

Fair Isn't Equal:

Aligning Estate Plans, Liquidity, and Family Expectations in Closely-Held Businesses



Meet Your Workshop Facilitators:



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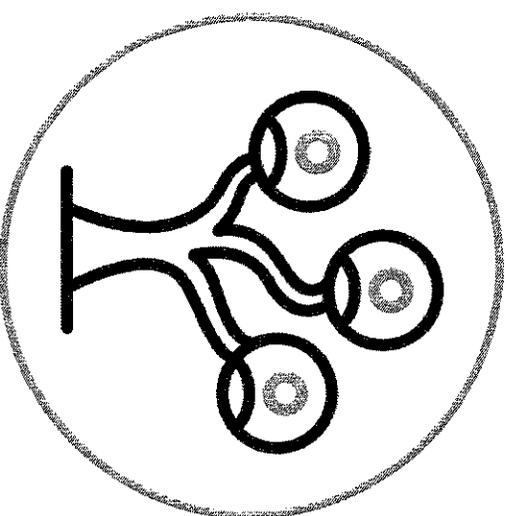
**Legal documents can transfer ownership,
but they can't create alignment...**

Why is that?

- Liquidity constraints
- Distribution expectations
- Decision rights / control
- Active vs passive owner tension

Today's Goals

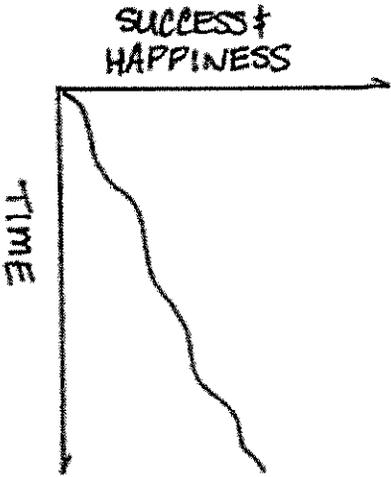
- Identify where estate plans and business cash realities collide
- Spot "fairness assumptions" that predict future conflict
- Recognize red flags early (before disputes/litigation)
- Recommend practical governance + conversation tools that improve follow-through



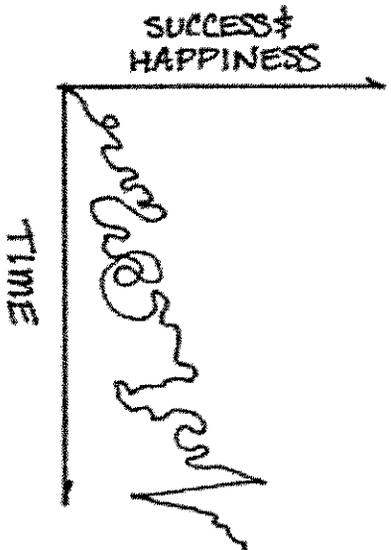
**Family Dynamics
& Governance**

This is what happens on a family business journey...

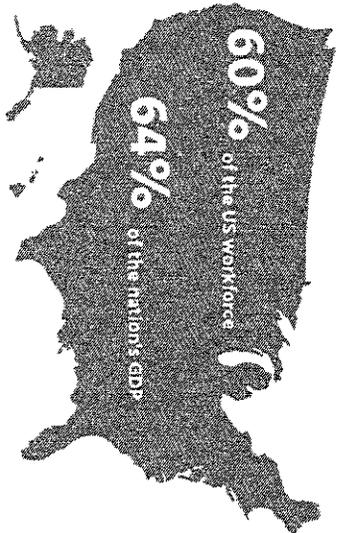
HOW WE THINK
LIFE SHOULD BE...



HOW LIFE REALLY IS...

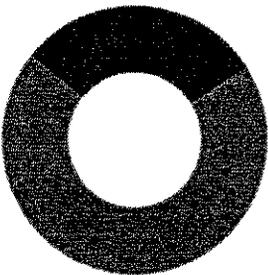


Family-owned businesses make up...

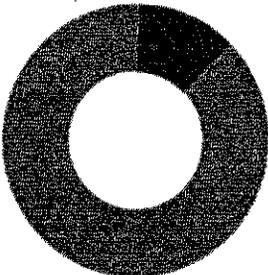


87%	say having a succession plan in place is key to success
17%	of family businesses have a formal succession plan in place
52%	think the next generation can manage the business on their own

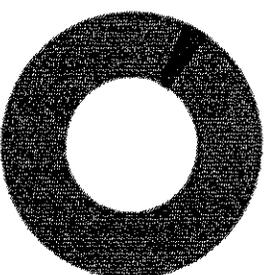
30%
successfully transition to the second generation of leadership



12%
reach the third generation



3%
survive to the fourth generation or beyond

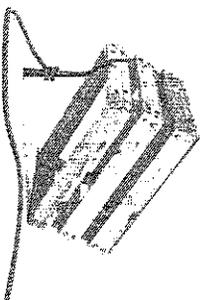


What is going on?

- Love, power, money
- Family conflict
- Multi-generational differences
- Lack of communication
- Lack of succession planning
- Focus on business vs family
- Nepotism vs Merit
- More mouths to feed
- Market forces
- Impatience
- Irreverence
- Entitlement



Fair is *NOT* Equal



**The common trap = To be fair, we must be
equal**

Two predictable "Equal" mistakes

Mistake #1: Splitting ownership equally without aligning decision rights and expectations

What it looks like

- Equal shares to all heirs → operator + passive owners in a forced partnership

Why it backfires

- Passive owners feel powerless → push for cash, control, or exits
- Operator feels constrained → "I'm responsible but can't decide"
- Disagreements become valuation fights and deadlock

Mistake #2 Treating the business like an ATM

What it sounds like

- "Distributions will cover taxes/equalization/buyouts."
- "We'll take cash out when someone needs it."

Why it backfires

- Working capital, capex, covenants, and downturns don't care
- Creates competing cash claims → resentment fast



How to solve for the mistakes:

Mistake #1: Splitting ownership equally without aligning decision rights and expectations

- Separate control vs economics intentionally (not automatically)
- Establish an owner forum decision rules (especially for distributions)
- Set passive-owner guardrails: reporting, communication cadence, voice
- Define a realistic liquidity/exit path (windows, triggers, funding reality)

Mistake #2 Treating the business like an ATM

- Define a distribution philosophy and down-year rules
- Do a basic liquidity stress test (good/bad/transition year)
- Clarify who decides when cash is tight (governance)

Where plans break - Collisions, Alignment, Points of Tension

1. Collisions:
 - a. Liquidity needs vs reinvestment needs
 - b. Active vs passive owner expectations
 - c. Control vs economics (votes ≠ benefits)
2. Interests that need alignment:
 - a. Control: who decides
 - b. Economic rights: who benefits
 - c. Cash (liquidity): who gets money, when, and how much
3. What the conflict sounds/feels like:
 - a. Distributions: "I need cash" vs "we need to reinvest"
 - b. Transparency: "I don't trust what I can't see"
 - c. Compensation: "You're overpaid" vs "I'm doing the work"
 - d. Decision rights: "I own it too" vs "I run it"

Strategic Questions to Spot Future Conflict

- What does “**fair**” actually mean in this family?
- Are we equalizing **ownership, control, or economic benefit**?
- How—and when—will **non-operating heirs** receive value?
- Who **decides** on distributions, compensation, and major business decisions?
- If someone is **unhappy or wants out**, what happens?
- Who is most likely to feel this is **unfair**—and under what circumstances?

Mechanisms That Support "Fair"

CONTROL

- Voting / non-voting shares
- Manager-managed structure
- Independent board

LIQUIDITY

- Funded buy-sell
- Redemption program
- Put/call provisions

ECONOMICS

- Clear distribution policy
- Compensation separate from ownership
- Differential or incentive equity

ALIGNMENT

- Employment policy
- Shareholder communication structure
- Defined dispute resolution path



Three Layers of Governance



Family Governance

- Family Constitution
- Values and Distributions
- Transparency and Resolution Norms



Business Governance

- Board Oversight
- Management Accountability
- CEO Evaluation



Legal Governance

- Shareholder Agreements
- Buy-Sell Agreements

Case Study

- **The Bennett Family**
 - 2nd generation founder, age 68
 - Three children:
 - Alex (operates the business, 15 years in, CEO-ready)
 - Jordan (successful physician, not involved)
 - Taylor (not in business, financially dependent, uneven career path)
- **Current Plan**
 - Equal ownership (1/3 each)
 - Alex will run the company
 - No formal board
 - Distributions at CEO discretion
 - No defined employment policy
 - No buy-sell funding strategy

Case Study

- **Fast Forward 5 Years**
 - Business re investing heavily
 - Minimal distributions
 - Alex earning strong compensation
 - Jordan and Taylor frustrated with lack of return
 - Taylor asking for liquidity
 - Jordan questioning financial transparency
 - Sibling tension escalating

What went wrong?

What attorneys can do to solve for this:

- Ask the questions about fair versus equal
- Identify which collision points are present
- Where Compass Point can help:
 - Recommend governance and facilitate alignment early
 - Coordinate sequencing: create alignment, build governance, and then update documentation



Questions & Answers