

## Confusion About Compensation?

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When it comes to money matters in a family business, especially when more than one family member is employed, there is often confusion about who deserves what and what's fair and equitable or just. Money matters can be difficult to talk about - especially among family members. And lack of understanding can cause conflict.

Clarifying the different forms of compensation is a good first step to addressing this complex matter. There are two distinctly different forms of compensation. First, there is the salary or compensation for the specific job a family member performs. If one family member is the CEO and another is a file clerk - their compensation should not be the same. The CEO's level of responsibility, and generally the qualifications required to perform at that level, are significantly greater than the file clerk's. All employees (including family members) should be fairly compensated for their specific position and the duties they perform.

Second, there are earnings associated with ownership or shareholder distributions. This can come in many forms such as profit distributions or bonuses, which are paid out based upon whatever criteria the shareholders have defined. This has nothing whatsoever to do with who performs what job; rather, when available for distribution, monies are distributed/earned based upon who owns what percentage of the company. A shareholder who owns 60% would get 60% and a shareholder who owns 5% would get 5%.

Unanswered questions or disagreements about compensation can lead to bad feelings and longer term relationship problems in a family business - many times the misunderstanding is based upon lack of information or knowledge about how things 'should' be.

If your family business has questions or issues around compensation, you might want to reach out to an independent outsider for guidance and assistance. An impartial, third party might be able to help resolve potential conflicts before they become unmanageable and lead to impaired family relationships.

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