Cover Story

Avoiding the conflict trap

COMMUNICATION IS CRUCIAL IN FAMILY FIRMS TO AVOID SIBLING INFIGHTING AND ADDRESS SUCCESSION ISSUES

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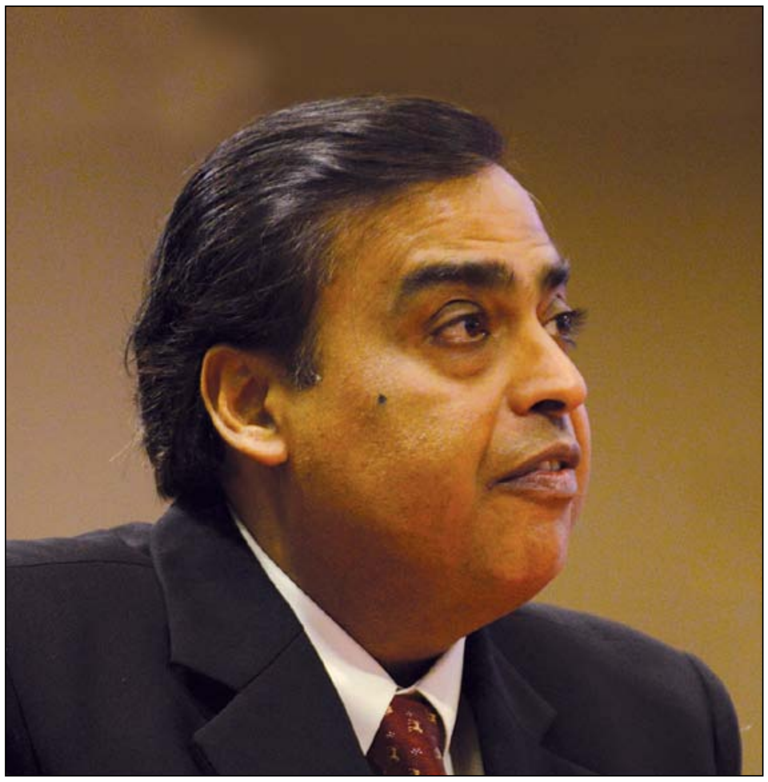

AFP

Conflict between brothers Mukesh (left) and Anil Ambani, who inherited their father's Reliance empire after his death in 2002, led to a split in their family business.

For 18 years, three brothers, Walter Kwok, Thomas Kwok and Raymond Kwok of Sun Hung Kai Properties, one of Hong Kong's largest property developers, worked together to build up the family business following the death of patriarch Kwok Tak-seng in 1990.

However, in 2008 the relationship among the brothers was strained, resulting in the ouster of Walter Kwok from the chairmanship, and the two younger siblings, along with their mother, taking charge of the company's affairs.

"Sibling rivalry is the worst of the rivalries found in family businesses, and sibling partnerships face enormous challenges," Randel Carlock, founder of the Wendel International Centre for Family Enterprise at INSEAD business school, tells *China Daily Asia Weekly*.

Carlock, who advises family businesses in Asia, including in the Chinese mainland, believes that sibling conflicts often go beyond rivalry and become destructive.

A bitter enmity among the Kwok brothers appears to have guaranteed the division of the family-owned company, as it was recently reported the brothers have come to an agreement to divide the family-owned shares. This has come after a long and bitter public spat with charges of mismanagement, questions about a female friend, media shows and courtroom dramas.

"The major reasons for sibling rivalry are grounded in the nature of the sibling relationship," says Dana Telford, a senior consultant at the Chicago-based Family Business Consulting Group.

In India, strife between brothers Mukesh and Anil Ambani eventually led to a split in their family business. The Ambani brothers inherited their father Dhirubhai Ambani's Reliance empire upon his death in 2002.

After the division, Mukesh took control of Reliance's petrochemical arm, under the name Reliance Industries, and Anil took over IT, telecommunications and banking, as Reliance Anil Dhirubhai Ambani Group.

In South Korea, Lee Kun-hee, the chairman of electronics giant Samsung, has been sued by both his brother and sister over company shares left by their late father.

"Different styles and opinions come to light over time, and without proper care and management these differences can turn into conflict," says Telford, who is an adviser to business families across Asia and the Middle East. He adds that siblings are very different from each other at birth and try to differentiate themselves from each other over time, which can create tension in families.

Despite family-owned businesses forming a significant part of the global economy, one of the biggest challenges they face is how to ensure the survival of the family enterprise at its most vulnerable moment — the passing of the baton from one generation to the next.

According to the Boston-based Family Firm Institute, family-owned businesses account for two-thirds of all businesses around the world, contributing 70-90 percent to global GDP annually and creating between 50 percent and 80 percent of jobs in the majority of countries worldwide.

However, in the case of family-owned businesses, only 30 percent survive into the second generation, 12 percent survive into the third, and only about 3 percent operate into the fourth generation and beyond, according to a study by professional services firm Deloitte, *Business succession planning: Cultivating enduring value*.

The study points out that many privately held businesses display solid professionalism and enviable profits in their daily operations yet fail to properly plan for and complete the transition to the next generation of leaders.

"Most family business empires break up because of a lack of succession planning and lack of governance," says Kavil Ramachandran, a professor specializing in family business at the Indian School of Business in Hyderabad.

According to a PricewaterhouseCoopers (PwC) report, *Scale, skills and succession: Tackling the tipping points for family firms*, many family firms find it difficult to manage the moment of transition from one generation to the next.

"Succession in the family business is an ongoing work, and strategies are developed for years. Inheritance and succession are quite a complex process as it can lead to rivalry among siblings and cousins," says Annelie Karlsson, founder and executive director of Family Business Network in Sweden.

The PwC report suggests it is important to review conflict management mechanisms well in advance of a succession point. When ownership passes from one generation to the next, it is almost always necessary to formalize the decision-making processes within the business.

It has been found that in family-run companies, succession plans are often tightly held secrets, sometimes only revealed through wills at the death of their founders, leading to bitter internal feuds.

Experts are of the view that communication is the foundation for smooth succession in family businesses, and the likelihood of a successful transition is significantly enhanced if the family members hold meetings to address the succession issues, as this can be a solid conflict management mechanism.

Carlock from the Wendel International Centre for Family Enterprise maintains that the critical ingredient missing in conflicted relationships is communication.

At the core of family meetings are interpersonal dynamics that influence communication, decision-making and acceptance of decisions.

Successful business families understand the value of the family meeting to maintain family connectedness, to gain understanding of personality differences and perspectives, to address prevailing and underlying issues, and to divert damaging conflicts.

"Family meetings can help in making models for equitable sharing of wealth and control of businesses, provide a mechanism for conflict resolution, have defined business and family conduct rules and have effective succession plans," says Kaushik Dutta, founding director of the Thought Arbitrage Research Institute, a New Delhi-based think tank.

Dutta adds that since the gap between family ownership and control of the business is narrow in family businesses, any change in ownership affects viability. Therefore, such meetings help families deal with conflicts effectively and preserve the family wealth, ethos and values.

According to a KPMG report, *Family Business Succession: Managing the All-Important Family Component*, the purpose of meetings is to provide a formal communication forum for family members who are active in the business.

"The family business meetings are intended to enable active family members to better understand each other and to better understand why the family business operates the way it does. Succession principles and grooming of successors are the kinds of topics to be discussed at the family business meetings," the report says.

John L Ward, a professor at the Kellogg School of Management, part of Northwestern University in Illinois, says in his book, *Perpetuating the Family Business: 50 Lessons Learned from Long-Lasting, Successful Families in Business*, that the business families with a long history of success are those that work very hard at communication.

Some once-successful family companies that lost their ability to continue as family firms put it down to a lack of sufficient communication.

"Good communication means that information, thought and feelings are not only conveyed but also received and understood," Ward says. "It means revealing oneself and being open to others. It requires trust, vulnerability, and the willingness to raise issues that might lead to disagreement and conflict."