

# people in focus

The Grant Thornton Brisbane periodical  
focussing on people and  
relationship issues in management

Grant Thornton 

## In this edition of **People in Focus**, we look at remuneration planning in family businesses...

A family business usually represents an enviable source of financial independence for the family members active in the business. Fair remuneration for family employees is a contentious issue and the following questions should be considered:

- what should be the basis for establishing salary levels of family employees? and
- how do you reward equity holders who are active in the business?

### **The Basic Principles**

Family members employed in the business should be rewarded in accordance with sound business principles. A pay cheque in the family company is often confused with return on ownership, parental concern, or a method of achieving an emotional goal. Remuneration should be divided into two components, a basic remuneration which is market related and a performance bonus for meeting predetermined objectives.

Family members employed in the business should be made aware of the difference between seeking to satisfy a lifestyle to which they have become accustomed based on the family wealth, as opposed to performance related remuneration as an employee in the family business.

In our experience, underpaying a family member in order to convey a discipline or a value appreciation principle, or to keep control, has very negative effects. It demotivates the family members, and can result in lack of credibility amongst other employees who become aware of their poor earnings.

Family businesses should consider the introduction of formalised remuneration policies that cover the terms and conditions of employment, gender discrimination, age of

retirement, etc.

The tax efficiency of remuneration packages should also be reviewed.

### **Some of the common causes of family pay problems**

- Role confusion, ie. confusing payouts to family members in their roles as owners, or family members with compensation for performing a job in the business.
- Using pay to achieve tax savings through methods including high salaries, perks or "phantom jobs" to transfer tax deductible wealth to family members.
- Using pay to maintain parental control by using pay cheques to convey messages or accomplish goals that have nothing to do with the market value of the job performed; eg luring reluctant children to work in the business, or pressurising children to learn the importance of frugality.
- Preserving secrecy at all costs by assuming that it is always indiscreet, impolite or wrong to talk about how people working in the business are paid.
- Confusing business and personal funds; the assumption that one can draw as much compensation from the business for as long as one needs it to support the lifestyle of one's choice.
- Taking relationships for granted by assuming family members will respect and be satisfied with their pay just because they are family members.
- Using salary substitutes by offering titles or perks to appease family members unhappy with their pay.

# Remuneration planning...



## There are 7 core steps in building a compensation plan

1. Decide on a philosophy of compensation, including whether to pay family members equal amounts or base the pay on the market value of their jobs.
2. Determine the market value for the particular jobs.
3. Consider whether pay should be set at the market average or whether a cultural statement will be made with pay at levels above or below the market average.
4. Adjust pay to reflect qualitative characteristics of the job. For example does the job have strategic importance?
5. Decide if an annual incentive plan is on offer, based on personal goals and /or company performance.
6. Establish classifications and criteria for assessing company

performance.

7. Communicate clearly to the entire organisation and family the philosophy of compensation with the intention to review and refine the plan on an ongoing basis.

Despite the above recommendations, some family businesses will continue to compensate family members using a less commercial policy. Whatever policy is chosen, each family member should understand the policy, including those who may be contemplating joining the business. The policy should also form part of an overall family business constitution.

At Grant Thornton in Brisbane, we have skilled facilitators who can assist family businesses in the formation of a family business constitution. Should you wish to discuss the holding of a family constitution planning session, please contact your Grant Thornton adviser.



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