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Compensation for the Next Generation

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As the owner of a successful family-held business, one of the ideas that you have wrestled with is fair compensation for children that would like to come to work for the company and possibly take over the company in a few years. Should they get paid less because they are the owner's child? Should they get paid a higher salary because they have a family to support? Should their income be about the same as their siblings who decided to work someplace else? Making these compensation and employee benefit decisions is hard for you as a parent and a business owner, but in reality it should not be.

If one of your children comes to work for the company you should prepare a written job description, even if you've never done it for any of your other employees. The more detailed the job description the better. Once that job description is completed, compare it with your industry. Industry associations, accounting firms, valuation firms, and other sources can give you an idea as to what the compensation range should be for every position in your company.

In a perfect world a child who comes to work for you has already worked for other companies for at least three to five years and found out what it is like working with other bosses, and perhaps other industries.

Starting at the bottom and working their way up is an old adage, which is probably still true. The one or two children, which will probably run the company, need to experience working at all levels in the company.

If you have children working in the company, they should have a written job description, and someone (preferably not you) should review their performance every 12 months. Again, their compensation should be based on the job description, not on their last name. If one child has worked their way up to vice president of sales and another child is a foreman in the factory, then their salaries and benefits should be different, and should be comparable with their job description with other companies in your same industry.

Paying your child too little, based on their job description, will hurt your relationship and skew their future expectations of the company. Paying your child a very high salary, based on their job description, might make it easier for all of you at the dinner table, but that child may develop an unrealistic expectation on what the future has in store for them if they ultimately take over the company.

One level of income that is always the same is stock dividends. If you have two children working in your company, and they each own 10% of the company stock, then if dividends are paid, their dividends would be exactly the same.

Talk to the children that want to work for the company and let them know that their compensation will be based on their level of experience and their position in the company. If they move up the ladder then they will definitely have a higher salary, more bonuses, and more employee benefits. Also, let the children know who do not work in the company that the ones in the company are being paid a fair compensation based on the industry standards that you have researched.

Paying children fair compensation, based on their job description, is the best idea and discussing these policies with all of the children will also help family relations in the long run.

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