

MIKE HENNING'S

“ALL IN THE FAMILY” COLUMN



Compensating Family Members

Compensation is commonly an issue for families working in business together. Dealing with direct and indirect compensation uncovers problem areas that are predictable. Namely: paying according to need, underpaying children to control their life-style, overpaying to buy dependency, or paying all the same just because their names are the same. Indirect compensation difficulties arise in the auto parts business by bartering parts and service to receive desired goods from customers, in the car market because of who gets to drive the most expensive demos, and in the lumber industry because of the cost price paid for material to build a home or a fence in the back yard. Other areas that commonly create problems are time off, overtime, lack of accountability of some, company sponsored trips or conventions and whose turn to go, premiums from manufacturers and free meals from suppliers. Company cars and their maintenance, life and health insurance, retirement programs, and customer entertainment may also be areas of conflict. Paid vacation or business trip? Did the time off count against vacation time or not? And the list goes on and on...

Tough Love and Compensation

It is often the message, not the money, that's important. To keep the message clear about compensation in your business, following are suggestions I use when working with clients.

1. A salary or wage for the job based on its market value.
2. A performance bonus for meeting certain personal objectives and company wide goals.
3. A profit distribution, dividend or bonus, based on company profitability to reward ownership.
4. A parental gift to children.

The key is to define each part for family members however the dollars are paid out. When considering family pay: separate your thinking and actions into three categories. What's appropriate as a manager/employee and what's appropriate as an owner? What's appropriate as a family member? Make communications and expectations perfectly clear.

Managing Performance

Business First:

- Up-to-date, accurate written position descriptions exist for all jobs.

- There are documented performance measures.
- The performance of each employee is rated against preestablished criteria and reviewed at regular intervals.
- The review includes face-to-face discussions that provide performance feedback.

Family First Approach:

- Job responsibilities of family members are left undefined and undocumented.
- No formal authority limits are set, and the actions of family members are virtually uncontrollable.
- Reporting relationships between family members are not established—leading to “turf” disputes between them.
- Family members get no formal, objective performance reviews.
- Instead of constructive performance reviews, a “child” in the business is more likely to get empty criticism.

When the setting of management standards for the family/business relationship is left to chance, the result is an excessive intrusion of family values.

Whatever mix works best for your family and your business, family first/business first, will never really be known unless you are prepared to discuss the issues and make conscious decisions about what management standards you will apply to family members in the family’s business. We always strongly recommend that families meet, discuss and make policy regarding the following critical areas:

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|------------------------|-------------------------------------|
| Employment | Retirement |
| Compensation | Dividends/distributions |
| Company loans | Stock redemption value |
| Ethics | Family behavior |
| Publicity | Ownership rights & responsibilities |
| Family members in need | |

This article appeared in Mike Henning’s Family Firm Advisor newsletter, for more information about receiving one free copy of our newsletter, visit us at our web site: www.mikehenning.com e-mail: hfbc@mikehenning.com or call -- 217-342-3728. Mike Henning is a nationally and internationally respected consultant and speaker on family business issues.