Fair Is Not Always Equal and Equal Is Not Always Fair

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Let’s say you have one delicious bar of chocolate you want to give to your two kids for a snack during a car ride. Giving them each half would be an equal split. However, if your 15-year-old daughter just played soccer and is starving while her 9-year-old brother had a couple of hot dogs while watching his sister’s game, would half for each be fair? Not necessarily. And even if it is fair, is it sensible?

In financial terms, imagine you have $150,000 to gift, and you decide to give each of your three children $50,000. You have split it equally, and each child received the same amount. But what if one of your kids has a serious illness and the medical bills are piling up since he or she had to take a leave from work, and the spouse’s income isn’t enough to pay all the bills? Giving the sick child $100,000 and each of the others $25,000 could be seen as fair, particularly if the other two kids are doing okay or better. In this scenario, some would consider giving all the money to the sick child a fair, though unequal, decision.

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Giving some thought to the distinction between “fair” and “equal” (and how it applies to your family’s situation when considering gifts, estate planning, and major transitions of a family business) can very well make the difference between family harmony and intense family conflict. “Right” and “wrong” are elusive concepts, and open discussion is the best way to arrive at a decision that keeps family harmony fully (or at least mostly, as some degree of conflict is normal) intact.

At Strategic Exit Advisors (SEA), they are sensitive to the fact that while the transactions they facilitate for their clients are highly technical, the changes that are effected hold powerful implications for the families involved. Here is an example of a common situation that tests our understanding of “fair” and “equal”:

Mom and Dad started a business and grew it successfully while their three children were young. As adults, one child has been working in the business full-time for 20 years. The other two children have careers of their own, outside the family business, and look forward to their share of the estate when mom and dad pass.

Do mom and dad sell the business to have the liquidity to split among the three kids?

If so, does it get split into thirds? Does the child who worked in the business get more?

If not, how do the parents share their estate, mainly tied up in the business, with the kids not working in the business?

Do mom and dad give the business outright to the child who has worked in it for so long?

Do they have the child working in the business pay the other two siblings over time?

What if the business suffers and the payments cannot be made to the other siblings?

Variations on this scenario play out all the time. All too often, most or all of the attention is on the technical aspects of planning and execution of the sale or dissolution of a family business without enough discussion with family members.

Here are some suggestions to increase the odds of maintaining family harmony:

Hold a yearly meeting including family members who do not work in the business. Discuss overall strategy for the business, financial health, and what the current plans are for exiting.

Discuss with and educate the next generation, whether or not they work in the business, about the various options for exiting before tough decisions have to be made. The family can attend a workshop on the topic together – this important educational session can even be part of a family vacation as these workshops are given all around the world.

Encourage children to ask questions about what the senior generation is planning, and be open in your responses. Silence and secrecy lead to guesses and assumptions among children and often foster unhealthy competitiveness or suspicion among siblings.

Fifty years ago, the kind of open communication suggested here, especially as it pertains to finances and estate planning, was unusual. Our society in general now values more open discussions among and between generations of family members, acknowledging the benefits for a family’s emotional health. Research shows that happy families are more successful in business ventures and that open communication is essential to successful transitions of family wealth. Some senior generation members of family businesses might be squeamish about open discussion of money and business/estate planning issues. However, the alternatives of secrecy and waiting for someone to die to find out how things have been handled, without the possibility to ask questions, can foster hurt feelings, confusion, and conflicts among siblings – a legacy most want to avoid.

Keep in mind that speaking openly does not mean the owners/parents no longer have the authority and responsibility to make the tough decisions. It simply helps to set up accurate expectations so that potential points of conflict can be worked through rather than allowed to fester, and harm family relationships. In my experience these conversations can be awkward or unsettling for family members but once under way offer great relief even when there are differences to resolve.

When making decisions related to valuable family assets emotions can run high. What seem like conflicts over money are often about long-standing family dynamics, and the difference can be difficult to tease apart. Successful business owners and entrepreneurs (and their families) often believe they can manage these discussions quite successfully on their own – and many times they’re correct. But if those owners (or their children/relatives) have even a slight hunch that things could get difficult very easily, it’s best to reach out for professional guidance sooner rather than later. It’s always easier to prevent problems than to try to solve them after the fact.