

Dividing The Loot
By Sam Vaknin, Ph.D.

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It is when the going gets better, that the going gets tough. This enigmatic sentence bears explanation: when a firm is in dire straits, in the throes of a crisis, or is a loss maker – conflicts between the shareholders (partners) are rare. When a company is in the start-up phase, conducting research and development and fighting for its continued, profitable survival in the midst of a massive investment cycle – rarely will internal strife arise and threaten its existence. It is when the company turns a profit, when there is cash in the till – that, typically, all manner of grievances, complaints and demands arise. The internecine conflicts are especially acute where the ownership is divided equally. It is more accentuated when one of the partners feels that he is contributing more to the business, either because of his unique talents or because of his professional experience, contacts or due to the size of his initial investments (and the other partner does not share his views).

The typical grievances relate to the equitable, proportional, division of the company's income between the partners. In many firms partners serve in various management functions and draw a salary plus expenses. This is considered by other partners to be a dividend drawn in disguise. They want to draw the same amounts from the company's coffers (or to maintain some kind of symbolic monetary difference in favour of the position holder). Most minority partners are afraid of a tyranny of the majority and of the company being robbed blind (legally and less legally) by the partners in management positions. Others are plainly jealous, poisoned by rumours and bad advisors, pressurized by a spouse. A myriad of reasons can lead to internal strife, detrimental to the future of the operation.

This leads to a paralysis of the work of the company. Management and ownership resources are dedicated to taking sides in the raging battle and to thinking up new strategies and tactics of attacking "the enemy". Indeed, animosity, even enmity, arise together with bitterness and air of paranoia and impending implosion. The business itself is neglected, then derailed. Directors argue for hours regarding their perks and benefits – and deal with the main issues in a matter of a few minutes. The company car gets more attention than the company's main clients, the expense accounts are more closely scrutinized than the marketing strategies of the firm's competitors. This is disastrous and before long the company begins to lose clients, its marketing position degenerates, its performance and customer satisfaction deteriorate. This is mortal danger and it should be nipped in the bud.

Frankly, I do not believe much in introducing rational solutions to this highly charged EMOTIVE-PSYCHOLOGICAL problem. Logic cannot eliminate envy, ratio cannot cope with jealousy and bad mouthing will not stop if certain visible disparities are addressed. Still, dealing with the situation openly is better than relegating it to obscurity.

We must, first, make a distinction between a division of the company's assets and liabilities upon a dissolution of the partnership for whatever reason – and the distribution of its on-going revenues or profits.

In the first case (dissolution), the best solution I know of, is practised by the Bedouins in the Sinai Peninsula. For simplification's sake, let us discuss a collaboration between two equal partners that is coming to its end. One of the partners is then charged with dividing the partnership's assets and liabilities into two lots (that he deems equal). The other partner is then given the right of being the FIRST to choose one of the lots to himself. This is an ingenious scheme: the partner in charge of allocating the lots will do his utmost to ensure that they are indeed identical. Each lot will, probably, contain values of assets and liabilities identical to the other lot. This is because the partner in charge of the division does not know WHICH lot the other partner will choose. If he divides the lots unevenly – he runs the risk of his partner choosing the better lot and leaving him with the lesser one.

Life is not that simple when it comes to dividing a stream of income or of profits. Income can be distributed to the shareholders in many ways: wages, perks and benefits, expense accounts, and dividends. It is difficult to disentangle what money is paid to a shareholder against a real contribution – and what money is a camouflaged dividend. Moreover, shareholders are supposed to contribute to their firm (this is why they own shares) – so why should they be especially compensated when they do so? The latter question is particularly acute when the shareholder is not a full time employee of the firm – but allocates only a portion of his time and resources to it.

Solutions do exist, however. One category of solutions involves coming up with a clear definition of the functions of a shareholder (a job description). This is a prerequisite. Without such clarity, it would be close to impossible to quantify the respective contributions of the shareholders.

Following this detailed analysis, a pecuniary assessment of the contribution should be made. This is a tricky part. How to value the importance to the company of this or that shareholder?

One way is to publish a public tender for the shareholder's job, based on the aforementioned job description. The shareholder will accept, in advance, to match the lowest bid in the tender. Example: if the shareholder is the Active Chairman of the Board, his job will be minutely described in writing. Then, a tender will be published by the company for the job, including a job description. A committee, whose odd number of members will be appointed by the Board of Directors, will select the winner whose bid (cost) was the lowest. The shareholder will match these low end terms. In other words: the shareholder will accept the market's verdict. To perfect this technique, the CURRENT functionaries should also submit their bids under assumed names. This way, not only the issue of their compensation will be determined – but also the more basic

question of whether they are the fittest for the job.

Another way is to consult executive search agencies and personnel placement agencies (also known as "Headhunters"). Such organizations can save the prolonged hassle of a public tender, on the one hand. On the other hand, their figures are likely to be skewed up. Because they are getting a commission equal to one monthly wage of the successfully placed executive – they will tend to quote a level of compensation higher than the market's. An approach should, therefore, be made to at least three such agencies and the resulting average figure should be adjusted down by 10% (approximately the commission payable to these agencies).

A closely similar method is to follow what other, comparable, firms, are offering their position-holders. This can be done by studying the classified ads and by directly asking the companies (if such direct enquiry is at all possible).

Yet another approach is to appoint a management consultancy to do the job: are the shareholders the best positioned people in their respective functions? Is their compensation realistic? Should alternative management methods be implemented (rotation, co-management, management by committee)?

All the above mentioned are FORMAL techniques in which arbitration is carried out to determine the remuneration level befitting the shareholder's position. Any compensation that he receives above this level is evidently a hidden dividend. The arbitration can be carried out directly by the market or by select specialists.

There are, however, more direct approaches. Some solutions are performance related. A base compensation (salary) is agreed between the parties: each shareholder, regardless of his position, dedication to the job, or contribution to the firm – will take home an amount of monthly fee reflecting his shareholding proportion or an amount equal to the one received by other shareholders. This, really, is the hidden dividend, disguised as a salary. The remaining part of the compensation package will be proportional to some performance criteria.

Let us take the simplest case: two equal partners. One is in charge of activity A, which yields to the company AA in income and AAA in profits (gross or net). The second partner supervises and manages activity B, which yields to the company BB in revenues and BBB in profits. Both will receive an equal "base salary". Then, an additional total amount available to both partners will be decided ("incentive base"). The first partner will receive an additional amount, which will be one of the ratios $\{AA/(AA+BB)\}$ or $\{AAA/(AAA+BBB)\}$ multiplied by the incentive base.

The second partner will receive an additional amount, which will be one of the ratios $\{BB/(AA+BB)\}$ or $\{BBB/(AAA+BBB)\}$ multiplied by the same incentive base. A recalculation of the compensation packages will be done quarterly to reflect changes in revenues and in profits. In case the activity yields losses – it is better to use the revenues for calculation purposes. The profits should be used only when the firm is divided to clear profit and loss centres, which could be completely disentangled from each other.

All the above methods deal with partners whose contributions are NOT equal (one is more experienced, the other has more contacts, or a formal technological education, etc.). These solutions are also applicable when the partners DISAGREE concerning the valuation of their respective contributions. When the partners agree that they contribute equally, some basis can be agreed for calculating a fair compensation. For instance: the number of hours dedicated to the business, or even some arbitrary coefficient.

But whatever the method employed, when there is no such agreement between the partners, they should recognize each other's skills, talents and specific contributions. The compensation packages should never exceed what the shareholders can reasonably expect to get by way of dividends. Even the most envious person, if he knows that his partner can bring him in dividends more than he can ever hope for in compensation – will succumb to greed and award his partner what he needs in order to produce those dividends.

Sam Vaknin is the author of "Malignant Self Love - Narcissism Revisited" and "After the Rain - How the West Lost the East". He is a columnist in "Central Europe Review", United Press International (UPI) and ebookweb.org and the editor of mental health and Central East Europe categories in The Open Directory, Suite101 and search europe.com. Until recently, he served as the Economic Advisor to the Government of Macedonia.

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Osama and Saddam

By Rocky Ramsey

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Osama and Saddam

You know that if he could've done it before 911, Osama would've come out of his cave and gone to the top of a mountain where his cell phone reception was better and had a conversation with Saddam that would've probably gone something like the following (translated into English for your convenience):

Osama said, "Hello, Saddam?"

"Who's this?" Saddam asked.

"Osama."

"Omarosa?"

"No, Osama. Hold on while I try another spot... Can you hear me now?"

"Osama! What can I do you for?"

"Saddam, my buddy, my friend. You know that we've never quite seen eye-to-eye."

"That's because you're almost eight feet tall, you freak."

"That's what I like about you, Saddam, your sense of humor. And your desire to kill the infidels."

"What are you trying to butter me up for? I'm really busy. The American dogs are barking on my doorstep. I've got nerve gas, nuclear materials, smallpox and anthrax to pack up before they arrive and get it out of the country so they can't find it. There are banks to loot. I've got sons-in-law to behead. A dictator's work is never done."

"I hate to ask you, but I've got a plan to attack the Great Satan America, and I need a million dollars."

"A million dollars? Is that all? Pocket change. I can get you a couple of million and I'm sure there are others in the Middle

East that would kick in something."

"Good. Good."

"I can send you a truck full of cash a week from Thursday. By the way, I've got a question for you. You've evaded the Americans since you attacked the USS Cole. Do you have any suggestions on how I can hide from them if they invade?"

"Have you considered living in a hole in the ground? It's worked pretty well for me."

"I don't know. I've been living in palaces for a while. Living in a hole in the ground doesn't sound like much fun."

"What are you whining about? Try dragging a dialysis machine around from cave to cave while evading the Americans, then you should complain."

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