

FAIR PAY IN FAMILY FIRMS

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Recently, a client called with a question about his daughter. His son had worked at the business for the past 10 years. Over the Easter holidays, his daughter had commented that she would love to come to work at the family business. As a CPA with experience at a public accounting firm, she was ready for a new challenge. With the business growing, there would be an opportunity for her, but the father's question was, "What should I pay her? Should she start at a salary comparable to the one she was making at the CPA firm? Or should her salary be equal to her brother's salary?"

One of the most challenging issues for a family business concerns compensation for family members. National studies indicate that the owners of family businesses have total compensation packages larger than those paid to non-owner presidents. Yet successor-generation family employees typically earn less total compensation at the family owned business than they would in a similar position at a business that is not owned by the family.

While the dollar amount offered to family members is critical, the more pressing issue, raised by many clients is one of fairness. Should family members be paid equally, or should it depend on their roles and responsibilities in the company, experience, expertise and years of service? For most families, equality is considered fundamental to family life and plays a key role in determining compensation. But it is a flawed model and can cause serious resentment from other family members as well as non-family employees.

We recommend that families consider the following three elements in designing a different compensation package for each individual in the family:

Base Pay. The base salary for any position should be consistent with salaries and wages paid for comparable positions at similarly sized businesses. Wage and salary information is available from many sources on a regional basis as well as an industry specific basis. Use this to also establish an upper and lower range for each position in the business.

Qualifications and Expertise. Does a family employee have the necessary technical and educational background to meet the job requirements? Do they have outside experience relevant to the responsibilities of their position at the family business? The family should define the qualifications and characteristics of the ideal job candidate and then measure the family member against this standard

Contribution. Positions of responsibility in any business have two aspects: day-to-day operational and long-range strategic. The owner needs to define very clear goals and objectives for measuring both types of responsibilities. Too often, family members complain that they do all the work while their siblings fail to carry their share of the load. Without measurable performance standards, families find it difficult or impossible to hold family members accountable.

Roles, responsibility, and contribution are rarely equal. While families often use equal pay to promote family harmony, these plans typically backfire; creating tensions and discord among family members and non-family members as well. Establishing a compensation plan on sound business criteria which is understood and agreed to by all of the family members and consistent with similar compensation packages for non-family employees is the best way to manage family compensation.