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Exit Planning for Business Owners

The Ten Deadly Mistakes

Part Five:

The Company's Key Employee Quits, Taking the Best Customers and Employees with Him.

Now that we've looked at the first four deadly mistakes made in business, let's look at how to keep your key people on board and prevent them from taking customers and other employees with them if they do leave.

You work hard to train a key employee who can run the business as well as, if not better than, you. Now you want that person to stay for the duration, allowing you more time to pursue other interests. Your employee, however, may have other ideas. His resume has gained considerable value, and he's likely to consider other employment opportunities. How do you keep that person on board so he doesn't leave and take your best customers and employees with him? Short of making that person an equal partner, other incentives are available to help with this problem. First, however, you as the owner need to make a commitment to an incentive program for your key employees or the plan will not work.

While there are many options to choose from, the most common plans are:

- a. Cash bonus
- b. Stock bonus
- c. Combination of stock and cash bonus

Cash bonuses are commonly used to reward employees when certain criteria are met. These bonuses might be awarded for sales performance, creating and implementing cost-cutting measures, or boosting manufacturing production.

An advantage of stock bonus plans is the built-in protection they provide against “piracy” by a departing employee. Stock bonus plans are typically made part of an employee agreement that includes provisions wherein the employee agrees not to compete with the company or take any employees or customers with him should he leave it. Additionally, most are issued with restrictions that include a specific time period over which the stock is earned, a forfeiture provision should the employee leave the company before all of the stock is earned, and an agreement from the employee that earned stock will be sold back to the company if and when the employee leaves.

Despite its advantages, however, stock bonus plans are not practical employee-incentive measures for many companies. Unless a business owner is prepared to give up some equity in the business by taking on a minority partner, he should not consider this plan.

Francois L. Quinson of The Quinson Group, consultants to management, suggests the following other ways to keep employees:

1. Demonstrate to them that you value their contribution by telling them you do through regular, one-on-one performance development sessions, where you
 - review their performance;
 - give them constructive criticism;

- help them develop their capabilities for their own benefit and that of the company;
 - and, whenever feasible, outline an attractive career path.
2. Reward them through fair compensation that reflects their contribution to the company.
 3. Acknowledge publicly and promptly instances when they distinguish themselves on the job or in service to others.

Quinson advises that if you are consistent in doing these things it is highly unlikely your key employees will look for a better opportunity, and they are less likely to be tempted by an outside offer if they recognize that the grass on your side of the fence is at least as green.

Call Lou Kastelic at Jordan-Crandus, P.A. for a free initial consultation.

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