

## **Dealing with Conflict in the Family Business**



All families have their fair share of drama. Ok, some a little more than others. The same is true of business.

We have a saying in Texas, "Can't live with them and you just can't shoot them!"

As that can ring true in NZ as well. You will find the below article helpful.

Family businesses account for more than 75 percent of businesses in New Zealand yet for many, it's not plain sailing. Unfortunately, family conflicts are common and often lie at the heart of the relatively high failure rate of small businesses.

Many families think that because theirs is a family business they don't need to have the formal control systems and formal structures found in most businesses. But this is often their downfall. While things may operate well initially, with little sound planning and no formal structures in place, family disputes are likely to erupt and problems arise sooner rather than later.

Because of these problems, it's prudent for families and family businesses to agree on a formal structure so that issues arising within the family business can be discussed within set parameters and sorted out before the issue threatens its very existence.

It's also a good idea to distinguish between family issues and business issues and make sure everyone keeps them separate.

### **Settling disputes**

For many family businesses, having outsiders or independent persons involved in the family business has proved worthwhile. These persons could be professional advisers who are called upon to help settle family disputes.

Every family business should establish dispute mechanisms to resolve family disputes. Part of that mechanism should be an agreement that family matters will be sorted out in accordance with the rules established for that family's business and that resort will not be made to the courts.

Early pre-planning and communication and discussion on all aspects of the operation of the family business will go a long way to avoiding major crises and disputes in a family business.

## **Communication**

Familiarity among family members can often mean a lot is assumed and very little is formally agreed to or written down. The pitfalls are numerous and, like any business, you need to avoid walking into them by establishing formal communication mechanisms within the family business. This could include:

- Regular documented meetings
- Family retreats
- Family conference to review the business's performance.

## **Next Steps – Establish formal structures**

Talk to your accountant about the type of structures your family business should have in place to avoid potential disputes. Points to think about:

- Recruitment of employees - both family member and non family member
- Employment descriptions
- Regular performance appraisals
- Training
- Outside business involvement
- Professional development
- Regular family meetings
- Business plan
- Succession plan
- Review of salaries based on actual performance
- Estate planning
- Sale of the business
- Selling the business to the next generation
- Retirement funding for the current directors/owners/key persons in the business.

## **Major crisis points in a family business**

- Marriage break-ups - especially where there is no prenuptial or other agreement which would ensure a smooth transition within the business.
- Death or permanent disablement of a principal member of the firm.
- Bankruptcy of a principal member of the firm.
- Retirement of a principal member of the firm - without having effectively planned succession.
- Partnership/shareholder disputes - especially where there is no dispute mechanism in place to try to sort out such disputes.
- Transferring control to the next generation - especially where there has been little or no planning.



Avoid these common pitfalls of family business by speaking to us today.

**Contact us** by clicking on the link below.

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