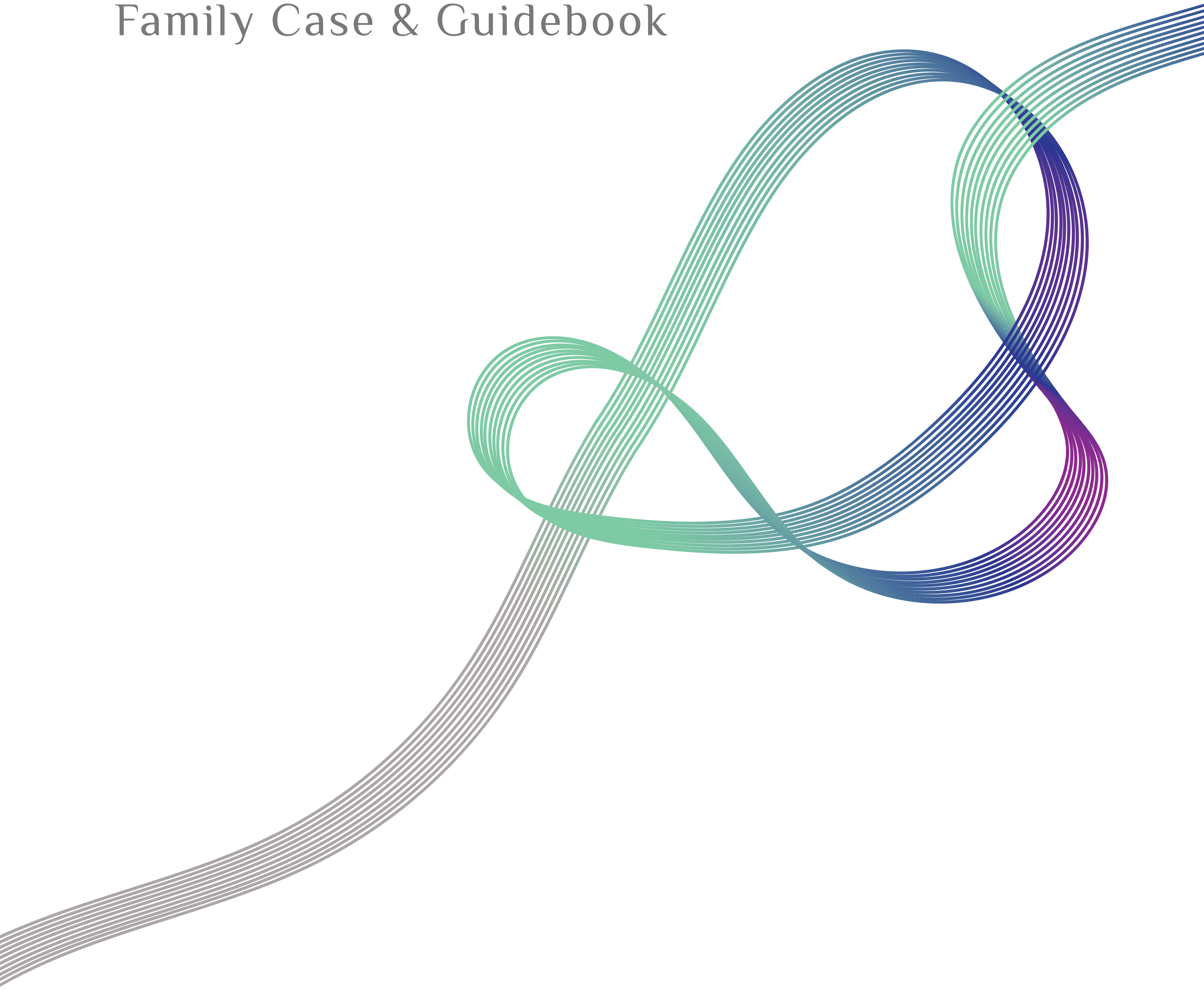
Family Business Conflict Management

Family Case & Guidebook



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How to Use

Purpose of this Guidebook

The purpose of this guidebook is to provide a practical overview of conflict management in family businesses. It highlights common types of conflicts in family businesses, along with the various methods and mechanisms to mitigate and resolve disputes. The guidebook features a fictional case study of a GCC family business to demonstrate how the theory applies and how to deploy the mitigation and resolution tools in real-life situations.

This guidebook can help two sets of family business circumstances. First, families that want to ensure that they pre-empt conflict. Second, families who need to manage and resolve a conflict that has already emerged in an effective manner.

To pre-empt and reduce the risk of conflict, a family business must establish strong governance where the process, communication and alignment are as important as the structures and policies to support the system on an ongoing basis. FBCG's flagship publication "GCC Governance Code: Governance Guidelines for Family Businesses" offers guidelines and principles for good governance.

To manage and resolve a conflict, once it occurs, family businesses must seek to understand the root cause of their dispute and explore alternative dispute resolution (ADR) mechanisms to the extent it is possible. FBCG's seminal publication "Dispute Resolution for Family Businesses in the GCC" offers practical tips and resources on ADR in the region. In addition, this guidebook has additional references on the topic listed at the end that may be useful.

Conflict can be mitigated and resolved through different methods, processes, and tools – depending on the nature and stage of the conflict and each family will ultimately need to formulate and undertake a process best suited to their context.

Introduction to Family Business Conflict

Conflicts are a clash of interests between different parties and can arise from differences in values, goals, processes, structures, relationships, and differing perspectives. Conflicts are a part of our lives, but it is important to note that not all conflict is negative. In fact, when managed properly, conflict can be a helpful and positive experience. However, when managed poorly, conflict can have devastating and long-lasting consequences.

Conflicts are also a natural and inevitable part of family businesses. Many situations can lead to conflict in family businesses, such as "sibling rivalry, marital problems, ownership dispersion, transgenerational involvement, altruistic inclinations, and succession issues."[1] If not managed effectively, conflicts have the potential to cause severe negative consequences and the demise of family firms. The negative consequences can include loss of majority ownership in the family business, division or fragmentation of group business, decline or destruction of shareholder value, and above all, an irreversible rift between family members and family harmony.

Family feuds are not uncommon and some of the biggest family-run companies have experienced a public exposé of their disputes, which threatened to bring about their downfall. The Lacoste Company, in 2012, faced ownership conflict between father, Michel Lacoste and daughter Sophie Lacoste-Dournel, regarding the succession of power. The Indian billionaire brothers, Mukesh and Anil Ambani battled in a power struggle over managerial control and ownership of Reliance Industries Ltd. The Gucci family, after years of financial scandal and family infights, sold the family-owned business, losing ownership and managerial control first to a Bahrain-based company, Investcorp, and ultimately to Kering S.A, an international luxury group. In the GCC, roughly 80% of family businesses are at the critical transition phase of first to the second or second to the third generation.[2] It is estimated that 1 trillion dollars worth of assets are to be transferred to the third generation over the next 10 years.[3]

The sustainability of GCC family businesses is crucial If they fail to transition smoothly, the risks are not only shareholder value but also the prosperity of the overall economy. At the same time, the transition process can be more complex since Middle Eastern families are often larger and have more heirs compared to other regions.[4] The propensity of conflict and disputes can be higher with larger families. A study estimated that the typical GCC family business had to grow at 18% year on year to maintain the same level of wealth.[5] If that does not happen, it can lead to conflict about resources in terms of wealth, inheritance, management capacity and employees.

Conflict is a key reason why family businesses fail to succeed to the next generation. With good governance and communication, family businesses can reduce the risk of conflict and its detrimental consequences. And in the event conflict still arise, if properly managed, they can strengthen the family and ensure that both the family and business remain healthy. Conflict can stimulate change, spur creativity, encourage fresh ideas and when resolved, even build family cohesion.[6]

[1] McKee, D & Madden, T.M. & Kellermanns, Franz & Eddleston, Kimberly (2014). The SAGE Handbook of Family Business.
[2] Family Business Council Gulf (2015). Succession Planning for GCC Family Businesses.
[3] World Economic Forum on the Middle East and North Africa (2013). Session titled "Family Businesses as an Engine for Growth".
[4] Family Business Council Gulf (2015). Succession Planning for GCC Family Businesses
[5] Booz & Co, Perspective by Saddi, Karlsson, Youssef and Abdallah (2009). GCC Family Businesses Face New Challenges.
[6] EY (2016). Can embracing conflict spur positive change?

Case Study

Conflicts within a Family Business

To get a better picture of how conflicts could arise in a typical family business situation, and what could be done to prevent them, we review a fictional case study of Mohammed Ahmed's family. The case study exhibits different forms of family business conflicts to better understand the source of conflicts and the needed actions to overcome them.

Family Business Context of the Case Study

During the late 1960s in a port city situated in the GCC, Mohammed Ahmed, a hardworking family man, invested the money he inherited from his late father in property. With the grace of God and the fruitful opportunities of growth in his country, his construction company quickly blossomed to become one of the biggest names in property development. He used his good fortune to bankroll his increased real estate investments in the country. Being a visionary, he established his construction company with the goal of one day passing it down to his children and continuing the family legacy. Mohammed had a total of four children. Ahmed, his eldest son, was from his deceased first wife, while his two other sons, Khalid and Rashid, and his only daughter Shamsa were mothered by his second and current wife.

Ahmed, being the eldest, joined the family business shortly after obtaining his university degree.

He quickly learned the ins and outs of the business and took his place as the father's right hand.

Khalid and Rashid who both acquired university degrees abroad, to the father's surprise, did not show as much enthusiasm in the family business as their brother Ahmed.

The environmentally conscious Rashid decided to pursue a master's degree in renewable energy applications. While his elder brother Khalid had no interest in the family business at all and followed his passion for literature in a career in academia.

Meanwhile, Shamsa, the only daughter of Mohammed, was the most eager child from his second wife to join the family business.

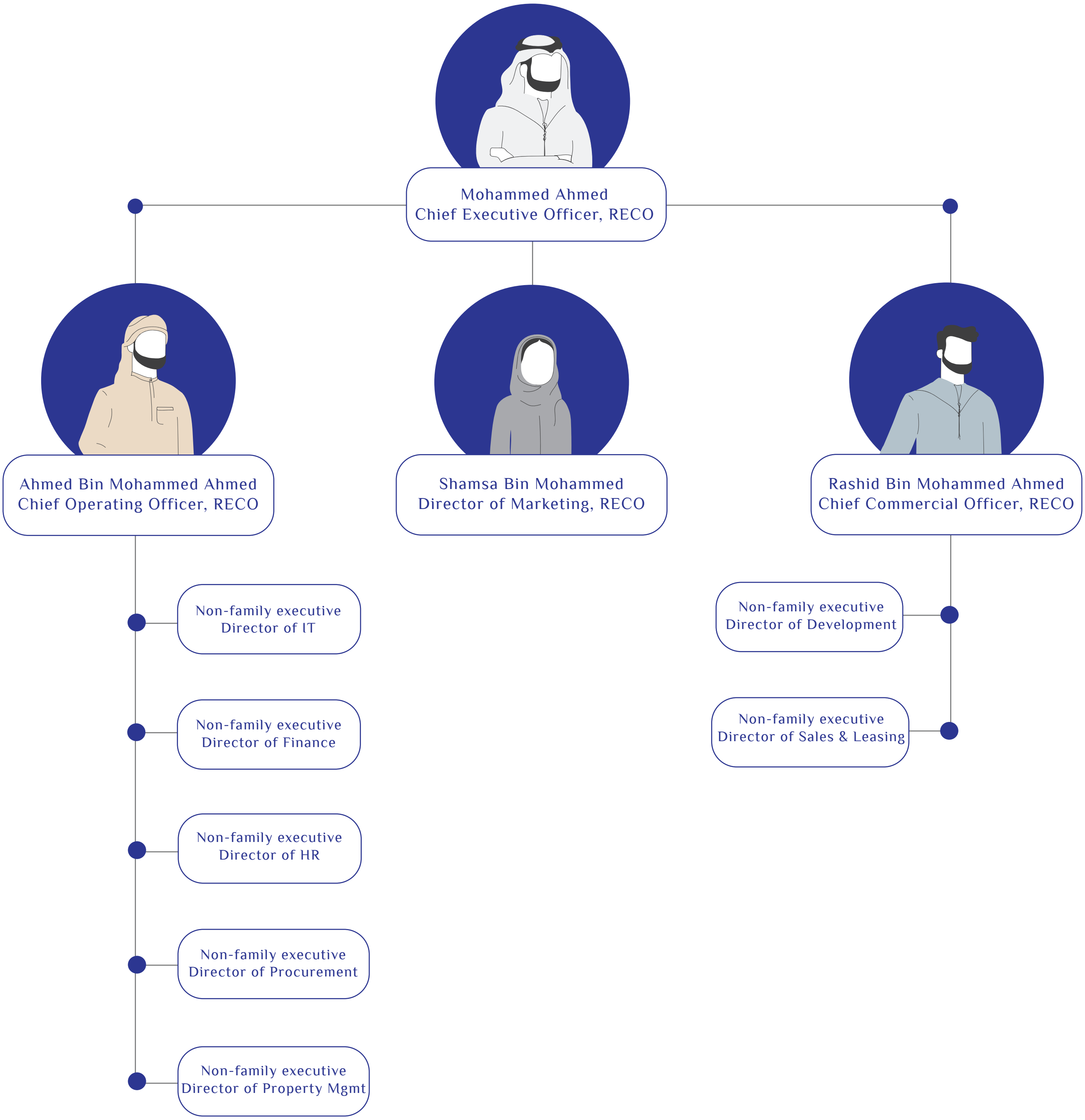
Despite her qualification and willingness to work, Mohammed decided she was best suited to head the marketing department, without a seat on the Board, and no power to make executive decisions regarding the family business. Her mother Aisha kept reassuring Shamsa to be patient and that her time would come. Aisha believed that her daughter should be given the same opportunities as her sons.

After eight years of Ahmed running the family business with his father, Rashid returned from abroad ready and excited to apply his newly acquired, environmentally conscious ideas to the family business.

Organization Chart

Real Estate and Construction LLC (RECO)

Second generation business founded by Mohammed Ahmed



Mohammed Ahmed
Chief Executive Officer, RECO

Ahmed Bin Mohammed Ahmed
Chief Operating Officer, RECO

Shamsa Bin Mohammed
Director of Marketing, RECO

Rashid Bin Mohammed Ahmed
Chief Commercial Officer, RECO

Non-family executive
Director of IT

Non-family executive
Director of Finance

Non-family executive
Director of HR

Non-family executive
Director of Procurement

Non-family executive
Director of Property Mgmt

Non-family executive
Director of Development

Non-family executive
Director of Sales & Leasing

Ahmed and his father rarely ever disagreed.

He believed the way the business has been run since its establishment produced excellent results so far and did not require changing. While Ahmed's views were in line with his father's, Rashid would regularly suggest more innovative ideas and methods in running the business. His father appreciated Rashid's initiative. However, Ahmed, who was more skeptical, believed Rashid was too inexperienced to be pitching such drastic changes.

This frustrated Rashid and he began to feel resentful towards Ahmed.

Rashid believed Ahmed influenced his father's perception of Rashid's ideas to be inapplicable and unrealistic. Furthermore, Rashid was convinced that their father favoured Ahmed, being his eldest son from his first wife, and that they were not giving his ideas the consideration they deserved.

The father caught his sons arguing from time to time but didn't take it too seriously.

After all, they were family and all it took were a few words from him and they would immediately stop for his sake.

A few years later, Mohammed fell ill.

Due to his worsening condition, his doctors and children urged him to step aside from the management of the family business and retire. Mohammed, however, found it difficult to let go due to the differences between his sons. He was very much aware of Ahmed's experience and market expertise, but he also appreciated Rashid's drive and innovative ideas. The father believed that Ahmed and Rashid could build a strong team if only they learned to work together. However, despite his best efforts, it was futile due to their differences.

The brothers developed the habit of not openly voicing their concerns or feelings at work.

As the years went by and the father's condition deteriorated further, Ahmed and Rashid did their best to suppress their negative feelings in order not to upset their father during this sensitive time. Often, they went out of their way to avoid further confrontations in their father's presence.

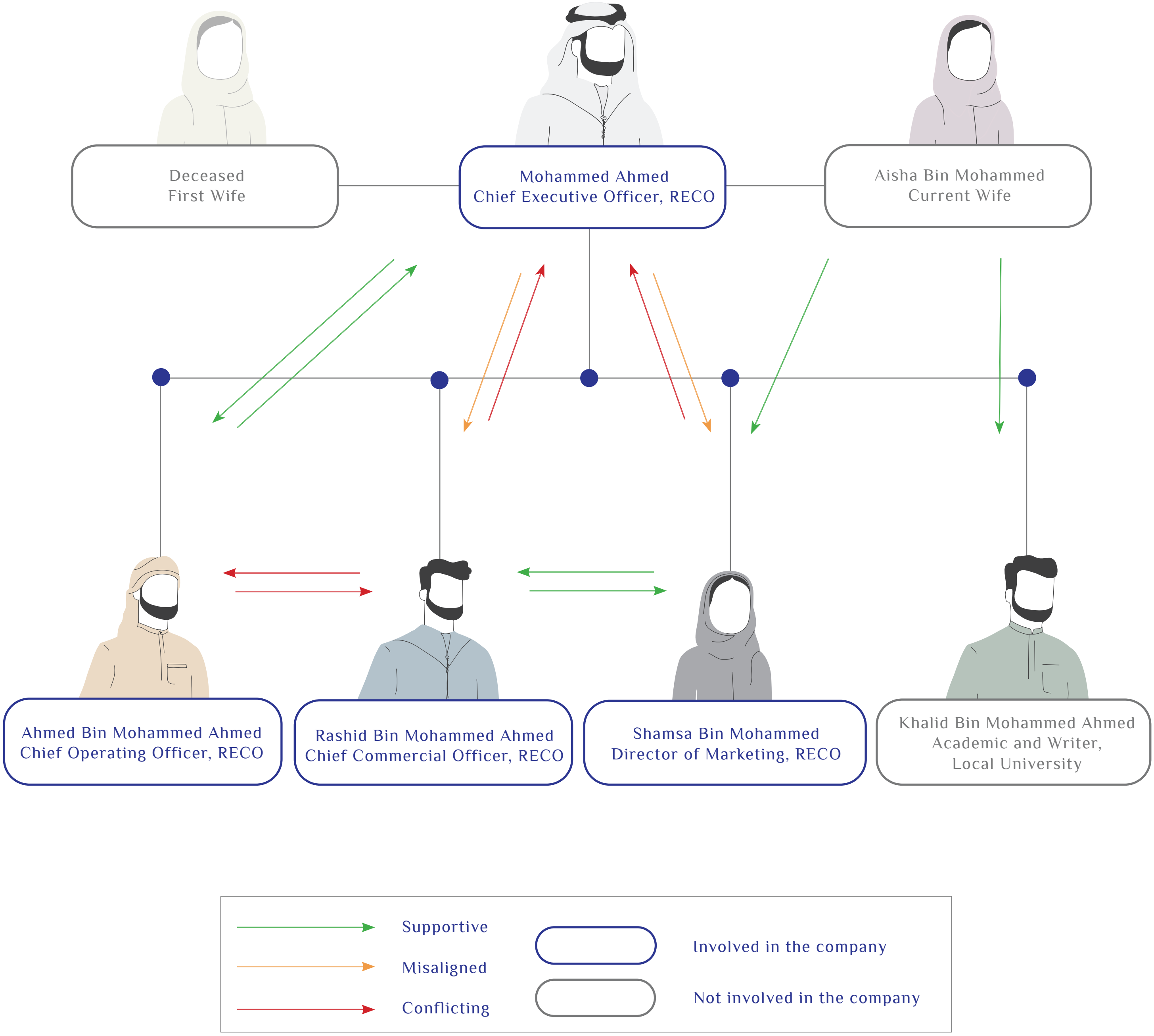
Consequently, they brought their grievances home with them.

Ahmed would often complain to his wife of Rashid's inexperience and immature attitude. While Rashid would tell his sister Shamsa about Ahmed's patronizing and stubborn nature. Their unresolved feelings lead to heightened tension during family gatherings, but both chose to avoid confrontation, and neither would acknowledge the situation.

In the meantime, Shamsa's frustration mounted.

This was as a result of her father's previous decision to outcast her from the executive board grew larger. Not only did she feel that her dad believed her inputs were not as valuable as that of her brothers, but she also agreed with Rashid's opinion of Mohammed favouring Ahmed due to hierarchy. Aware of her position, she would also regularly advise Rashid on key matters regarding the business that Rashid would then voice during executive meetings for his father's approval. Needing Rashid as a spokesperson of her business ideas, Shamsa continuously tried to defuse the situation and calm down frustrated Rashid from leaving the business.

Below is a graphical representation of the various disagreements and conflicts that impact the family business of Mohammed.



Tensions heightened as Rashid continued to feel his ideas of reform were being overlooked and under-appreciated in the family business. Eventually, with his father's blessing, he was permitted to pursue them independently. Rashid began to invest in a side business involving renewable energy materials in construction with the family business. The new venture was set up with Rashid as a majority shareholder of 51% of the total shares, while his father owned the remaining 49% of the business.

An Unexpected Family Tragedy

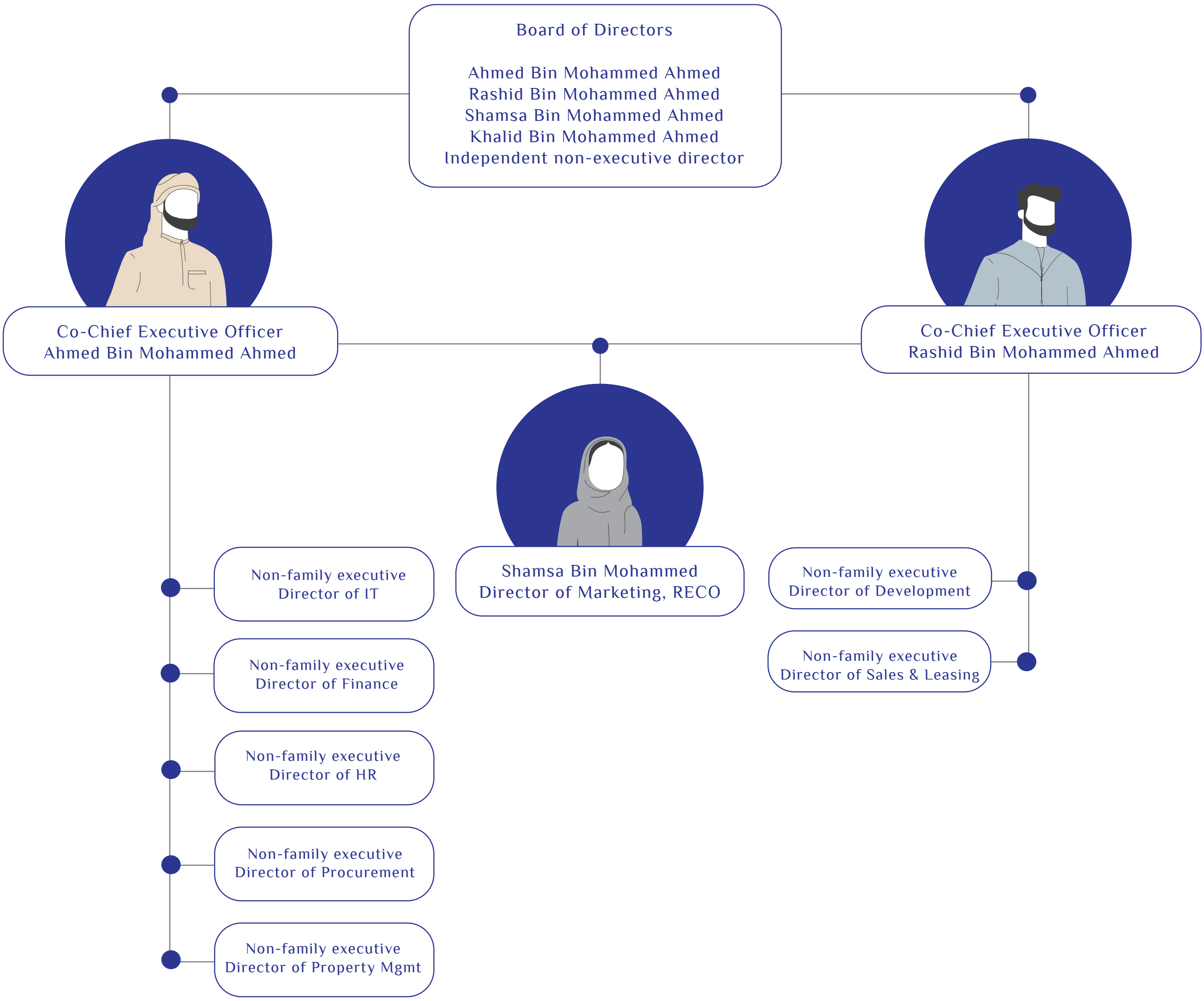
A few months later, tragedy struck. Mohammed Ahmed, the founder of the family business, succumbed to his illness and unfortunately passed away. As a result, the children had to restructure the organization and governance structure of the family business and renewable venture. In the family business, Ahmed and Rashid were now jointly running the company as Co-CEOs. Shamsa's role remained unchanged, even though now she was reporting to her brothers. All four children now have a seat on the Board of Directors, in addition Rashid replaced his father's seat on the Board with an industry expert to act as an independent, non-executive director.

Overwhelmed by the grief and loss of their father, the children deliberated and agreed to the changes without outright disagreements, although there was a sense of unfairness brewing among all of them, each of whom desired a different outcome.

Restructured Organization Chart

Real Estate and Construction LLC (RECO)

Second Generation Family Business

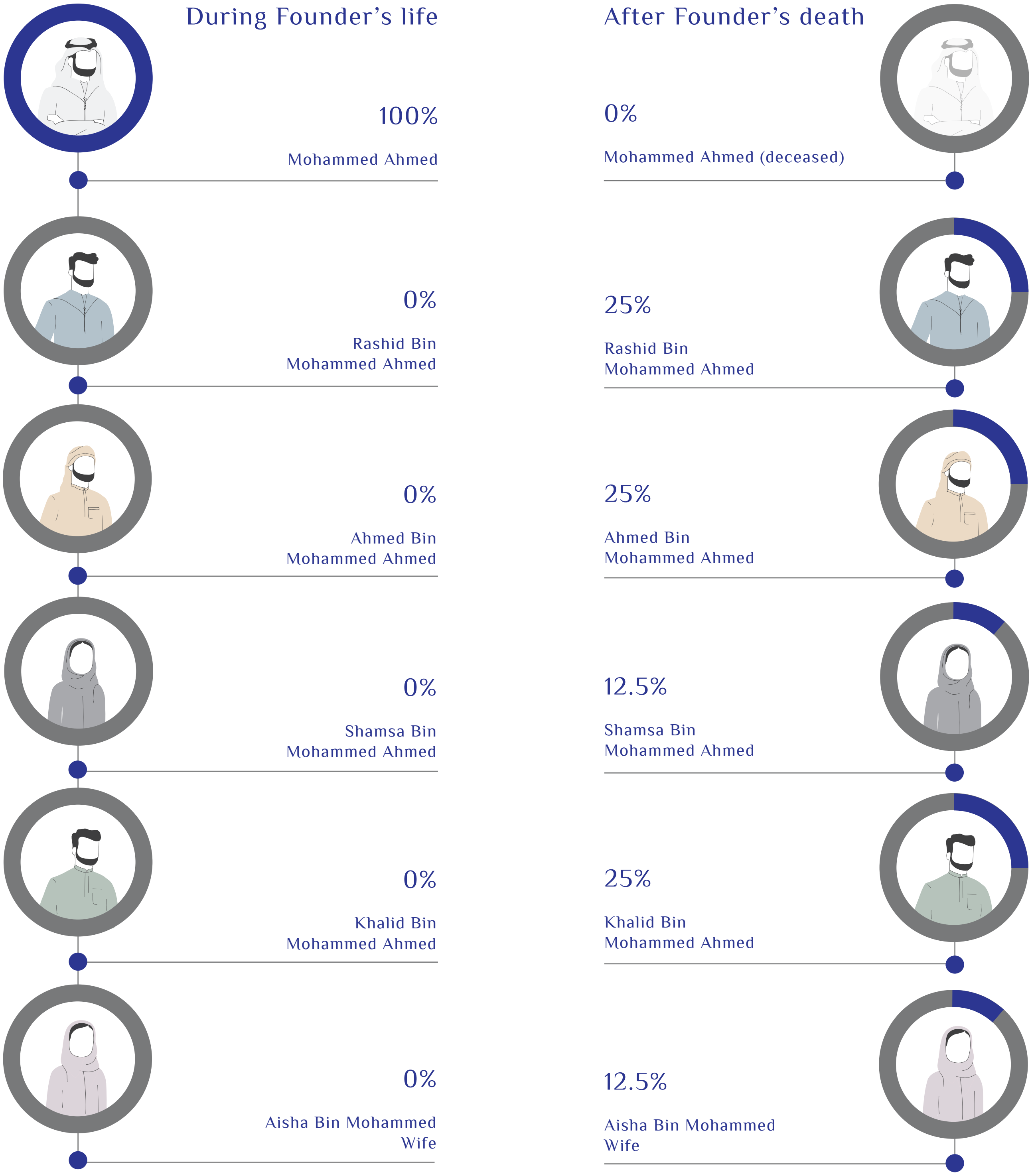


Ownership Structure

The shareholding structure also changed. Without advanced planning, Mohammed's death left his shares in the family business as well as Rashid's renewable material business to be distributed as per the Islamic Shari'a law.

Shareholder structure of family members with G1 and G2 involved in management before and after the death of founder revised by Shari'a law principles

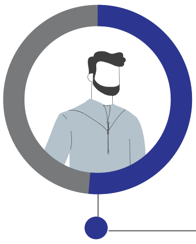
Real Estate & Construction LLC (RECO)



During Founder's life	After Founder's death
100% Mohammed Ahmed	0% Mohammed Ahmed (deceased)
0% Rashid Bin Mohammed Ahmed	25% Rashid Bin Mohammed Ahmed
0% Ahmed Bin Mohammed Ahmed	25% Ahmed Bin Mohammed Ahmed
0% Shamsa Bin Mohammed Ahmed	12.5% Shamsa Bin Mohammed Ahmed
0% Khalid Bin Mohammed Ahmed	25% Khalid Bin Mohammed Ahmed
0% Aisha Bin Mohammed Wife	12.5% Aisha Bin Mohammed Wife

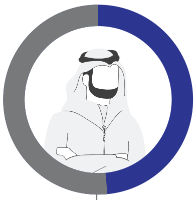
Renewable Energy Materials LLC

During Founder's life



51%

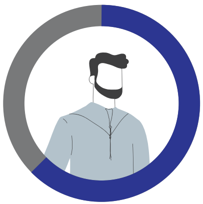
Rashid Bin
Mohammed Ahmed



49%

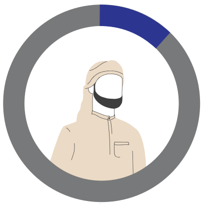
Mohammed Ahmed

After Founder's death



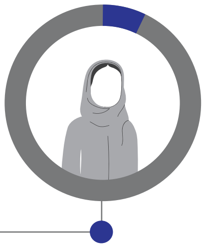
63.25%

Rashid Bin
Mohammed Ahmed



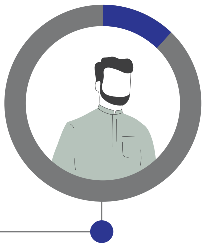
12.25%

Ahmed Bin
Mohammed Ahmed



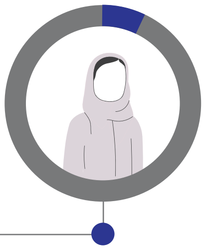
6.125%

Shamsa Bin
Mohammed Ahmed



12.25%

Khalid Bin
Mohammed Ahmed



6.125%

Aisha Bin Mohammed
Wife

Three years after their father's death, Ahmed and Rashid's bickering only got worse under their joint leadership.

The patriarch was no longer available to maintain a calm situation, and the business productivity consequently began to suffer. Even Khalid began to take notice of decreasing dividends that threatened his luxurious lifestyle. Considering the growing expenses of his family and the fear that his business earnings might continue to suffer under the misaligned leadership, Khalid began to seriously consider selling his shares in the business. In the absence of their father as a tiebreaker during executive decisions, Ahmed and Rashid struggled to maintain smooth business operations.

Rashid no longer felt obligated to stay in a toxic work environment.

His renewable energy business was taking off and he planned to focus entirely on it and exit the family business group. With a major global multi-billion-dollar event approaching, he had to act fast and establish his renewable business to take advantage of the potential opportunities that the mega project could potentially offer. To do so, he needed capital to buyout Ahmed's inherited share in the renewable business as well as to reinvest into the business.

Rashid decided the best course of action was to sell his shares and exit the real estate and construction family business, as did his brother Khalid.

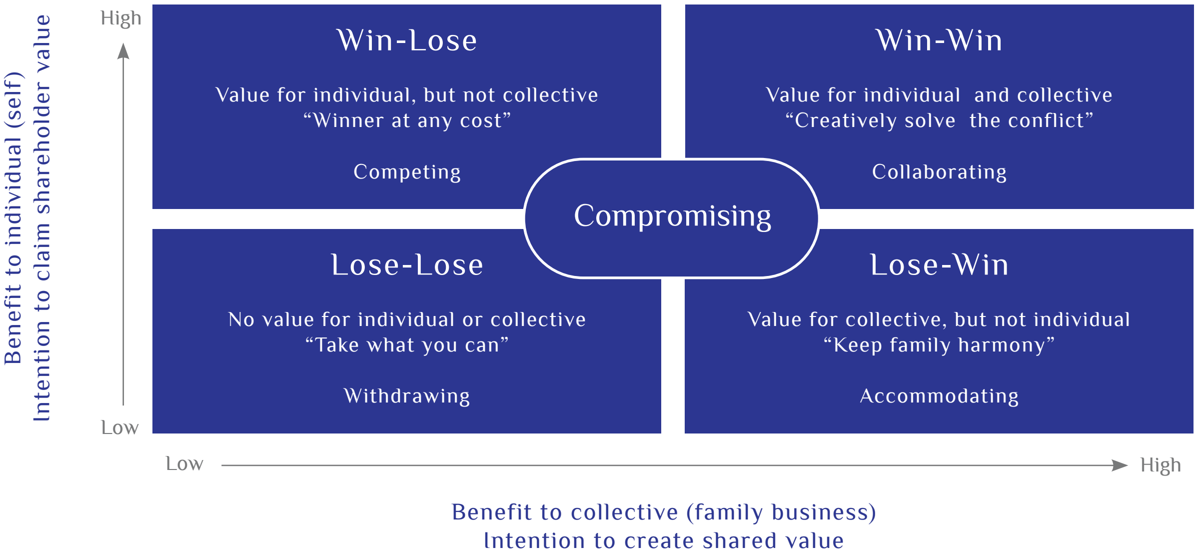
This put Ahmed in a difficult situation as he now needed to buy out both of his brothers, shares totaling 50%, to fulfil his father's wishes of keeping the business within the family.

Reflections on the Case Study

A conflict situation occurs when each person involved in a conflict thinks he or she is right, while the other person is wrong. In conflict situations, usually, decisions cannot be made. However, where a mutually agreeable decision is reached, it ends the conflict.

In the case study, from what position was each of the family members making their decisions? How did their starting point contribute to or diffuse the conflict?

If we applied their positions and decision to a typical negotiation matrix[7] in context of a family business, what insights can we derive?



To understand and identify conflicts, it is important to comprehend the context at a deeper level. Asking questions that address causes, feelings and outcomes help determine the root cause of conflict and make it easier to mitigate and resolve. Using the case study as an example, such questions include:

Family communication

- Why are all four siblings so frustrated?
- What do they each want to achieve in their personal and professional lives?
- How could communication be improved among the siblings?

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[7] Lewicki & Hiam (2007). The Negotiation Matrix.

Alignment of aspirations and goals

- How can Khalid be motivated to stay in the firm?
- Which risks does he face today, and how could they be reduced?
- What could motivate the siblings to stay together as an entrepreneurial family?
- What are the reasons for separating the businesses and selling their shares?

Corporate governance

- Can a new firm structure solve the issues between Ahmed and Rashid?
- What is the firm's worth?
- Should the shares be newly distributed?

Family governance

- Which changes in the governance structures can help resolve the conflicts?
- Which new positions should be held by whom of the family?

Conflict Management in Family Businesses

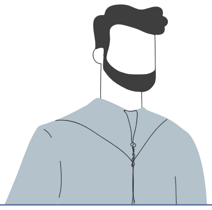
Types of Conflict

There are different types of conflict in family businesses that arise from various sources of disagreements and misalignments. To properly address conflicts, it is vital to understand and distinguish the different types of conflict and their varying root causes. This helps reflect on a dispute in a constructive way, that is solvable and not personal.

We have differentiated six different types of conflict common to a family business:

1. Value Conflict

Conflicts can be deeply rooted in the parties' values. It can arise as a result of one person forcing a set of values on others.

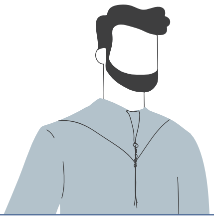


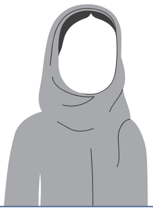
Ahmed	Shared Values	Rashid's Values
Wants to preserve the family's fortune.	Commercial success and respect for their father.	Wants to renew the family's fortune.

If Rashid and Ahmed had sat down with their father before his death to align on the family business values then the tension between them may have been avoided.

2. Goal Conflict

They are caused by different opinions and views about goals, strategies, and direction without being influenced by emotions. Owners can have different ideas and viewpoints about the future growth of the firm and the level of risk.





Rashid	Ahmed	Shamsa
Believes the company's existing strategy and business model have a proven track record of success and preserving it increases efficiency.	Believes applying new innovative and environmentally conscious ideas will bring greater success to the business.	Is excluded and cannot express her views on their family business goals and direction.

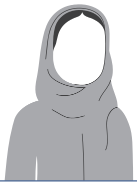
A shared discussion about the business goals between the siblings would have produced fruitful outcomes.

3. Process Conflict

This type of conflict involves different ways of achieving the desired goals. A typical process conflict, in this case, would be regarding the sale of shares and its conditions.

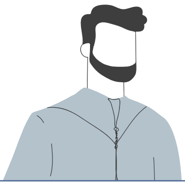
Ahmed

Ahmed wants to keep 100% shares in the family,



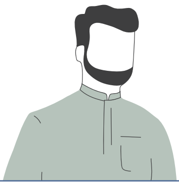
Shamsa

Left out of the process given minority shares.



Rashid

Wants to exit to fund the future of the family business which he believes is more sustainable in the long-run.



Khalid

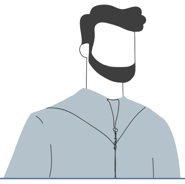
Wants to exit in order to preserve his family wealth without any further value destruction.

If the father has defined the right processes and procedures for exiting the family businesses then this conflict could have been avoided.

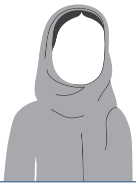
4. Structural Conflict

Different points of view can exist about ownership, structures and governance.

Ahmed



Rashid



Shamsa

Being Co-CEOs in the family business, they are forced to make common decisions

Restricted to her position without the opportunity to take part in executive decisions

This could have been avoided with proper structure, clear and fair ownership structure with equal opportunities.

5. Emotional Conflict

Personal in nature and occurs when one feels disrespected, betrayed or unappreciated. Feelings such as anger, jealousy, and distrust fuel relationship conflicts. It leads to communication breakdown, bad behaviour and zero-sum views. Parties may overreact in emotional ways to small signals, words or even small facial expressions.

Mohammed

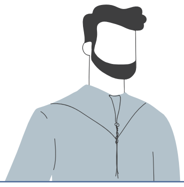
Father is feeling conflicted. He loves all his children but also recognizes each has their own unique strengths and weaknesses. He is unable to separate emotions from business, to make strictly commercial, governance and succession decisions.

Ahmed

Ahmed feels the burden of being the eldest and the responsibility to ensure his father's wishes stays true - the family business stays in the hand of the family. He feels disadvantaged - he never had the privilege to chose to pursue another vocation or purpose in life as the eldest child.

Shamsa

Hurt and disappointed, she feels alienated and excluded by the male members of her family who failed to give her equal opportunity.



Rashid

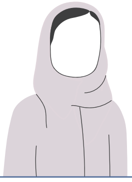
Rashid feels diminished and unheard, with strong resistance from Ahmed. He also feels he has to try harder to earn his father's respect and trust due to his younger age.

Without their father present to act as a tiebreaker during decision making, the brothers let their emotions negatively drive their decisions. Emotions and feelings of rivalry, distrust, and frustration clouded their objectivity and judgment.

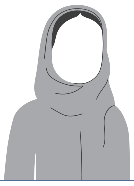
Rivalry for authority and power in the firm, combined with the competition for their father's favour had an impact on business operations and lead to fall in profitability.

6. Information Conflict

High level of information and data transparency is vital for the effective operation of a family business to avoid miscommunication and misunderstandings.

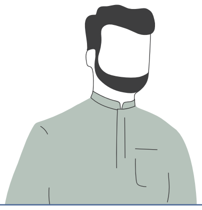


Aisha



Shamsa

Both women were left out of the board meetings during Mohammed’s lifetime and subsequently as minority shareholders had no insight into the renewable energy business.



Khalid

Khalid knew little about the operations and health of the business but hastily wanted to sell his shares and exit the business because of the tension and conflict between siblings.

Things could have been different if there was greater transparency amongst all family members and they were kept informed of successes and failures.

Conflict Mitigation

Conflicts are sometimes inevitable; however, there are precautions to be taken to mitigate, reduce or manage conflicts to produce positive outcomes. Going back to the family case of Mohammed Ahmed, it becomes evident that if these mitigation recommendations were implemented, the conflicts between the family members would have been greatly lessened, allowing for a healthy family dynamic and prosperous work environment.

Nurture – Healthy Family Relations

Many family business feuds are rooted in emotional and personal misunderstandings between family members. To prevent family problems from getting in the way of business, it is important to create a healthy environment where everyone feels safe and trusted. If family members feel able to share their problems then family members are more likely to remain in harmony for a sustainable family business. As the size of the family grows, and possibly spreads across different geographies, it becomes increasingly important to schedule family meetings, annual reunions and organize learnings and retreats to maintain family bonds.

Steps to nurture family relations

Initiate open dialogue and encourage freedom to express thoughts and feelings through regular gatherings

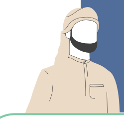
1

1 **Things would have been different if...** Mohammed Ahmed had created an open and comfortable environment where all siblings were provided with an equal chance to talk about their concerns, share ideas and participate in setting the company objectives.

2

Capitalize on the different opinions within the family

2 **Things would have been different if...** Ahmed had opened up to Rashid's ideas by welcoming, discussing and recognizing them.



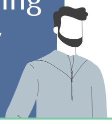
Avoid high levels of competitions and rivalry within the family

3

3 **Things would have been different if...** Ahmed had initiated a dialogue and reached out to his siblings to know how they felt about the current business strategy, structure, operating model and ownership.

4

Discourage "tri-angling" and aligning with or excluding certain family members



4 **Things would have been different if...** Rashid expressed his view on the perceived alliance of his brother and father directly to them instead of discussing and conspiring behind their backs.

Dissolve any unproductive social hierarchy in a family setting

5

5 **Things would have been different if...** Shamsa had considered communicating with her siblings and sharing her wish to be part of strategic executive decisions.

● Guiding points

○ Case study reflections

Develop - Communication Skills and Self-Awareness

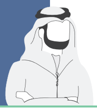
Effective communication must first begin with each individual. Developing a high level of self-awareness of one's capacity and the surrounding environment will open a gateway for deeper connection and thoughtful communication with the family members. Family members must humbly approach each other and be respectful of one another. Seeking guidance from a professional life coach or mentor can be helpful, although in some cases, a psychologist or therapist may be better equipped to address deep-seated issues.

Steps to develop communication skills and self-awareness

1

Understand that conflict is inevitable and natural

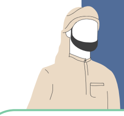
1 **Things would have been different if...**
Mohammed had identified and communicated the emotional drivers behind his business decisions (if any).



2

Consider the consequences of words and actions

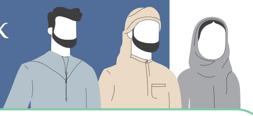
2 **Things would have been different if...**
Mohammed had foreseen and recognized how his parental bias was fueling sibling rivalry.



3

Be open to new ideas and perspectives

3 **Things would have been different if...**
Ahmed respected his siblings' different perspectives and professional abilities rather than judge them.



4

Dedicate time to self-reflect constructively and seek professional advice

4 **Things would have been different if...**
Rashid and Khalid had the patience to deliberate and had given more thought to address the conflict before buying-out their shares. And if Shamsa had been more outspoken about her potential and desire to be part of the leadership.

● Guiding points

⬭ Case study reflections

Align – Family Aspirations and Goals

A good starting point would be to agree on the goal of the family business (economic value creation, family ownership and control, family unity etc.), allowing the family members to be on the same page and allow constructive discussions and decision making.

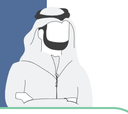
Family members are more likely to find common ground in areas such as values, purpose, and legacy. When family members are aligned on these goals, trust amongst family members increases and as does a willingness to focus on the long-term health of the family.[8] As a result, family members are less likely to think purely about their individual needs and put aside any differences to focus on the overall legacy of the family.

This also marries research highlighting that when family businesses place greater importance on CSR, less conflict tends to occur.[9] When family members are passionate about the CSR projects that the family business is championing, it can help to focus family members on the collective legacy that the family are trying to achieve.

Steps to align family aspirations and goals

1 **Decide** on who needs to be part of the conversation in the family

2 **Agree** on common family values and goals



2 **Things would have been different if...**
Before his death, Mohammed had an open and inclusive discussion with all his children to define the family values and goals and help identify their common ground.

3 **Identify** your priorities - family first or business first?

4 **Engage** professional coaches and experts to help facilitate the conversation

5 **Establish** a fair process guided by principles such as commitment and family peace

5 **Things would have been different if...**
Following his death, the siblings took the time to align the restructuring changes to their different goals in an optimal way.

● Guiding points

▢ Case study reflections

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[8] EY (2016). Can embracing conflict spur positive change?

[9] EY (2016). Can embracing conflict spur positive change?

Conversation Starter

Use the questions below to identify common ground in your family businesses' priorities

Family

- What is the purpose of our family business? Are all family members aligned?
- As a family business, do we avoid any actions or situations that risk conflict in the family? Or are business success and sustainability put above family feelings?
- How involved are family members in CSR decisions? Are we aligned on the philanthropic strategy as a family?

Business

- Are family members permitted to use company resources for personal reasons? If so, when and how?
- Do family members benefit from job guarantee? Even if they lack experience or skills?
- Will we always have a family member leading the family business?
- Does the remuneration of family members depend on position and performance? Or does each family members receive a similar salary regardless of position, experience or assignment?

Ownership

- How are dividends distributed? Do family owners waive their rights if there is a negative profit situation?
- How do you work towards protecting the interests of both the departing family member and the company during shareholder exits?

Establish – Governance Protocols and Policies

Conflicts could also be prevented by establishing a proper family and corporate governance, business charters and by developing conflict management skills. Establishing appropriate corporate governance structures is the most effective way to mitigate or decrease the likelihood of conflicts arising within family businesses. It ensures that issues are dealt with using effective methods, in the best interest of the business, as well as in line with the vision and goals of the family members. A family operated business is an environment prone to heightened emotions and disagreements, as seen in the case study. Therefore, establishing and following a fair and proper protocol in dealing with such circumstances ensures the best possible outcome and counters any bias of lapse of judgment in the heat of the conflict.

Steps to establish governance protocols and policies

1 **Establish** a code of conduct to minimize conflict

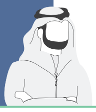
1 **Things would have been different if...**
Mohammed trained himself and his children with the skills to resolve conflict and effectively communicate to avoid future major conflicts.

2 **Develop** an evolving family constitution based on the current status of the family business and its members to prevent future conflicts

2 **Things would have been different if...**
Mohammed had established a resilient corporate and family governance with a clear succession plan.

3 **Instigate** an official decision making process (majority, unanimous or one-member voting)

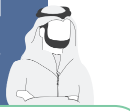
3 **Things would have been different if...**
The family had a proper structure of voting and class of shares for fair and effective decision-making.



4 **Place** non-family executives on the board of the business for constructive decision making

4 **Things would have been different if...**
Mohammed had allowed for a Board of Directors with a non-family executive on the Board before he died.

5 **Develop** a stable profit distribution method



6 **Institute** a proper exit process for family shareholders, which should clearly define (business valuation, right of sale, etc.)

6 **Things would have been different if...**
Before his death, Mohammed had an open and inclusive discussion with all his children to define the family values and goals and help identify their common ground.

7 **Appoint** a family council or family manager as the first point of contact during conflicting situations

7 **Things would have been different if...**
Following his death, the siblings took the time to align the restructuring changes to their different goals in an optimal way.

8 **Follow** conflict management guidelines

9 **Allocate** resources to train family members in conflict management skills through training and coaching

● Guiding points

⬭ Case study reflections

Conflict Resolution – Alternative Means

Before resorting to the courts to resolve family business conflicts, families should try to resolve the conflict through alternative means to ensure maximum privacy and less financial and reputational damage which might occur during the litigation process. Recognizing when to deploy alternative dispute resolution methods is equally as important as conflict mitigation measures, such as sound governance policies, to support the conflicting parties and resolve issues. Alternative dispute resolution methods are quickly gaining acceptance and popularity worldwide as a viable mechanism to address and resolve conflict.

Below is a spectrum of dispute resolution mechanisms available to conflicting family business parties and their characteristics:

● Disputing Parties
→ Direction of Communication
☐ Neutral Third Party
⬢ Lawyer

Informal/Self-Directed
Fast
Cost-Effective

Negotiation

Relatively informal and self-directed

Mediation

Uses a formal process for problem solving with independent and qualified professional(s)

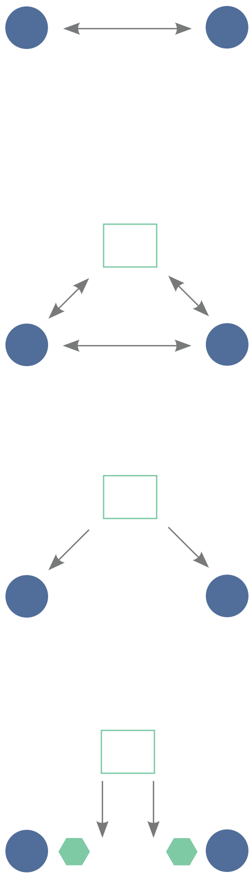
Arbitration

More on the regulated and formal side of the spectrum, usually the last option before the parties must settle the dispute through court litigation

Court

Court proceedings are purely rights based drawing from company and commercial laws, limiting the number of possible solutions

Formal/Regulated
Lengthy
Expensive



Negotiation

The first and the most recommended step of conflict resolution between family members is self-directed negotiation. Negotiation is defined as "a form of decision making by which two or more parties talk with one another in an effort to resolve their opposing interests."[10] Through negotiation, the conflicting parties may achieve the best possible agreement and reach consensus in order to establish a win-win situation for both parties with a minimum compromise and trade off. Negotiations can be orchestrated through active listening and acknowledgment of each other's differences.

Negotiation is differentiated into two different categories:

Informal negotiation

When parties do not use formal institutions and practitioners to help their communications to come to a solution, but rather they dwell more on social ties, relationships, and community institutions. This is where the Majlis and engaging elderly of the community, or head of the tribe, in the GCC context is worth mentioning.

Formal negotiation

Comes in the form of mediation and arbitration, outlined in more detail below.

Mediation

A conciliatory process that often yields the most satisfactory results while enhancing communication and preserving relationships. When discussions and negotiations fail, mediation is the next best alternative to resolving a conflict, where a mediator supports the conflicting parties in a constructive way.[11] Mediation can be defined as "the process whereby an acceptable third party who has limited or no authoritative decision-making power assists the principal parties in a conflict to resolve their dispute through promoting conciliation and facilitating negotiations."[12]

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[10] Engel and Korf (2005). Negotiation and mediation techniques for natural resource management.
[11] Jernigan and Lord (2010). The mediator's role in family business. American Journal of Mediation.
[12] Engel and Korf (2005). Negotiation and mediation techniques for natural resource management.

Factors to consider when resorting to mediation:[13]

Advantages	Limitations
Successful and speedy, as over two-thirds of mediations are resolved in a single, all-day session	No guarantee that a binding settlement agreement will be reached
Autonomy: parties decide all aspects, only agreeing to the terms they themselves negotiate	Requires both parties to co-operate with regard to the timetable and process of mediation
Parties usually comply with the terms of mediated agreements they themselves negotiate and agree to, without the need for any further proceedings	No ability to compel other party at any stage
Informal	Possibility of mediator bias
Less antagonistic and more collegial	Lack of transparency in making submissions
More consensual approach than litigation or arbitration	
Choice of mediator	
Flexible over the timing and shape of proceedings including the location of meetings	
Confidentiality	
May require less preparation time and consequently incur less costs (e.g. on legal advisors or experts)	

Arbitration

A voluntary proceeding which is chosen by parties who want a dispute determined by an impartial arbitrator of their mutual selection. Arbitration is viewed as "designed to bypass the courts for quicker, less expensive, and more efficient adjudication; the process is confidential and generally less adversarial than litigation, though more so than mediation."[14] The method can be informal or formally supervised adhering to strict guidelines.

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[13] The Family Business Council Gulf (2020). Dispute Resolution for Family Businesses in the GCC: Keeping the family united

[14] IFC (2011). Resolving Corporate Governance Disputes.

Factors to consider when resorting to arbitration:[15]

Advantages	Limitations
Avoid the expenses and delays of court litigation Parties can decide on the arbitration court and location Parties can jointly choose the arbitrator(s) Availability of arbitrators with appropriate legal and other specialized competencies Confidentiality of the proceedings can be legally protected Legal protection of any information revealed Awards are final, binding, and can be appealed only on the basis of a serious failing of procedure International recognition of arbitrator decisions (awards)	Needs agreement to refer to this procedure Can be time consuming and expensive, particularly for cross-border matters May address only the legal dimension of disputes Has the risk of an unpredictable award

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[15] The Family Business Council Gulf (2020). Dispute Resolution for Family Businesses in the GCC: Keeping the family united

Conclusion

Conflicts are a natural and inevitable part of family businesses, but they are also a key reason why family businesses fail to succeed to the next generation. Therefore, it is vital that family businesses pre-empt conflict head on and respond effectively to prevent the conflict escalating.

There are steps that a family can take to mitigate and reduce the severity and costly impact of conflict. Proactive strategies to prevent conflict escalating include ensuring there is a healthy environment within the family business, effective communication between family members, shared goals and proper family and corporate governance. When reacting to conflict, before resorting to litigation, families should attempt to resolve conflict through alternative means, in particular informal negotiation and mediation. These are viable mechanisms to help address conflict in a private, cost-effective and constructive way.

We can learn a lot from the fictitious case detailed in this guidebook, including that one family business can have multiple conflicts entangled in different sources of disagreements. How would the situation change if the founder had empowered his children to express and voice their concerns, if the family took the time to align their family goals and values; and if there was a professional corporate and governance structure in place with a clear succession plan?

This guidebook has offered a practical insight in sources of conflict and effective means to preempt and resolve conflict that GCC family businesses can adopt in their family businesses.

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Additional Resources

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About FBCG

The Family Business Council is a private, non-profit membership organization that aims to facilitate the continuity of GCC family businesses across generations by strengthening family business governance and next generation leaders. Through peer learning, education, impact-driven family business research, events, and networking, we seek to identify and address issues that are unique to this region. The council is governed by a Board of Directors, representing leading GCC family businesses, which steers and builds the organization. FBCG's board shares a common view that the continuity and prosperity of family businesses are vital not only for their families' legacy but also for the economic sustainability of the region. FBCG is a member of a worldwide organization - the Family Business Network International (FBN) representing leading family businesses all over the world.

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