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Honoring both Family and Business Considerations in Compensation Approaches

by Amy Schuman

One of the most challenging policy areas for families in business together is compensation. As with many issues, approaches tend to divide into two camps, and opinions and emotions can run quite high on both sides.

One camp says that a market based approach to compensation is the only acceptable and professional alternative. Family members should be paid exactly what anyone else in their position would be paid. Special perquisites for family members are to be assiduously avoided. According to this view, any other practice is uncompetitive, unsustainable and jeopardizes the success of the business.

The alternative camp insists that special considerations in family compensation are legitimate and appropriate. The family may decide to pay family members approximately the same salaries no matter what their position, in order to preserve family harmony. Alternatively, family members may be paid a premium wage or receive special perquisites such as extra vacation time, use of company resources such as cars, credit cards, or planes. These special rewards recognize the extra burden of ownership borne by family members, often requiring many extra hours of work, often during evening and week-end hours at community and family events.

Wise and experienced families find it impossible to embrace one of these two approaches to the exclusion of the other. They seek to operate in a way that balances the wisdom found in both approaches.

In addressing this dilemma, a polarity map (originated by Dr. Barry Johnson) is very helpful, and would look something like the following:

Higher Purpose:
Leverage family presence for sustainable success

Upside	<ul style="list-style-type: none"> *Affirms family membership as a crucial contributor to business success. *Recognizes the non-traditional (off-the-clock) contributions of family members. *Affirms the value of relationship-based rewards in creating a sustainable family business. 	<ul style="list-style-type: none"> *Affirms job related skills and experiences as crucial contributors to business success. *Recognizes the job-related (on-the-clock) contributions of employees. *Affirms the value of performance and merit-based rewards in creating a sustainable family business 	Upside
Family Based Compensation Elements			Market Based Compensation Elements
Downside	<ul style="list-style-type: none"> *Market value of job-related contribution ignored or minimized. * De-motivates workforce and makes it harder to attract and retain the best talent. *Family entitlement mentality could threaten the business' sustainability. 	<ul style="list-style-type: none"> *Market value of family contribution ignored or minimized. *De-motivates family and creates distance between the family and the business. *Overemphasis on evaluation and measurement could threaten sustainability 	Downside

Deeper Fear:
Destroy both family and business

By looking at this polarity map, we can see the danger in choosing one alternative to the complete exclusion of the other. Although we may have a strong preference for one pole, we cannot ignore the wisdom inherent in the other. And, upon some reflection, we can see that investing in one pole will strengthen the other. For example, market-based compensation approaches contribute to stronger, less confused family relationships. At the same time, monetary recognition and reward for the long, extra hours invested by family members in support of their business can foster their support for a similar, data-based compensation philosophy in the business.

Let's provide a hypothetical but realistic example.

Joseph Construction Company is a pre-eminent Midwestern firm entering its third generation of family ownership and management. Although it has always tended towards more of a "business-first" approach, there are several areas where family members enjoy special consideration.

Several years ago, when the siblings entered the business, they embraced a market-based compensation approach. Their highly competent HR staff regularly adjusts family and non-family compensation based on regional and national salary surveys. Performance appraisals are conducted regularly and form the basis of

salary decisions at all levels. The family sees this professional approach to compensation as a cornerstone of their continued growth and success, and their ability to attract and retain some top non-family talent.

However, over the years, the siblings have come to see the value of incorporating several family-based elements into their total compensation approach.

For example, performance reviews are standard practice throughout the company and provide an objective basis for salary increases at all levels. However, family salary increases are not tied to annual performance reviews, because the siblings have never really received a performance appraisal.

Also, family member pay is slightly above market rates for their jobs. This is done in recognition of the extra time and effort put forth by family members. They are all active in the community and spend many evenings and weekends representing the family and business at charitable events. They have also taken on the role of organizing family meetings and preparing the next generation for their responsibilities, much of which takes place outside usual business hours. These activities are critical in creating conditions for sustainable success. Family and non-family executives know about this “family pay premium” and support its value.

Also, although the company has a vacation and time off policy that is strictly followed for non-family employees, the siblings’ vacation and time off is not monitored or tracked. Where none of the siblings abuse this privilege, none of them limit themselves to the company standard of 2 weeks vacation/year. In fact, when their children are young, family members frequently leave work in order to enjoy their children’s events and needs, a privilege that is not extended to non-family employees.

Also, all four siblings attend an annual family business seminar (often in exotic, luxury locations) which is paid for by the business, and their time off is not counted in their vacation time.

However, all of these family-based compensation elements take place alongside a professional, rigorous, market-based salary and bonus system throughout the company. This hypothetical family illustrates a realistic and positive approach to considering both family- and market-based considerations in total compensation of family members.

Every successful family business finds its own, unique compensation approach. As you do so, be aware of the importance of balancing these two important forces. Which approach do you prefer? Are you emphasizing one approach to the exclusion of the other? If so, perhaps this article has offered you some ideas that can help you strike the most productive balance for your unique situation.

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