Equal isn’t always fair

Parents want to be fair to all their children. When their offspring work together in the business, it isn't always easy to figure out the best way to do it.

By Kelin E. Gersick

Five years ago Adam Hutchison, age 64, decided to retire from his real estate business in Fairfield, Virginia. He had been president of New World Enterprises for 28 years ever since his father-in-law’s untimely death, and the firm now controlled commercial and residential properties in three states worth over $45 million.

Adam wanted to relax and devote time to travel with his wife and to his passion, collecting antiquarian books. He gave himself the title of chairman of New World, the management company for the family’s properties, and was succeeded as president by the oldest of his two sons, Booker Hutchison.

Trained as an accountant, Booker, now 40, had been with his father ever since graduating from college. He had a good head for pricing and analyzing bids and was a reasonably competent manager who tended to hire capable people and let them do their work. He had gradually assumed more responsibility around the office.

Booker was not a very gregarious sort, however. When he was starting out, his father took him along to business meetings, hoping that Booker would learn how to deal with other developers, contractors, and tenants. Outside the office, the young man tended to remain quietly in the background. He never seemed quite at ease.

Adam’s younger son, Charles, had joined New World Enterprises in 1989 after spending six years with an investment banking firm on Wall Street. Now 34, Charles liked going after deals; he had exceptional instincts for knowing what to buy and when to buy and when to sell. When Adam retired, he made Charles executive vice president of the firm.

He felt he didn’t know his second son very well, however. Charles had always been more independent than Booker, spending more time with his friends than with family, it seemed, when they were young. When Adam asked Charles whether he was really committed to a career with New World, Charles had assured him that he was, adding: “We could be twice the size that we are. I could get government contracts, expand the company into other states, open branch offices if you’ll give me the chance.”

It was clear that his second son was ambitious, but Adam couldn’t tell how much of this was mere braggadocio. Charles hadn’t been with the company long enough to show what he could do one way or the other. Booker, in contrast, had demonstrated a cautious reliability that his father valued.

Before retiring, Adam took the advice of a consultant and sat down with his sons to talk about his estate plan. He and his wife, Ethel, had always tried to treat their sons exactly the same. An example: They gave both the same model Honda for a high school graduation present. Their estate plan was just as simple. As Adam explained to the boys, he planned to transfer as much as was feasible of the management company to them now, split equally, and the rest after both parents' deaths. In addition, he told the sons that he expected them to operate as partners with equal salaries.

After retiring, Adam and Ethel traveled four or five months of the year and spent summers at their lake home in Vermont. Meanwhile, the management of New World was changing. The two brothers agreed on a division of labor: Booker took care of accounting, tax, and general operations, and Charles did all the business development. The two also invested as partners in a few properties outside the management company.

Booker's work was essential but mostly routine. He supervised the staff, managed contracts, dealt with outside attorneys and accountants. He came to the office every day, but often took off the afternoon. Charles, on the other hand, sometimes worked 60-hour weeks. He divested the company's interest in some of his father's favorite properties that were steady but marginal performers, and instead went into ventures with other developers that earned windfall profits for the company. In five years, the portfolio more than doubled, despite a real estate downturn nationally, and, though much of their property was highly leveraged, the net value of New World's holdings increased 30 percent to almost$59 million.

At first, Booker and Charles met every morning to review projects. Charles asked for Booker's go-ahead on each one. As months and years passed, however, their meetings became less and less frequent. Charles began to act on his own, and Booker never objected openly. In conversations with his wife and assistant, though, Booker sometimes referred to his younger brother as "the Lone Ranger."

Six years apart in age, the brothers had never been very close. They got along all right and were perfectly cordial to each other, especially when Adam and Ethel were around. But they never socialized. At the office, their meetings tended to be short and strictly informational. They were just different personalities—the one brother cerebral and precise, the other charming and a risk-taker.

Adam guessed that there was some tension in the brothers' relationship. One late evening when he and Charles were having drinks in a restaurant, the second son blurted: "It's just not fair for me to do all the work of building this company and get only half of the returns. I'm frustrated, Dad, and Booker doesn't like to talk about it. I want to get out if I can find a way."

Later on Adam agonized over what, if anything, he could do about the situation. Should he step in and help his sons avoid a showdown that might be disastrous for the business? Or was it up to the boys to work it out themselves? Should he change the way his portion of the stock would be allocated in his estate? He asked himself where he and Ethel had gone wrong. They had been extremely careful to treat their sons equally to prevent a rivalry between them. But was it possible to treat two siblings exactly the same when they had such different personalities and talents? What advice would you give Adam?

What the Experts Say

Bonnie M. Brown, *President, Transition Dynamics Inc. in Eugene, OR, consultants to family businesses and to the institutions that serve them.*

Adam is right to be concerned. However, rather than push for an immediate solution, he should try to convince the family members to find out more about the options and issues they are facing. Adam himself is probably too close to the situation to systematically gather the information and lay out the various alternatives. My first recommendation is that family members reach a consensus on engaging a family business consultant to carry out these tasks.

Adam and his sons need to separate family, management, and ownership issues. Historically, Adam does not seem to have done that. His decisions to give equal shares to each son and to pay them equally were probably driven in large part by a father's desire to provide security for his sons and to keep the family together. Those decisions may have been based on faulty assumptions.

For example, Adam may be assuming the business will stay in the family—which may not always be the best choice for a family, given the next generation's skills, personal goals, and family dynamics. He may also have assumed that because Charles and Booker are brothers, have complementary skills, and share ownership, they will automatically function as a team; the case suggests otherwise. Similarly, the brothers themselves do not seem to have questioned these assumptions, or communicated their frustrations to each other.

In fact, over the years the brothers have drifted apart as managers and owners.

Why? They have no shared vision for the future of their business. They lack adequate governance structures. They don't seem to have regular board or management meetings. Their management roles have been defined implicitly; they have no apparent process for defining performance expectations or measuring outcomes within their respective roles. In addition, they have had no training in teamwork, collaborative decision-making, or effective conflict resolution techniques.

Outside the business, Charles and Booker have little interaction and no structure like a family council to nudge them toward discovery of shared values and improving their communication skills. Nor does Adam participate actively as part of the ownership team, even though he still owns 40 percent of the management company.

All this does not mean, however, that the conflicts between the two brothers can't be resolved and that they can never learn how to work together to professionalize their joint management of the family's properties.

Before they make any decisions regarding the future of the business, the brothers must both decide whether they really want to do what is necessary—whether they are willing to make the commitment—to remain in business together. They need a chance to see whether, perhaps with guidance and training from the right advisers, they can improve their planning, communication, and management skills, both individually and as a team. Most important, they need to define what "fair" means to each of them in terms of management performance, compensation, and return on investment.

Any consultant that is brought in will first want to talk individually to Booker, Charles, their spouses, and Adam and Ethel in order to understand the history and complexity of the issues. By getting family members to articulate the issues and identify options, the consultant may be able to defuse some of Booker and Charles's built-up frustrations and ease some of Adam's concerns.

Second, based on the consultant's initial assessment, a number of alternative courses of action can be laid out. The family may balk at talking about some of the options, but all should nonetheless be addressed to help the members clarify their real needs and goals and make sure the ground has been covered.

Either Charles or Booker could sell his shares to his brother, or back to Adam, or to a third party. The Hutchisons could decide to sell the whole company to a group of outside investors. They could also split up the real estate holdings so that each brother functions independently. But if the family members are determined to keep the business in the family—and if it is demonstrated that the company will be stronger if the brothers stay together—that could strengthen their resolve to change their ways and improve their working relationship.

As part of their evaluation, Adam, Booker, and Charles need to review whatever ownership agreements are in place. If the family has no buy-sell agreement, they need to create one. In order to do that, they will probably first need an independent valuation of their various properties and interests. In addition, once the parents have a clearer sense of whether their sons will be able to function as a team, they need to review their estate plan to decide what will happen to Adam's interest in the management company and other properties.

Finally, the family needs to evaluate what financial resources would be necessary to carry out each of the options they have explored. If a buyout is the wisest alternative, how will it be funded? If either Charles or Booker buys out the other, will the company have to bring in a non-family professional to take on the functions of the brother who leaves the business? How will shifts in the management and ownership structure affect the firm's relationships to tenants? If the brothers decide to continue together, will other outside help be needed to ensure their success? Do they need to bring in a compensation expert to guide them in setting guidelines for management salaries? Should they have an executive coach to teach them team-building skills? Should they add outsiders to the board to assist them in developing a shared vision and establishing formal structures for management and strategic planning?

There is no quick fix. The problems have evolved over time. Nevertheless, there are options for the future that are worth exploring. By getting the facts, by committing to the time and risk involved in exploring the various alternatives, and by seeking good professional counsel at key stages of the process, the Hutchisons are more likely to be fair to each individual, to the family as a whole, and to the business.

Catherine McCarthy and Kenneth Kaye

Catherine McCarthy is a consultant with Kenneth Kaye & Associates in Chicago; her psychology doctoral research concerned sibling relations in family firms.

Kenneth Kaye runs Kenneth Kaye & Associates; he is a psychologist specializing in conflict resolution for business owners, and author of "Family Rules" (St. Martin's, 1990) and "Workplace Wars and How to End Them: Turning Personal Conflict into Productive Teamwork" (Amacom, 1994).

Why is Adam so concerned about a "showdown that might be disastrous?" We see no disaster on the horizon. Adam should be proud of having given his sons the opportunity to take full control of the business, and proud of how well they have done. Booker and Charles appear to be competent individuals whose different styles and talents have benefited the family business. Recognizing each other's strengths, they divided the labor accordingly. They have maintained cordial relations with each other and their parents, and the business has increased in value.

As any business grows and the family members in it mature, however, the owners' joint and individual needs and goals will change. This is normal. Our advice would be:

1. **The brothers need to talk, mostly without Adam.** Our research on sibling relationships in family firms shows that avoiding conflict is associated with lower family satisfaction. Therefore, renewing their regular meetings is a must. The

agenda should include taking stock of their current situation and assessing their personal goals. Do they agree on the direction the business should take? Does each value what his brother is doing to get them there? Does Booker view Charles's 60-hour weeks as positive—or excessive? Does Charles resent that Booker leaves early some afternoons?

2. **The business is divisible.** If there is disagreement about these fundamental issues and their goals are not compatible, now is the time to explore all options. Perhaps Charles is committed to dramatic growth, while Booker feels it is too risky and does not want to jeopardize the financial security of his wife and children. One of many possible solutions they could explore: Booker could take equity out of the business in the form of some low-leveraged properties, which Charles could then swap for equivalent equity in properties with higher potential as well as debt. Another option: Booker could continue to run the management company and stay in most of the existing partnerships, while Charles buys future properties on his own. These brothers are young enough, capable enough—and they seem to have sufficient mutual trust and respect—to succeed independently under the same roof, with little or no threat to their family relationships.
3. **Change is not a tragedy.** If the brothers decide to end their partnership, it may be that Adam and Ethel will need help in accepting the change as a positive step for the family. The brothers will have to help their parents with that. Family members in such situations are easily consumed by resentment, hurt, guilt; the natural tendency is to blame one another. What they need to do instead is work their way through this radical change in the fairest way, with the goal of maximizing the value of their assets as a whole.
4. **If the brothers choose to stay together, compensation issues must be addressed.** Although Adam's intentions were good when he made his sons equal partners with equal pay, he created a situation that could be grossly unfair going forward. Family owned and managed or not, any business is playing with fire when the compensation received by individuals gets too far out of line with their relative contributions. Clearly, the fact that Charles is creating all the additional wealth and working longer hours than Booker has become a problem for him. If that continues, tension between the brothers will inevitably increase. To discourage Charles from continuing at his dynamic pace would also jeopardize their relationship. If they stay in business together, the brothers need to negotiate a clear compensation policy that provides differential rewards for performance on the job, number of hours committed to the business, and creation of opportunities for expanding the business or increasing profits.
5. **We would discourage Charles from viewing the arrangement to date as unfair.** He was a willing participant in the structure devised by Adam up to the moment he decided that it no longer worked for him. Only when he, his father, and his brother all appreciate their joint accomplishments in the past can they turn to a productive—but different—relationship in the future.
6. **This is not a problem for the parents to solve.** Adam and Ethel should give their blessing, in advance, to whatever solution satisfies their sons, daughters-in-law, and grandchildren. Adam bent over backwards to avoid the fatal favoritism

of his Biblical namesake. Now he has to deal with the fact that his sons are not equal partners—and not children.

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*Author **Kelin Gersick** comments:*

The expert commentators have done an excellent job of identifying the three key questions posed by this case:

1. **Is there a problem here, and, if so, what is it?** McCarthy-Kaye are certainly accurate in pointing out that all family businesses face challenges of development which don't all lead to disaster. This family business has many strengths: a business that is thriving; a founder couple truly willing to step aside and let the successors take over; two sons who are both competent and committed to the business; and a family with friendly relationships and a history of peaceful, if not always candid, communication.

   The worm in the apple, as Brown points out, is that the roles family members play in the business have been determined by assumptions (some false); strong parental values (some contradictory), and family history (instead of business analysis or strategy). Brown points out important gaps in the Hutchisons' self-awareness, skills, training for teamwork, and communication on issues of vision and strategy. The real problem here is that both generations have limited their vision to one type of sibling partnership, with each brother contributing what he's good at, a 50-50 split in ownership, and equal salaries. The family hasn't looked at other arrangements that might be a better fit for who they are, as individuals and as a family.

2. **Whose problem is it?** The commentators agree: The torch has been passed to the brothers, and it is time for Charles and Booker to rise to the challenge and create their own future. Adam and Ethel still have roles to play, for example, in articulating their values and goals and protecting their own financial interests. But the most important contribution they can make at this stage is to structure their estate to support whatever type of partnership—or separation—their sons ultimately agree upon.
3. **What should be done now?** The commentators emphasize the need for family members to challenge their assumptions through more open discussion—better late than never. Brown focuses on the data-gathering and decision-making tasks that face the Hutchisons; McCarthy-Kaye present some excellent options for amore satisfactory financial arrangement between Charles and Booker, whether or not they decide to run the business together. If the family can respond to Charles's

frustration by challenging their old definition of fairness (ideally, as McCarthy-Kaye suggest, without guilt, blame, or chewing over old grievances), they have many good options for an arrangement that better fits each's goals. Brown maybe right that, given Adam and Ethel's thoughtful and accepting style, a consultant would be especially helpful in this family.

There are important lessons to be learned from how they got themselves into this predicament in the first place. Like many parents, business owners or not, Adam and Ethel tried very hard to make sure their offspring felt equally loved and supported in the family. They adopted the parenting style they thought would work best—treating their children exactly the same—and held to it firmly.

In the end, they came to two realizations: First, true equality can be achieved only by understanding individual differences, not denying they exist. Instead of rigidly giving each son a Honda, they might have tried to pick a gift geared to each individual's taste. One may have preferred a Suzuki Sidekick and the other a classic Chevy. Too many parents are afraid of differentiating their children, out of concern that it will be regarded as favoritism. In fact, at seminars, when I break families into generational groups it is usually the younger generation that accepts more readily than their elders an individual approach to fairness on such issues as compensation.

Real equality comes from respecting and responding to what makes family members different as well as what makes them connected. Blanket rules—such as equal authority and equal pay—usually do not prevent conflict. They tend only disconnect rewards from real contribution.

Second, the Hutchisons are a clear example of the maxim that you cannot legislate successful partnerships from above. Parents create brothers and sisters; they can also make their offspring equal owners. But business partners have to choose each other. That is not to say that the senior generation has no role. Parents can certainly create conditions that make sibling partnerships possible, through mentoring, training, discussions of partnership options at an early age, and through an equitable distribution of ownership. But the ultimate decision rests with the Bookers and Charleses (and the Sarahs and Nancys) in every family—either to be made in a planful way, under the guiding hand of the parents, or hammered out later, on their own, after the parents are gone.

Kelin E. Gersick *is professor of organizational psychology at the California School of Organizational Psychology in Los Angeles, and a family business consultant in Malibu, CA.*