

## Don't Let Your Key Employees Jump Ship

Next-level management teams are the drivers behind building business value. But how can you and your advisors attract and keep next-level management teams? The answer lies within incentive plans.

When incentive plans are properly designed and implemented, your business has the potential to grow well after you sell. Well-executed incentive plans can motivate each member of your management team to measurably increase the value of your company.

It is recommended that incentive plans only reward key employees if the business value and/or cash flow increases by a predetermined amount each year. Each incentive plan should be customized to each key employees' role and responsibilities and incorporate these four basic elements:

1. Set performance standards that are tied to increasing the value/cash flow of the business necessary to meet your goals.
2. Create specific, attainable standards.
3. Implement substantial incentives and rewards if targets are met.
4. "Handcuff" your key employees, so to speak, to make the incentives so appealing that they are encouraged to stay with the company until goals are achieved.

Many owners create incentive plans or bonuses for their key employees so that key employees cannot obtain the bonus unless they stick around for a certain amount of time. This way, you can increase the chances that once the business is sold your key employees stay and continue to grow your business. This strategy "handcuffs" employees to the business by giving them greater access to compensation benefits the longer they stay. Having these types of plans in place may also increase the likelihood of a sale because potential buyers love to see trusted employees motivated to stay on and continue to grow the business.

Understand what motivates your employees. It might not only be a bonus of some kind. Think about promotions or other rewards. Are they interested in equity or cash? If your employees are not motivated to achieve their rewards, the incentive plan may become ineffective. The plan also becomes obsolete if the



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standards don't increase the value of the business.

Consider these various forms of incentive plan alternatives:

- Non-Qualified Deferred Compensation plans with incentive-based benefit formulas
- Stock Appreciation Rights plans
- Phantom Stock plans
- Cash bonuses (current and deferred)
- Stock bonus plans
- Stock option plans
- Stock purchase plans with or without minority discounts

Each of these types of plans has its own strengths and weaknesses. The lesson here is that there are a variety of types of incentive plans to choose from.

## **Building a Plan**

There are a few basic steps to follow when developing the right incentive plan. First and foremost, back up a step and identify your asset gap. By determining where you are today and where you want to be, in terms of business value, you can start establishing some goals, and then you'll design an incentive plan that is intended to help you meet those goals on your desired timeline.

Create personal and professional goals. Obviously, you will want to plan for the success of your business but making plans for your personal life after you leave the business will also help provide clarity to you and your team.

Build and train your management team to be trusted enough to grow the business after you leave. Ensure they have the ability, expertise, and most importantly, willingness, to grow the business at the rate necessary for you to achieve your goals and objectives.

Finally, uncover how you can utilize your management team to help you achieve these goals. Create effective incentive plans to increase business value and motivate your employees. Incentive plans not only benefit the key employees, but if designed correctly, they can benefit you as well as the new owner and the business well into the future.

No matter whom you choose as your successor, capable management that stays with the company after an owner's departure is an important element for a successful future.

We strive to help business owners identify and prioritize their objectives with respect to their business, their employees, and their family. If you are ready to talk about your goals for the future and get insights into how you might achieve those goals, we'd be happy to sit down and talk with you. Please feel free to contact us at your convenience.

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