years. A fair amount of damage may have occurred before the family and business leaders even recognize that there's a problem.

Early warning signs

Conflict is not always obvious to people on the outside —or even to those on the inside. For instance, in one of our family business client firms (which we'll call the ABC Company), the father and his children (three daughters and one son) seemed to be working together well. They treated each other politely at the office and at family gatherings. But efforts to implement plans for new business ventures and investment decisions kept languishing. None of the principals would overtly disagree with the plans, but they kept finding reasons to delay meeting to discuss them or voting on them. Scratching beneath the surface revealed that each of the siblings harbored resentments about who was in charge of what area and how they were compensated.

It's important to keep your antenna up so you can spot the early warning signs of discord. Tension may first be apparent when family members start to withdraw or tune out from family or business issues. An increasingly active rumor mill is another sign. In still other cases, family members may start to sidestep the normal lines of communication and form alliances and cliques. Family gatherings become awkward and tense. Decisions may languish.

The most common causes of family business discord include jealousy among siblings when one is chosen to succeed the previous generation, lack of clarity in the decision-making process, uneven liquidity needs, and concentration of control over the family's assets in the hands of a few family members. As a family grows and its wealth is distributed among a greater number of heirs, each member's per capita share decreases. Having the right plan in place, and recognizing and addressing potential and actual conflict constructively, will help preserve family wealth for future generations. That has certainly happened among the several hundred descendants of my great-grandfather John Pitcairn, who co-founded Pittsburgh Plate Glass Company in 1883.

The larger the family, the more challenging it is to keep everyone happy. Various family members have differing views, goals and needs. For instance, when the Pitcairn family decided to pursue the opportunity to grow its family office—which has managed our own family's wealth across multiple generations—into a business that serves other families, not everyone was on board. Rather than force acceptance of the company's new direction, the board offered an option to those who wanted to pursue a different direction. It created a policy of "free association," which allows family members to liquidate their shares of the business held in their own accounts as well as their interests held by their trusts, while at the same time preserving family relations outside the business.

Managing existing conflict

My personal experience has led me to view conflict as an opportunity. As the chairman and CEO of Pitcairn, I have come to appreciate that if handled in a professional and open way, conflict can create a forum for redesigning lines of communication, enhancing collaboration, creating consensus and reconnecting family members in a productive and meaningful way.

The way that conflicts play out relates directly to the level of trust in an organization. The process of rebuilding trust begins with information flowing both to and from family members, and how that information gets communicated between family members.

The top-down, tight-lipped autocratic style of leadership commonly practiced by family business owners in previous generations no longer works today. Younger generations expect a more participatory, open, power-sharing style of leadership. In companies that do not practice an inclusive system of management, leadership and communication, a single conflict—sometimes even a small one—is more

likely to spin out of control. This, unfortunately, can result in a permanent schism in the family's relationship.

Gathering information from family members

One particularly effective way to solicit valuable information from family members is with a confidential survey, which can help identify areas of family disagreement and consensus. The survey can cover issues surrounding family, business, governance, communication, education and philanthropy. In the late 1990s, members of the Pitcairn family were asked to participate in a 100-question survey that was customized for the family by the Aspen Family Business Group. We received almost 100 responses.

A survey may make some family members uncomfortable—especially in smaller families, in which survey respondents may fear that their identities will be discovered. But it's important to assure participants that individual answers will remain confidential, and to communicate that, just as in elections, you have no right to complain if you don't cast your ballot.

An outside adviser analyzed the findings of our family's survey to ensure confidentiality and objectivity. The results helped us identify how we could best structure our company's governance and establish an investment policy for the 70% of our family's wealth that is held in trust. At a family meeting convened to discuss the survey findings, we created a vision that we could all rally around. We also developed a plan to manage family assets and educate family members about the workings of our financial company and about our family and business history and values.

Pitcairn has used family surveys with many of its client families to help them create a vision of what they want their legacy to be; to develop governance structures, succession plans and investment policies; and to educate future generations. A survey we sent to members of the ABC Company uncovered their gripes but also identified several important areas of alignment. It was important for us to present those positive areas first, so we could defuse some of the anger and resentment and build on their strengths; addressing the disagreements was the final step. Ultimately, a governance structure was created with a three-year rotating chairman of the board so that each sibling would have a chance to lead. We also set up an investment policy committee and a philanthropy committee to promote leadership positions for these important family responsibilities.

Avoiding future conflict

The best tools for preventing future conflict are clarity, inclusiveness, education and the separation of family and business.

• Clarify roles. How have leaders come to assume their positions? How is leadership rotated among family members, and how are leaders compensated? This information should be written down and communicated to all family shareholders and beneficiaries. The goal here is to uncover who wants to be involved directly in the business and on the board, and to determine requirements for such involvement, including education and outside experience. Policies governing hiring, promotions, compensation and succession should be put in writing. Clarity and full disclosure will eliminate the potential for future conflict of interest.

• Develop a policy and a process that are based on inclusiveness. This is especially crucial in addressing the normal cycles of leadership succession.

For example, in 1982 the Pitcairn family created an auxiliary board, which involves 13 family members at any given point. They serve in an advisory capacity to the board of directors, with no legal decision-making power. The auxiliary board has a clear charter to train family members, to improve communication, to make them better-informed clients and shareholders and to develop future family leadership for key governance positions (such as family directors and family trustees).

• Train the family to communicate effectively. Effective communication skills include using positive "I" statements; avoiding use of the accusatory "you"; being specific; and discouraging interrupting, comparing, mind-reading (speculating about another person's thoughts or motivations), judging and advising. Many families find it helpful to identify a "family ombudsman" as the point person to field comments and complaints. The ombudsman should follow a protocol for directing these concerns to the appropriate person on the board of directors or auxiliary board.

• Separate family issues from business issues. The lessons from scandals such as Enron, WorldCom and Adelphia and the resulting new requirements of the Sarbanes-Oxley Act emphasize the need for professional governance systems. This is as important for family offices and closely held family businesses as it is for publicly traded companies.

While conflict is never pleasant, it doesn't necessarily spell doom and gloom. The instinct of many people to try to avoid conflict is destined to fail and may possibly exacerbate the negative effects of

family disputes. One way or the other, tensions and controversies that are swept under the carpet will surface.

Sooner or later, the demons must be confronted. The process of identifying the source of conflict and dealing with it in an open and honest manner can be a catalyst for helping a family achieve a level of connectedness and trust that they may never have experienced without that conflict. This has been the case in my own family, and in that of the many families served by Pitcairn's multifamily office.

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