

By Amanda Visser

How to avoid conflict in a family business

When it comes to running a successful family business for generations, blood really shouldn't be thicker than water. Clear guidelines and governance structures need to be in place – and everyone should adhere to them.

South Africans have an entrepreneurial spirit and many family businesses have succeeded because that spirit has been nurtured and passed on to next generations.

But family businesses are confronted by major challenges that fuel conflict and threaten their sustainability and longevity.

André Diederichs, chief convenor of the Family Business Association of South Africa, says the inability of an entrepreneur and first-generation owner of a family business to instil entrepreneurship in their children is the first major challenge.

Without family there is no family business.

The absence of a realistic succession plan poses another major risk. Only 30% of family businesses are successfully passed on from the first to the second generation, only 14% from the second to the third and a mere 3% reach the fourth generation.

Willem Gous, independent adviser to small and family businesses, says a major source of conflict in a family business is the lack of opportunities and proper communication channels to air grievances – not only by family members but also by non-family employees.

Without proper governance structures conflict is inevitable. "A family business is no different from a family in business. It is still a business and all business principles must apply," says Diederichs.

In the 2018 PwC Family Business Survey, 75% of the nearly 3 000 family businesses across 53 territories said businesses that are built around strong values and with an aspirational purpose have a competitive advantage in disruptive times.

Diederichs believes the values must be clearly set out and every decision must be measured against it. The framework for a proper governance structure is a constitution where the long-term vision, the values and the employee policy are set out. The outgoing and incoming generation must agree on all the building blocks in the constitution.

He has found that most family businesses have no employee policy. Yet, it is crucial, he says. It sets out the rules. It must include an official performance

management process for everyone. The company must ensure there are performance contracts with everyone, setting out the key result areas.

Gous says this ties in with setting up governance structures. If there is a clear delineation of roles, responsibilities and performance measurements, conflict will be minimised and many grievances will be solved without having to resort to mediation.

"The structures are not only there to resolve or prevent conflict, but also to ensure the survivability and longevity of the business," says Gous.

He advises small businesses, and especially family businesses, to have an adviser – someone who listens with a different ear and looks with different eyes at the business.

A major risk in most family businesses is emotional decisions. Diederichs says many large family businesses create a family council. Its intention is only to manage family relationships and to look after the interests of the family. An advisory board or an adviser (in a very small business) with business acumen helps to ensure that only business and not emotional decisions are made. The board or adviser is there to protect the business against the family.

In the agricultural sector it is not uncommon for a commercial farmer to appoint a fellow farmer who is an excellent businessman and a successful farmer as an adviser to the business.

A family business can also appoint their attorney or accountant. The aim is to build systems that will protect them, not systems that will cost money, says Diederichs.

An adviser/advisers only attend meetings when strategic decisions have to be made or when there is trouble in paradise – and the latter often happens in a family business.

When the cousin is not playing ball

Managing non-performance by a family member can be a major problem. Gous says this is often as a result of skipping over governance issues. There are no clearly defined roles, responsibilities and measurements in place on how success will be



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Willem Gous
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DOs AND DON'Ts

Willem Gous, adviser to small and family businesses, shares some essential tips.

Red lights:

- Do not bring business home;
- Do not let the family structure design the business structure;
- Do not let responsibilities overlap.

Green lights:

- Communicate early – do not hide the fish under the table;
- Bring in an independent adviser;
- Ensure alone-time away from the family.

judged. Proper structures remove subjectivity and help everyone to align with what is necessary to make the business successful and sustainable.

Diederichs is adamant that if someone has not performed in accordance with their contract there has to be consequences, whether it is a member of the family or not.

One way to ensure there is peace at the dinner table is to have the inefficient family member report to a non-family member. In a *Harvard Business Review* article, Liz Kislik, adviser to family-run businesses, explained that it is then crucial that the non-family member is confident that they have the backing of the senior leadership, including the family.

She says it may become necessary to consider alternatives that will preserve dignity, while clearing the way for more productive staffers. This may include making them the chair of the family foundation or another figurehead role that also serves the business.

But Diederichs warns that if one individual's interest is placed before the interest of the business the chances of survival become slim.

"There is no place for nepotism. Other people in a family business also have career aspirations. It must not be undermined just because they are not part of the family."

Everyone must be able to move within the business in accordance with their own capabilities and talents.

Diederichs refers to a discussion he had with Raymond Ackerman, founder of Pick n Pay, many years ago. He wanted to know why Ackerman's children had not taken over the role of CEO at the time. Ackerman's answer was that the business was there to create wealth for the family. Whoever is the best person to make that a reality is the person who will be in charge, whether they are part of the family or not. ■

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We are giving away a copy of *Range: How generalists triumph in a specialized world* by New York Times bestselling author David Epstein. For your chance to win it, complete our quiz online via fin24.com/finweek from 22 July.

1. True or false? Golden handcuffs are financial incentives given to an employee in order to persuade them not to leave a company.
2. On 10 July, South Africa's national football team, Bafana Bafana, were knocked out of the Africa Cup of Nations (Afcon) after losing to Nigeria. The score was:
 - 2-1
 - 1-0
 - 3-0
3. What do the letters 'HB' stand for on lead pencils?
4. South African-born Allan MacLeod Cormack won the 1979 Nobel Prize in Physiology or Medicine for work on:
 - Kidney transplants
 - Prosthetics
 - CT scans
5. True or false? Redwood trees are native to the Knysna region.
6. Supply the missing word: You can't have your cake and _____ it too.
7. True or false? Former CEO of Absa, Maria Ramos, has been appointed as the new CEO of the Public Investment Corporation.
8. South Africa's ambassador to the Netherlands recently gave testimony at the commission of inquiry into state capture. What is his name?
9. In 1948, which political leader was assassinated in India?
10. Sakkie-sakkie or the sakkie dance is a South African variation of which South American sensual dance style?

CRYPTIC CROSSWORD

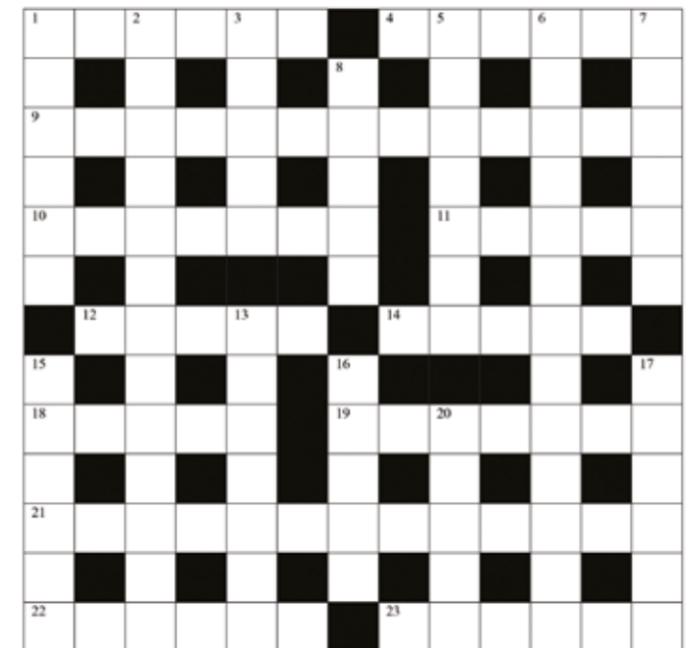
NO 736JD

ACROSS

- 1 Go quiet about man's footwear (6)
- 4 The French tile's broken, so be it (3,3)
- 9 In-patient lacking in regard for the feelings of others (13)
- 10 Does ice melt in Wells, say (7)
- 11 French cleric not known to community of nuns (5)
- 12 A fool gets credit for little (5)
- 14 Second restless Sunday (5)
- 18 Sort of woodcraft (5)
- 19 Consensus in the region (7)
- 21 We cropped fool out of the throng (5,2,6)
- 22 Go backwards right out the door (6)
- 23 Related absence of worker to guard (6)

DOWN

- 1 Gives a golden touch to reporter's clubs (6)
- 2 Dishonesty at cuckoo land, far from it all (4,2,7)
- 3 Look around partners for understanding (5)
- 5 A gentle exercise is pleasing (7)
- 6 You can walk the talk with heavy metal, according to exponent (4,2,7)
- 7 Evenly distributed name of either sex (6)
- 8 Capital fellow helpers (5)
- 13 Plans a long time and gets it all wrong (7)
- 15 Frozen eavesdropper (6)
- 16 Drag one's feet following second stroke (5)
- 17 Top lead (6)
- 20 Out to lunch in record time (5)



Solution to Crossword NO 735JD

ACROSS: 1 Capability; 7 Woe; 8 Declassify; 11 Remedied; 12 Omni; 14 Parish; 15 Indigo; 17 Lied; 18 Delegate; 21 Retrospect; 22 Tic; 23 Candidates
DOWN: 1 Cider apple; 2 Pockmarked; 3 Brandish; 4 Listen; 5 Tiff; 6 Con; 9 Ambivalent; 10 Pirouettes; 13 Unversed; 16 Seared; 19 Beta; 20 Pie