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# Equal Partnerships In A Family Business: A Disaster Waiting To Happen

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What happens when family members can't agree? GETTY

It sounds so reasonable—a triumph of democratic collaboration—for family business owners to have a 50-50 partnership. After all, if a couple starts a business or two siblings work together, it seems natural that they'd want to split ownership equally. And when ownership in a family business is being passed down, equality is seen as a magic synonym for fairness. The business founder is determined to leave their inheritors equal portions, even though the heirs have different personalities, skills and roles in the business. Furthermore, it is assumed that since family business partners care for each other, they will always be able to work things out. Family bonds will be strong enough to weather any disagreements.

Except when they don't. When a couple with equal shared ownership split up, when siblings drift apart or disagree on major issues, or when a "stabilizing" parent dies, 50-50 ownership can become a recipe for disaster. This is largely due to a lack of foresight and planning. Equal family partners rarely like to consider future disagreement. Indeed, while in a state of harmony, they find it hard to imagine. So when disagreements do occur, they quickly escalate, leading to a worsening of relationships rather than a resolution of issues.

**The Challenges**

Why are family equal partnerships so fragile, and what causes them to so quickly shift from harmony to unresolved conflict? There are several reasons why 50-50 partnerships run into trouble. Basically, something disrupts the harmony. It could be a sudden, unexpected event, or it could be the emergence of a long-simmering, below-the-surface issue. Some examples would be:

A family event—often the death of a parent or another stabilizing person like a trusted advisor—can leave the equal partners floundering without their anchor.

- An offer or opportunity such as a buy-out can illuminate the partners' different needs or strategies.
- One partner makes a mistake, or the business experiences a sudden downturn.
- A sudden change can instigate conflicts about who is doing more or who is more competent or committed to the partnership.
- One partner wants to take more risks and grow the business, while the

other wants to safely put aside income for the future.

- Partners have different desires for their children or different ideas about new leadership for the next generation.

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Whatever the reason for the sudden disharmony, because these partners are family, the disagreements quickly become emotional and can resurface old issues about what is fair in the family. It is hard to talk about the business conflict and keep family history out of it. To an outsider, it is difficult to understand how family business partnership disputes can become so destructive. That's because these disputes are often less about business issues than they are about old family hurts. For example, two cousins can carry resentment about how one of their parents treated the other parent a generation ago. Or a younger sibling can feel that while the partnership is equal, her brother has never seen her as a real partner. Family members may have tried to establish justice in a family using the business as a vehicle, but such actions can rarely redress a personal grievance.

Once disharmony arises in an equal family partnership, it can quickly erode trust and good will. This leads in turn to less communication, with each person feeling more and more justified in their position. They blame or demonize their partner and become more estranged the more they dig in. And if the dispute ascends into the legal arena with courts and lawyers, it shifts from being a situation to resolve to one where one party will "win" and the other will "lose." Neither wants to lose, and communication stops except through intermediaries. The media is constantly reporting such disputes and the costly battles they trigger.

### The Solutions

What can help resolve these disputes needs to be done before they arise. Every 50-50 partnership should include from its inception a process that will kick in if and when the pair cannot come to agreement on an issue. There should also be a process for unraveling the partnership if conflict is so deep that resolution is impossible. And both of these processes should involve people besides the two partners.

In the early twentieth century, sociologist Georg Simmel wrote about how easy it is for conflict to arise between two people. He viewed “the pair” as an unstable relationship, because neither party is able to easily prevail when they disagree. According to Simmel, the unstable pair needs a third party to form a triangle (a more “stable” configuration) and act as a stabilizing force. Triangles are common in family relationships. When two family members—say a parent and a child—are in conflict, someone else often becomes a confidant for each of them or a mediator. In a family business partnership, this third party could be a parent or another sibling who would help maintain stability if there is conflict. The third party could also be a trusted advisor or executive. As a stabilizing force, they enable the tension between the partners to be managed or avoided.

Another common option is to establish a board of directors or advisory process that allows an independent member to be the decider in a conflict. For example, sibling owners can choose and empower a board member, a trusted advisor or a neutral family member to act in a conflict. While such a structure can be created when conflict arises, it is much safer to put it in place beforehand, when there is harmony.

But the existence of such triangles often hides the instability of an equal partnership. And if the triangle breaks down—say an institutional trustee is viewed as conflicted or incapable of dealing with the business issues that have emerged—there is no one there to cushion or mediate the conflict. What helps is to establish a clear mediation process to be enacted if conflict breaks out or trust between the partners erodes. But too often, the mediation process for family businesses are not fully thought out or strong enough to work.

There are several ways that equal partnerships prepare for the possibility of conflict. Most often, they define a process whereby it can be fairly decided how one partner can leave and be bought out. This would include an agreed-upon process for valuation and for deciding which partner will buy out the other. Still, if the conflict and distrust are deep, the offended partner might keep challenging the process or the metrics that determine the value of the business. And this process only addresses the business issues of the conflict and ignores the family issues that lurk beneath.

A mediator can fail if they try to address only the business issue and do not recognize the personal feelings from old family dynamics that are involved. In a family partnership dispute, the participants have to separate the family and business elements that are causing disharmony. This means acknowledging the business side of the issue while also finding a way to talk about family feelings apart from the business. Sometimes, having a family meeting and recognizing the family roots of distrust, rivalry or anger can pave the way to letting go. If there is healing in the family, then the business issue can more easily be addressed. Therefore, a good conflict-resolution practice could be to first hold a family forum to discuss the emotional issues that may be affecting the business conflict. If the family can come to some understanding of values or principles that hold for all its members, this foundation can act as the base of a triangle to help the family business partners reach resolution.

There is no magic solution when an equal family partnership becomes strained, but the suggestions stated above can surely help. The equal partners are operating as a family and as a business, so each of these dimensions needs to be addressed, and a conflict might necessitate both a family forum and a business forum. At the same time, there needs to be a third member of the relationship "triangle" available to help separate out and resolve the family matters and then find a fair settlement for the business differences.

Most importantly, if equal family partners take time when they are beginning to work together to anticipate what could happen and to learn the boundaries between business and family "justice," they can be prepared for future problems and better able to ensure the good health and success of their business as well as their personal relationship.

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For the last 40 years, I have been one of the early architects of the field of "family enterprise consulting." Family enterprise consulting means primarily assisting mul... **Read More**