

Face it head-on

Resolving conflict among business owners

Many business owners are blindsided when a co-owner files a lawsuit against them detailing a list of grievances. When owners form a new business or an owner is added to an existing ownership group, the stakeholders are typically optimistic about the future. Owners often do not discuss or consider the possibility of future differences and may not address them in their written agreements. Consequently, when a disagreement inevitably arises, business owners frequently choose to minimize or completely ignore the dispute until considerable damage is done to the owners' relationship, which allows these matters to fester and eventually disrupt the business. But with the right preventive approach, these challenges can be identified and resolved quickly and cost effectively.

"Even companies with just one owner eventually must deal with succession questions, so no business owner is completely immune from dealing with co-owners or the prospect of future owners," says Kevin Douglass, shareholder at Babst Calland.

Smart Business spoke with Douglass about conflict resolution among business owners.

WHAT CAN TRIGGER DISAGREEMENTS AMONG OWNERS?

One common trigger is finances. If the company is doing very well, owners may feel entitled to more compensation or at least more input into how additional profits will be invested. In contrast, if the business begins to struggle, owners' compensation, distributions and benefits may need to be decreased, and tough decisions made about the company's direction.

Other reasons for conflict can include a change in an owner's level of commitment or job performance, an owner's desire for

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more authority and input into company management, or conflicting business strategies. Changes in an owner's personal life may also spark controversy, such as the involvement of a new family member or owner in the business, changes in an owner's personal finances or simply the advancing age of the company's primary manager(s).

WHAT ARE THE RISKS OF IGNORING OWNER DISAGREEMENTS?

Owner disagreements can spill over into a business's operations and finances. Employees, lenders, customers, vendors and others can easily become aware of, and even embroiled in, the drama. They may be confused about which owner is in charge. If left unchecked, the reputation and health of the business may be threatened. Just as significantly, relationships on a professional, personal and family level may be permanently impacted, if not addressed thoughtfully and with sensitivity.

Some owners resort to litigation to obtain the satisfaction they believe they are entitled to, but the expense, stress and distraction of litigation is rarely the best route to resolve differences.

HOW CAN OWNERS RESOLVE THEIR UNDERLYING ISSUES QUICKLY?

Do not ignore the issue. Instead, take

the necessary steps to resolve potential conflicts as efficiently as possible.

Take the time to understand your legal and strategic options. Consult with an independent attorney who can objectively assess the strength of your position, as well as your goals, risks and opportunities. The company attorney's primary obligation is to act in the best interest of the business, and therefore, may not be in the best position to give an owner personal legal advice.

After fully vetting an owner's situation, finding a solution may include answering difficult questions. Do the owners share the same vision for the company's future? Does the ownership, compensation or governance structure need to be redefined? Are new leaders and investors needed? Do the owners want to continue in business together, or separate via a buyout? Should the business be sold? Should a strategic or succession plan be developed, and if so, what should it look like?

Any resolution of issues involving owner conflict should strive to satisfy, or at least account for, the concerns of all owners and interested parties — even if they involve the buyout of an owner. Although litigation can be an effective way to resolve a dispute as a last resort, owners should seriously explore more cost-effective options to address conflict and strive to develop workable solutions that ensure the protection and preservation of the business. ●