Woodbury: Farm Family Business

A Big Reason for Family Business Conflict

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Bio

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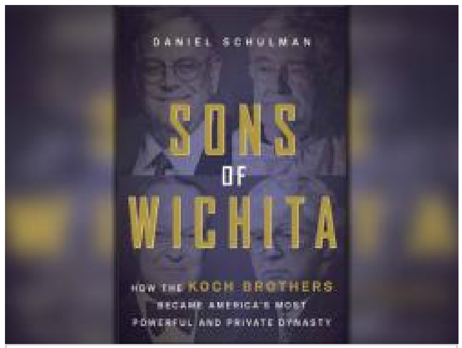
I've recently been listening to the audio version of Daniel Schulman's new book, "Sons of Wichita: How the Koch Brothers Became America's Most Powerful and Private Dynasty," which chronicles the history, growth, politics and especially inter-family conflicts of the Koch family from Wichita, Kan., some of whom are owners of one of the largest family businesses in world, Koch Industries, Inc.



Arguments over money generally reflect other schisms within families, as Daniel Schulman chronicles in his new book on the Koch brothers.

No amount of financial success prevents family conflict. In fact, business success can be a contributor to family squabbling. While the evidence of success -- money -- is a tangible item over which to argue, many family business conflicts are actually rooted in things other than money, such as decision-making authority, sibling rivalry or inadequate feelings of love, respect or inclusion. The money, especially when there is plenty of it, gives people an easily quantifiable target on which to focus their attention.

But the conflicts over money often represent something else at work in the psyche of family members and business partners. In the case of the four Koch brothers, who flung lawsuits at one another over several years after two of the brothers sold their ownership, Schulman suggests that some of the more substantive business decisions around company strategy, shareholder liquidity and support of charitable (chiefly political) causes were made without key shareholder participation. A family pattern of disagreement may have been set in childhood: The Koch brothers' father would force his twin sons David and Bill to resolve disputes by fighting each other in boxing gloves until they were exhausted.

Effective decision-making in a family-owned enterprise honors the balance between individual autonomy and group process. It recognizes both the independent thoughts of each person as well as the way that independent people come together to discuss their different ideas and concerns. In this column I'd like to introduce a decision-making process that, if followed, tends to produce less conflict. Conversely, when there is family business trouble, I can usually find a point in the process that was missed and thus became a jumping-off point for family wrangling.

PHASE ONE: ENCOURAGE INDIVIDUAL REFLECTION

Any decision-making process usually starts with the parties involved reflecting on the choice at hand. Some people simply think about the issues they face. Others might write down their thoughts. The point is, we each go through some sort of process where we analyze the issues, think about pros and cons, shape our opinions and form our position.

Consider, for example, the decision to purchase new tractor. You might reflect on your current equipment fleet, your plans for growth or expansion, the cost of a new tractor versus the likely repairs and maintenance of your current tractor, the current agriculture economy, and the demand for new and the market for used equipment.

PHASE TWO: CULTIVATE MUTUAL EDUCATION

In a family business, the next step in the process involves educating your business partners, and having them educate you, about the considerations that inform everyone's thinking. It is where you turn individual perspective, what I call "I knowledge," into a group perspective, or "we knowledge." It is the chance to get on the same page about how you see the problem or challenges you are facing.

This is a critical step that many family businesses take for granted. Because family

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members often feel like they know each other well, fully explaining one's thinking can seem inefficient and time-consuming. We make assumptions about how our parents, siblings, cousins or adult children will feel about our decisions. We presume they will see the logic in our thinking. We believe they will grasp the purity of our intentions. Unfortunately, those assumptions and beliefs often turn out to be wrong.

In the tractor example mentioned earlier, if one family member decides to make a $300,000 purchase without consulting other owners, conflicts can quickly emerge. Who gave that family member the right to commit the family's capital? What other business priorities should have been considered? If the business is owned jointly, does anyone else's opinion matter? Alternatively, surfacing each owner's perspective, or developing "we knowledge," might have prevented those difficult and conflict-oriented questions from arising.

PHASE THREE: PARTICIPATE IN JOINT PLANNING

Once participants in the decision-making process have a chance to share their opinions and arrive at some consensus about the challenge they face (which can take a long time and several rounds of discussion if the issue is significant), they can begin to strategize together, in effect creating a jointly-defined game plan for how they will move forward.

Back to the tractor example, this might involve planning for how best to use a trade-in, determining the timing of the transaction, developing a negotiation strategy with the dealer, how the purchase might be leveraged into a multiple unit discount (MUD), how the transaction might be financed or whether it is leased or purchased. In this phase of the process, having business partners participate in the discussion helps everyone understand the implications of the plan.

PHASE FOUR: EXECUTE THE PLAN

This phase simply involves implementing the decision and strategy developed in the prior two stages. If family business partners have done a good job with phases two and three, the implementation should be uneventful from a perspective of family dynamics. But if your partners don't know about the conclusion, or didn't have a part in developing the plan, there is some likelihood conflict will emerge.

After the decision is made and the plan is executed, the process will begin again. People will reflect on how it is working out, and if following the process, will take time to educate one another about their feelings and perspectives. Then they will plan for the next round of implementation.

Working through each of the four phases of group decision-making will not eliminate disagreements, as there will always be differences of opinion. But giving your family business partners a chance to fully participate in the decision-making process on key business issues increases the odds that those determinations won't become fodder for the kind of significant conflict that can destroy family relationships.

Koch Industries, Inc. is extremely successful from a financial perspective, but it has apparently come with no small amount of relational toil and emotional pain. How will you define success in your family business?

Editor's Note: Lance Woodbury writes for both DTN and our sister publication, The Progressive Farmer. He is a Garden City, Kan., author, consultant and professional mediator specializing in agriculture and closely-held businesses. Over his two-decade career, he has guided many families through inter-generational farm transfers as well as mentored successors. Email questions for this column to lance@lancewoodbury.com.

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