The Family Business Advisor

THE FAMILY BUSINESS CONSULTING GROUP

When Equal isn't Fair in Family Business

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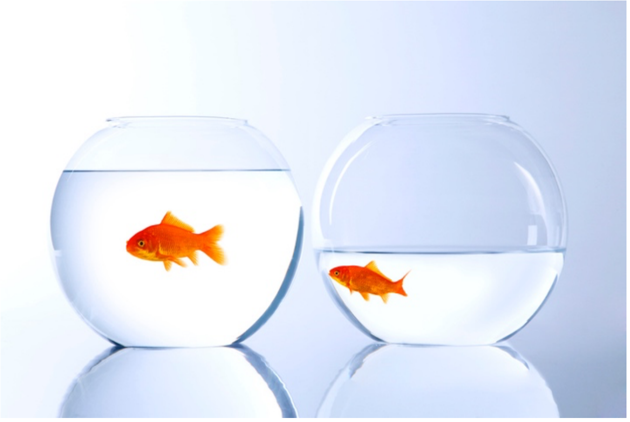

Running a family business can feel like running a three-legged race: you're tied together whether you like it or not, and the only way forward is to figure out how to move in sync. And few topics trip families up faster than the tension between *fairness* and *equality.*

On the surface, the two can sound interchangeable, but they're not. *Equality* means everyone gets the same slice: equal turns in the front seat as kids, equal value of holiday gifts, equal time with Mom and Dad. *Fairness,* on the other hand, means everyone gets what they need or have earned. It has merit-based principles at its core, with a recognition of differences in role, responsibility, and contribution.

That's where things get tricky in a family enterprise.

What *looks* equal on paper can *feel* deeply unfair in practice. One sibling who works 60 hours a week running the company may bristle at receiving the same financial return as another who is not involved beyond owning shares. One cousin who serves on the board may resent another cousin who is not involved yet has a bigger ownership stake in the enterprise. Equal ownership, equal say, or equal pay can sometimes create anything but equal satisfaction.

The real challenge for families is learning to talk about this openly, because when "equal" and "fair" get confused, the risk of increasing resentment in the family puts the business and the family in jeopardy.

As ownership and involvement shift through generations, it becomes crucial to sit down together and face several important questions head-on. For instance:

- Should the next generation be given the same opportunities?
- Should ownership distributions, compensation, or decision-making power be equal?
- Or should they reflect each person's individual skill set, contributions, responsibilities, tenure, or financial needs?

Without clarity, conflicts can go unresolved and add pressure into a family business system already ripe with opportunity for disagreement.

In our experience, the family enterprises that endure are the ones that don't leave fairness up to assumption. Instead, they discuss fairness in the different aspects of their enterprise collaboratively and define it together.

What Is Fair: The Story of the Orange

The story of the orange demonstrates the difference between fair and equal and the importance of focusing on underlying interests in a conflict.

One morning, a father finds his two children fighting over an orange. In the interest of "equality," he decides to cut the orange in half, giving each child an identical piece. At this moment, the mother walks in and suggests a different approach. She asks each child why they want the orange in the first place.

The first child reveals he wants the pulp to make juice. The second child shares that she wants the zest to use as an ingredient in baking a cake. By understanding their different goals, the parents are able to provide both children with exactly what they need, and nothing is wasted. The outcome is not equal, but it is fair.

Sibling Case Study: Defining Fairness Together

How do you honor the effort of those who work in the business while still respecting the contributions and rights of those who don't? Working together to set clear expectations around ownership roles can go a long way toward preventing resentment and minimizing feelings of unfair treatment.

The Denton family (not their real name) owns an auto parts manufacturing company. When the founder's youngest daughter graduated from college, he gifted equal ownership to her and her two brothers. Why pass ownership so young? In his words: "I knew money often becomes an issue in sibling partnerships, so I wanted to give them a head start on discussing and managing the financial part of our family enterprise."

At first, the three worked peacefully in the business, but tensions grew slowly. They had equal compensation packages but differing work styles, skill sets, and levels of commitment. Within a few years, the dynamic among them had turned sour. The sister running logistics was frustrated that her long hours and heavy responsibilities paid no more than her brother, whose responsibilities aligned more with an entry-level customer service job. Non-family employees noticed that efforts weren't matching up with rewards, and morale began to slip.

After their father retired, the three hired a family business consultant to help. In their first sibling partnership meeting, they realized they had three different definitions of "fair." One wanted equal ownership and equal distributions. Another believed results and effort should be recognized and rewarded. The third cared most about harmony and avoiding conflict.

After several sessions, they reached a hybrid solution: ownership would remain equal, distributions would be equal, but those who chose to work in the business would receive additional market-based compensation tied to their roles and performance. Fast forward many years later: their business has grown significantly, and their family relationships remain strong and trusting. By making it a priority to negotiate and define fairness together, they first rebuilt trust and then preserved family bonds.

Three Tools for Rethinking Fairness and Equality

As one founder was fond of saying to his grandchildren, "Fair is something that comes to town every fall, but not everyone gets to go."

Defining "fair" sounds simple — until you try to apply it to a real situation where people have differing levels of commitment and reward tied to the outcome. No two people see it the same way. That's why ownership groups need to make fairness explicit rather than assuming everyone interprets it alike. Below are three tools that can help in the process.

1. Navigating Family Dynamics: Role Clarity Reduces Tension

When business overlaps with family relationships, lines blur. A parent may want to "be fair" to children, but that instinct can conflict with sound ownership logic. Siblings may get caught in old stories about birth order and allege that the oldest is being favored (again!) and the youngest is being passed over when, in fact, market compensation according to role may be the reason one is paid more than the other. Problems arise when emotional decisions get disguised as business decisions. Promoting a relative because "it feels right" may soothe one family relationship, but weaken the bond between owners of the company. Likewise, granting ownership as a gift without clarifying the role and responsibility associated with it can create long-term tension.

The solution is role clarity. Owners need to decide (and clearly communicate) when they are speaking or acting as parents/family members, business leaders, or shareholders. This isn't an easy task, but with time and proper care, this exercise will become a strength and competitive advantage.

Approaches to fairness to consider (each pertaining to the appropriate role in owner, business or family):

- Merit-based: rewarding results and performance
- Contribution-based: recognizing sweat equity and effort, more subjective than merit-based
- Financial value-based: dividing assets in the interest of equality at the time of transfer, but recognizing that values will change over time — e.g., one inherits the business while another receives the building, leading to unequal outcomes as values evolve over time
- Precedent-based: setting expectations for the rising generation based on past precedent, such as in-person work vs remote
- Need-based: supporting individuals who require more help, requires discernment
- Hybrid: blending elements of the above, perhaps considering different timelines as milestones

The key is taking on the process together: holding meetings to debate definitions of fairness in family, business, and ownership relationships, and testing them by applying to different issues and decisions. One person's "obvious" fairness principle in the family may feel biased or incomplete to someone else in the ownership circle. A family executive in one of the operating companies may see need-based fairness as misplaced charity.

Having those open discussions, with the help of a skilled facilitator, if necessary, can bring signs of misalignment to the surface before they turn into grievances. And once a group lands on a definition, it should be written down. That doesn't mean it can't change later, but it gives everyone a clear reference point and makes future decisions more consistent.

2. Communicating Expectations: Put it in Writing

Family ownership groups must think beyond today's harmony and build frameworks that will add predictability and much-needed simplicity when more cousins, spouses, owners, and non-family leaders enter the picture.

When expectations aren't defined, people invent their own, which paves the way for misinterpretation and misalignment. Many conflicts trace back to unspoken rules handed down from the founding generation:

"Everyone will get the same," or "Those who work hardest will be rewarded most." The problem is often that no one writes down the expectations or bothers to reevaluate them as new generations become leaders. When the next generation tries to follow them without open and regular evaluation, interpretations clash.

As with the Denton family example, the cure is explicit communication. Ownership rights and responsibilities should be spelled out in writing. What does it mean to be a shareholder? What are the expectations for involvement, communication, or financial return?

This clarity matters because family enterprise owners often serve in different capacities. Some are active owners, directly engaged in day-to-day operations; others are governing owners, serving on the board and guiding strategy; while engaged owners may not participate daily, but maintain a genuine interest in the enterprise. With such varied roles, it is essential to set clear expectations for what ownership entails—such as committing to ongoing education in their role, showing care for the business, distinguishing between family and business matters, and recognizing the privilege of ownership.

Equally important are guidelines that clarify what owners can expect in return. Policies on distributions, family employment, and well-defined buy-sell agreements help establish the "rules of the road" for all involved. When owners share clarity about the company's direction, expectations for growth, and opportunities for liquidity, alignment fosters both effective decision-making and lasting family harmony.

These conversations shouldn't just happen once. As ownership expands across generations, expectations must be revisited regularly. Age-appropriate discussions with rising owners and stories about how past decisions were made help reinforce family values while setting realistic guardrails.

3. Creating Governance Structures: A Solid Foundation

Verbal agreements are fragile. Formal documents — such as family constitutions, employment policies, shareholder agreements, and succession plans — lock in clarity and prevent drift. These documents help build a solid governance structure and allow for the articulation of agreements, guardrails, and guidelines. They also provide a framework for decision-making moving forward.

Because conflict is inevitable, owners need agreed-upon resolution mechanisms they can all trust. Mediation clauses, buy-sell agreements, or advisory councils all give structure to disagreements before they spiral. Families may wish to establish conflict resolution policies, such as including mediation provisions within shareholder agreements or outlining a clear conflict resolution process in their family constitution. Adding independent board members and mediators within these mechanisms can also bring objectivity and credibility to decisions that might otherwise feel personal. Finally, regular policy reviews keep the group aligned on expectations.

Defining fairness together, distinguishing roles, and setting clear expectations are not optional exercises. They are survival strategies.

Building for Generational Success

Balancing fairness and equality is one of the hardest ownership challenges in a family enterprise. Left unspoken, these issues can divide owners and weaken the business. Addressed directly, they create clarity, trust, and resilience.

Defining fairness together, distinguishing roles, and setting clear expectations are not optional exercises. They are survival strategies. Every generation must decide how it wants fairness to work, and then write it down. Conflict is inevitable, but when expectations are communicated openly and adjusted over time, owners are far more likely to accept outcomes, even tough ones, because the process was fair.

The owners who roll up their sleeves and take on this difficult work give their businesses and family the best chance to thrive for decades. The call to action is simple: don't assume fairness. Debate it. Define it. Communicate it. Live by it.

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