

C.H.A.L.L.E.N.G.E.S.® inc

Working with Families in Business

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May 2007 Newsletter

Mother's Day

My mother had a great deal of trouble with me, but I think she enjoyed it.

~Mark Twain

THE **C.H.A.L.L.E.N.G.E.S.®** OF FAMILY COMPENSATION IN FAMILY BUSINESSES

The following are 10 “traps” that many families in businesses get caught in when making compensation decisions. These traps open the door to unnecessary, feelings of unfairness and a whole lot of family disharmony if not controlled. Don't let it happen in *your* family business.

1. **C**ontrolling how pay is determined in many family businesses is a matter of emotion. Here is what happens; John lives at home so he does not need as much money as Joe who is married even though John is the President. The question that should guide compensation decisions: “*What is each job really worth in the marketplace?*”
2. **H**aving highly inflated paychecks to save on taxes. Paying higher wages to family members in an attempt to gain a savings on taxes, dividends, etc. is a practice which builds an “I deserve it” mentality. This can create more conflict in a family and a cash crunch in the “lean” times. Remember: *Don't create an entitlement attitude.*”
3. **A**ssuming your pay decisions will be ok with all family members is a mistake. Not setting “pay policies” will create mistrust of your decisions and conflict between family members who believe you are “playing favorites.” Question: “*Should you be the only one making the pay decisions? Could a Board help?*”
4. **L**etting wages for managers and dividends for owners be mixed. There must be a separation of pay for those working in the business and the return/dividends –owners’ distribution for the shareholders of the company. Managers as shareholders should receive the appropriate wage for their position AND a return for being a shareholder of the company. Remember: “*Fair is not always equal.*”

5. **L**eaving the finances of the company and/or how much dad and mom make, a secret. Adult children do not understand the opportunities if they do not know the financial reward the company can create. Question: *“How can adult children make a career choice when they don’t know the opportunities?”*

6. **E**motional issues and threat of conflict should not determine pay. This leads to giving raises in order to AVOID conflict and/or to get other family members “off my back!” Remember: *“Avoidance of conflict only adds to it.”*

7. **N**ot regularly or formally discussing individual performance expectations and results with each family member is a mistake. When this is not done, family members do not know if they are being properly judged when raises and bonuses are distributed. Evaluations **MUST** be in writing. Remember: *“When I am not told how I am doing, I must be doing great!”*

8. **G**oals should be defined for each family member in the business when it comes to career development, retirement and/or life-style. Without them, it is often perceived that someone may be getting paid to do less. Example: The same paycheck in retirement can create “cash crunch” and inter-family bitterness. Remember: *“What I don’t know, I assume!”*

9. **E**stablishing other “perks” to keep family members happy instead of being honest about their productivity and contributions to the company can lead to problems. I am all for extra perks for family members but they must be understood, controlled and earned. Remember: *“He who makes the most noise gets ... is a bad policy!”*

10. **S**etting a negative example to your working family members by overpaying yourself in wages. Set the rules and live by them. Remember: “Actions speak louder than words.” That doesn’t mean you don’t deserve the rewards of the company you built. It does mean keep wages as clean and understandable as possible. Owner distributions, quarterly distributions and many other tools can be used to get money out of the company without corrupting the “wage” policy for family members.

Deciding compensation in a family business is never easy. Without an understood, written policy concerning compensation for family members, conflict will arise. When people do not believe they are being paid fairly, their production deteriorates, even when it is a family member. They may also withhold information affecting company decisions due to a resentful, “I am not getting paid for this” attitude.

We can help you create the best compensation program for your family in business. We look forward to your call.

~Visit our new website, designed with Family Businesses in mind!~

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