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Artwork is rough. Final version to come.
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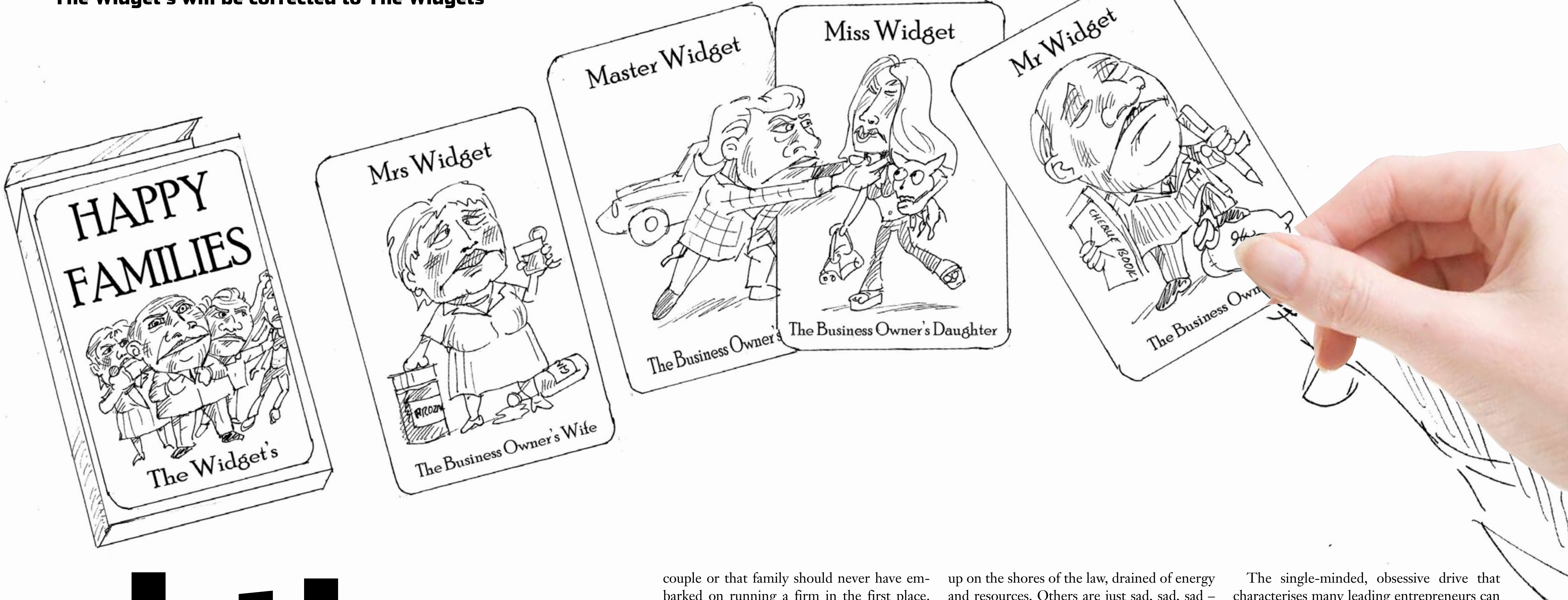

Dave Eastbury

When an enterprise is run as a family affair, the scope for conflict seems endless. Egotism and jealousy among relatives can ruin both the business and its joint owners. NIGEL NICHOLSON identifies the flashpoints in a string of classic bust-ups – and lays down the way to peace and prosperity for related proprietors

Blood ties

You're at a business conference. It's the coffee break and you are wandering through the schmoozing throng when you are taken aback by a conversation going on nearby. It's a sharp, vituperative exchange between two business partners – and you are shocked. This is language that crosses the line of acceptable business practice. It sounds like an almighty row with no punches pulled, big enough to break up any partnership. But then, to your amazement, the tension in the air dissolves like stage mist. One of them makes a joke, and they end up laughing in an extraordinary show of friendly accord.

How can this happen? Someone passing by catches your elbow and introduces you to them. It turns out the couple are brother and sister, jointly running a medium-sized retail business.

There are few contexts outside a family firm where this can happen. Families are often emotional cauldrons, but the ties that bind them together are usually stronger than those that pull them asunder, and they are often able to contain and control feelings in ways that look improbable to the outsider. Family firms trade on this, building cultures of intimacy, dynamism, honesty and loyalty that give them a proven competitive advantage in the marketplace – moreover, one that is hard to imitate.

But there is a dark side. The capacity for healing and pragmatism should not be taken for granted. In some families, the malignant tendencies overwhelm the constructive – families split up, become entrenched or estranged, and individual members go their separate ways. If the family happens to be running a business, walking away is harder to do.

There are unique hazards for both the family and the firm. Running a business can test a family to destruction and, vice versa: that is, when the family pushes the business model to some improbable extreme to satisfy the ego and whims of particular members. The difficulty is that the hazards aren't always apparent at the outset. The early days of a firm are full of hope and imbued with the irrepressible power of the founder's intent. It is only later, when problems start to occur, that things can fall apart.

The flaws and fissures in a family that normally does no more than leak a little emotion from time to time are blasted open by the unusual pressure of co-owning and running a business. In hindsight, one can reflect that this couple or that family should never have embarked on running a firm in the first place. They are just too conflicted, neurotic, or unsuited to observing the necessary disciplines of running a firm.

And what if the incapability of a family is something that emerges only after generations of success? This can be the most difficult case of all. If you are the fourth generation of a 100-year-old business, are you really willing to be the one that holds your hands up and says: 'I just can't do this – get me out of here'? In too many instances, the family soldiers on with growing weary ineptitude, desperate anxiety or burning anger until the cancer of incompetence or bad intent kills the firm.

For our book *Family Wars*, I and Grant Gordon (director general of the UK's Institute for Family Business) analysed 24 case histories worldwide, looking at some of the highest-profile family conflicts of recent times. We wanted to see what common themes they exhibited, and what lessons might be learned.

They are an enthralling mix. There are awesome melodramas of skulduggery, double-cross, relentless vengeance and, in one case (the Gucci saga), even a hitman. Then there are more mundane but equally depressing stories – where families lock themselves into positions of increasing entrenchment. Some get washed up on the shores of the law, drained of energy and resources. Others are just sad, sad, sad – relationships squeezed, stretched and fractured by desperate tug-of-war battles among family members whose interests have become irreconcilable. People who should have been able to respect their differences and find a loving bond have turned into victims and villains.

Yet there are also stories of heroism, survival, resolution and redemption as people emerge from their conflicts stronger, wiser and more in tune with reality. In some cases, this involves lifting the family-business millstone from one's neck and finding a fresh personal destiny. The overarching question is this: how can we understand, predict and manage the unfolding story of the life of a family? Let us look at this at different stages, starting with the founder.

If one theme overshadows all others, it is the demons that spring from the heads of powerful male leaders. Often, these are the founders – driven by a relentless vision that sweeps all before them, including their family. Henry Ford is a classic case, exerting total control over his son, until the latter's untimely death; then trying to quash his grandson's progression. This Shakespearean drama concluded with the founder being deposed as king by his widowed daughter-in-law and the installation of Henry Ford II as the new leader.

The single-minded, obsessive drive that characterises many leading entrepreneurs can affect family life in other ways. Often, the father is just absent. Where the children possess characters that require authoritative parenting, this neglect can spawn unruliness that comes back to haunt the business when they reach an age to get involved. This happened in the long-running, convoluted and ultimately disastrous saga of the Shoen family – founders of U-Haul, the highly successful American trailer rental business.

In other cases, tough entrepreneurs can be brutal parents, leading to children being raised with dark anger and neurotic impulses. The Gallo wine family of California followed this pattern. Joe Gallo, a gifted but volatile and uncouth man, did not open any doors to his sons, and sowed the seeds for conflict by refusing to give his eldest son equity as a reward for his efforts. Tragedy struck when the father and his wife were found shot dead in the family farmhouse. The two eldest sons set up the winery that continues to thrive, but its development was mired in a running conflict between them and a third brother, who fought a series of costly battles with his older siblings after being marginalised by them.

There are two common elements here. One is the father-son conflict. In cases like that of

DANGER SIGNS: A DESTRUCTIVE CONFLICT WAITING TO HAPPEN

Powerhouse leaders. Perhaps they cannot be muted, but they can practise some elementary disciplines, especially if shown how this advances their own interests. Self-knowledge is one such discipline, as is a commitment to develop successors and take the advice of non-family professionals.

Inflexible parents. Models of parenting need to adapt to the changing needs of the next generation and to the special condition of being a business-running family. This means awareness of fault-lines, control over wealth, and pragmatic flexibility in decision-making.

Family 'narratives'. These are stories that people tell about the family, its heroes and demons, and the challenges it faces. They are often false or highly partial, serving the psychological needs of the storyteller more than reflecting any objective reality.

Poisoned game-playing. This is where members of the family strike secret deals and indulge in political machinations. To avoid this, cultivating a climate of openness and transparency is essential, as is ensuring that resources and wealth are not arranged so as to encourage the game.

Henry Ford, fathers see in the rising power of their offspring a foreshadowing of their own loss of power. In IBM, a quasi-family business in its early days, Tom Watson Snr and Jr slugged it out almost to the point of exhaustion.

The second element is sibling conflict – and again, it is almost exclusively a male affair. At a measured dose, rivalry is normal and can even be developmental, but locking siblings into a business together can create a major liability. It doesn't seem to matter how much wealth there is to be shared – it is the forced interdependence for a single resource that ignites the conflict. One way this happens is when brothers try to assert an age-based hierarchy. Younger siblings are liable to rebel and demand their rights. In the case of the Koch family, owners of a US industrial conglomerate, a climate of authoritarian parenting was replicated in an elder brother's treatment of a younger – whose vengeance wreaked damage on the finances and reputation of both protagonists.

In another form of sibling conflict, the brothers contest as equals. A classic case is the Dassler family, where the two boys, Adi and Rudi, eventually disentangled the laces of their sports-shoe business to set up as rivals: Adidas and Puma – a conflict that continued to echo through the generations, as so many do. One of the saddest aspects of family wars is the capacity for bad blood to breed bad blood.

It is curious how difficult it is for warring family members to separate themselves – and what new opportunities can flourish when they do. A recent remarkable case is the mighty Reliance empire in India, where two brothers,

> It's the forced interdependence for a single resource that ignites the conflict

Rex Features

Patrizia Reggiani, ex-wife of Maurizio Gucci, was jailed for 29 years in 1999 for ordering the murder of the head of the fashion house

Mukesh and Anil Ambani – vastly different in character yet equally strong in ambition – had their interlocking business interests held in place by the family desire to preserve their late father's wish for the family and its business to remain an undivided entity.

We have seen many cases of fathers and founders trying to rule from beyond the grave, and it is always folly. For the Ambani brothers, the feuding became so acrimonious and public that their mother stepped in to permit the division of the firm into two mighty chunks, which thereafter became astonishing stories of growth and success – major players in India's transforming economy.

Another South Asian case that created headlines in the UK is the Pathak family conflict – one of the few where women members play a leading role. Here, the dispute was Westernised daughters taking to law their case for a share in the Patak Indian spices business after the death of their father; their argument prevailed over the claims of cultural tradition.

In many of our cases, women play an important role, for both good and ill. In one (Gucci), it's a woman who hires the hitman. In others, they are the power-brokers and peacemakers, though rarely leaders. If their protests had been bolder, would the headstrong males dominating the action have seen sense?

But another recurring theme in family firms is what we call 'the insularity trap' – failure to see what is beyond the narrow interests of the family and its members. One cause is the desire for privacy, which many families cling to. This is understandable, but even private business

PRINCIPLES FOR AVOIDING A FAMILY WAR

No nepotism. It's good to have family involved in the business, but their entry and participation need to be guided by clear criteria, policies and developmental practices.

Good governance. Plans need to be laid that embody and prize the continuity of the business, involving truly independent advisers and directors, and using the best professionals to implement the firm's strategy.

Fair rewards. Establish policies to manage family liquidity, facilitate the exit of any family members who want access to capital, and remunerate family and non-family alike fairly and at market rates.

Sweet relations. Clarify the roles of all working family members, open communications among them, and create social opportunities for informal bonding.

Safe succession. Set an enforceable retirement age for board members, but keep seniors involved in the enterprise as 'wise persons'. On the other hand, make it easy for elders to let go.

Positive conflict. Let there be conflict of the healthy kind, where perspectives and ideas can compete for best solutions via open communications and faith in good intent; don't let it get personal.

exists in a public arena. Allied to this is a tendency to give little responsibility to any outsider in the leadership and/or in the key decision-making of the enterprise.

The Guinness story illustrates this powerfully. The family achieved fantastic success for several generations, but failed to bring in outsiders when the growing business most needed them. Reliance on male primogeniture yielded inconsistent and weak leadership when clarity of purpose was required. Then, when the family was forced to withdraw, it made the opposite error of failing to maintain responsible ownership – not watching over the firm's professional management, who plunged the business into scandal through share-price manipulation.

In the maturing family firm, a common hazard is schism – a family divided against itself. Sometimes, it is brought about by the rebellion of a few parties against the order established by the leading players; in other cases, factions become aligned around different family interests. The most frequent cause of such divisions is a leading group paying scant attention to the rights and benefits of another section because they have different ownership status, family ties or involvement in the business. The unequal division of benefits seems to be a surefire way in which such fissures become fractures – as among the Pritzkers, whose business empire, which includes the Hyatt hotel chain, fell apart when insiders and outsiders not working in the business went into a tail-spin of disputes about wealth and power.

In so many cases, family wars and their consequences could have been avoided by simple practical measures. Considering the numerous highly successful, vibrant family firms that operate in the UK and around the world, some fundamental messages emerge (*see 'Danger Signs' panel*). Steps that family firms can take to inoculate themselves from destructive conflict are shown in the box above. Overarching these is a single message for family firms. Discover the soul, the unique identity of your family, and let it be the theme song for growth and prosperity. If that soul is sick, and the family is gripped by pathologies that it cannot easily resolve, then get professionals to run your firm and find the best level of involvement as responsible owners that you can sustain.

Discover the soul, the unique identity of your family, and let it be the theme song for growth

Chitralekha Mehta (left), Yogesh Pathak and Anila Shastri celebrate victory in 2004 after a legal battle against their brother Kirit for a share of the lucrative Patak spices empire

Pa Photos

Remember, selling up is not a failure if the alternative is heartache for the family and pain for the business. The key principle if you are going to stay involved in the firm at any level is: keep in mind the wider vision that forms the common interest for all stakeholders. Embody this in the culture in a way that subjugates contesting egos to the primacy of the vision. Then you have the means for business success and family fulfilment together. mt

Nigel Nicholson is professor of organisational behaviour at LBS. His latest book, *Family Wars: Classic conflicts in family business and how to deal with them*, written with Grant Gordon, is published this month by Kogan Page. *MT* offers readers a 20% discount on the RRP of £18.99 (plus p&p). Call 01903 828 503 or e-mail mailorders@lbsltd.co.uk, quoting MF316