



Family in Business Together...Conflict Happens

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PRACTICE AREAS

Agri-Business

Recently, I observed a family business client – let’s call them the Hatfields – discuss employing an additional family member in their business. In about 25 minutes, they were able to decide: (1) That they would offer the job, (2) What the job would consist of, and (3) How much the compensation would be. In my experience, that’s a challenging set of decisions, and for most, a source of conflict, that got completed in a very short time frame. Family employment and compensation are particularly challenging because they occur at the intersection of the family and business systems. And the family system and the business system are set up to accomplish VERY different results.

AT ODDS: FAMILY AND BUSINESS PURPOSE

It could be argued that the family system exists to grow adults that contribute to society. Ideally, the family does this by nurturing and developing children. A family is typically characterized by:

- Informal expectations;
- Unconditional support;
- Authority based on seniority; and
- Long-term commitment that is based on an individual’s identity as part of the family.

Now, contrast that with the purpose of the business system – to be efficient and generate profit. Typically, a successful business is characterized by:

- Formal expectations and policies;
 - Conditional support based on performance;
 - Authority based on contributions and/or position; and
 - Shorter term commitment based on rewards received for employment.
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- As family businesses grow – both in the number of family managers and owners as well as in business size – conflicts resulting from the competing purposes of these two systems are inevitable. For example,
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from the family perspective, family employment in the business is about belonging to the family and providing for family members, regardless of their skill set or business needs. From the business perspective, family employment is about adding needed skills at the right time to grow efficiency and profits.

So, if conflict is unavoidable, how did the Hatfields make their decisions so quickly and, at the same time, maintain family harmony?

MANAGING THE INEVITABLE FAMILY-BUSINESS CONFLICT

Mom and Dad Hatfield really wanted their third son to join the business – he would be able to move back to Michigan, bringing three grandchildren much closer. The brother and sister already working in the business (and who both were owners, too), were excited about working with their younger brother who had skills the business needed. However, they were concerned about what kind of salary he expected. Also, they weren't sure if the accounting role he was going to fill was really a full-time job and didn't know if their brother would be willing to do outside, get-your-hands-dirty jobs for the rest of his work time. Finally, financially, they weren't quite sure what the impact of adding his salary would be to business profitability.

The Hatfields were able to navigate this conflict between the needs of the family and the needs of the business because prior to facing the issue, they had created structure to support and guide their decision making.

1. They created an environment for discussion. Mom and Dad modeled discussion. They were sometimes loud and contentious but they got on the same page and supported each other's positions. They have always had an office for meetings, even when the business was very small. They have regular meetings with pre-set agendas at least quarterly, including up-to-date financials. Decision making always includes every member of the family management team present and participating.

2. They created guidelines for family employment. Striking a balance in family businesses between being too informal and too bureaucratic is tough. The trick is knowing which guidelines or policies to create BEFORE you actually need them. (How family employment decisions will be made is high on the list.) When guidelines are created ahead of need, they become part of the family and business. When guidelines are created during the need, they become about one person, are hard to justify and usually create hurt feelings. During the process of hiring their first child, the Hatfields created Family Employment Guidelines. As the family management group has grown, utilizing the guidelines creates points for discussion and familiarity with what the business stands for. They also shared the guidelines with family not working in the business, establishing clear expectations and outlining a fair decision process.

Conflict makes many folks uncomfortable, leading to avoidance of tough topics like hiring a family member. However, conflict is a natural consequence of combining two systems with very different purposes. The structures outlined above are like an insurance policy. It can be hard to devote time and money to putting them in place ahead of time, but when a conflict arises, it can be too late. I challenge you to set some time aside and create structure to manage the conflicts that lurk within all family businesses.



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