One of the mistakes I most frequently see in business is owners not making a clear distinction between their ownership position in the company and the role that they fulfill, and this can be very damaging. As an owner, you should be paid a salary for what you do and get a return on what you own. You should be paid for the job that you actually perform and the financial reward for your ownership will come as a return in the form of profits and growth in the value of your equity.

The differences between role and ownership are very clear conceptually, but in practice many people seem to miss the point and the salaries paid reflect ownership rather than the role that is actually carried out. This happens at its most damaging in partnerships and family businesses where owners are frequently paid a salary based on that ownership percentage rather than the role that they carry out.

Years ago I was in a peer group with the CEO of a second generation family business. The first generation had left the business equally to the four children, three of whom worked in the business. While that kind of situation carries inherent problems unless there are clear operation agreements, the situation was exacerbated by the fact that the first generation also decreed that all the children working in the business has to be paid the same salary. That meant that the CEO was paid the same salary as both the bookkeeper and receptionist and it created all kinds of issues.

Another, more current, example is a client I have who is in a 50-50 partnership where both partners draw the same salary. My client works full-time in the business while his partner works about half time, and the unequal situation causes a good deal of friction. What should happen is that the two partners should be paid a salary that reflects the market value of what they do for the company. That has nothing to do with their ownership percentages and the return that the partners do receive on their ownership should come in the form of whatever profit is left after all the expenses have been paid.

This becomes a real issue when the business isn't making enough profit to be able to make distributions. The appropriate solution in this case is not to penalize the partner who is doing the highest paid job by over-compensating the other partner. If there isn't enough profit to satisfy the partners then that should be the trigger for some serious discussions, but that is often much easier said than done.

These issues are best resolved when the partnership is first formed, as it is difficult and uncomfortable to change the structure after the fact - though usually well-worth the effort. Most businesses with more than one shareholder have legal agreements that cover shareholder issues, but few have detailed operational agreements.

There really needs to be a formal operating agreement that covers:

- The roles, responsibilities and salary of each partner
- A mechanism to resolve conflicts when the partners cannot agree

- A formula setting out how much profit needs to be retained in the company

With an agreement like this in place, many of the partnership flashpoints can be avoided, leaving the executives free to concentrate on running the company.