

Creating passionate employees

Try a strong ARM – attract, retain, motivate

Provided by Bob Rhyme

Most business owners would love to have employees who are as passionate about the company as they are. It makes sense: The future of a closely-held or family business depends on how securely its key employees are tied to it. But creating an environment where employees feel like owners doesn't happen overnight.

To ensure the continued success of a business, owners need to ARM – attract, retain and motivate – key employees who can help you grow and sustain their business. For many closely held companies, a well-designed compensation strategy that is directly connected to the growth plan of the business may be the answer. Here's why.

Many, if not most, businesses are sold to key employees. As a result, your ability to harvest the value of your business may be directly tied to the success of the people you leave running the company. But even in the instance of a third party buyer, the value of a business can be seriously hampered by the lack of a good management team. In fact, unless you have capable successors and employees, your closely held business may not survive your departure if key employees leave instead of adapting to new owners and management.

TYING EMPLOYEE'S INTERESTS WITH YOURS

The purpose of a key employee compensation plan is to put "glue in the seats" for those members of your management team who are critical to the success of your business. Equally important, its purpose is to provide a tool owners can use to identify current and future employees who thrive on peak performance and who have the ability to think and act like an owner – and therefore, have the potential to become one.

Of course, most employees recognize the bottom line to a company's success is, well, the bottom line. But it's also crucial that they understand how their contributions will help make that happen. A key employee compensation plan can help connect the dots between performance and results, providing a means to create and sustain long-term engagement.

KEY POSITION OR KEY EMPLOYEE?

The term "key employee" can mean different things to dif-

ferent people. Generally speaking, however, key employees typically possess these three vital qualities:

1. Their efforts have a direct and significant impact on the value of the business
2. Their talents, skills and experience would be difficult to replace; and
3. They participate in a meaningful way in the long-term success of the company

There are numerous methods for rewarding a key employee's commitment, loyalty and hard work. The most effective incentive plans are multi-layered, providing short-term compensation and, in the longer-term, deferred compensation and perhaps even a stake in the business.

But whether they are cash-based, equity-based or a combination of the two, effective incentive plans typically share five common features: (1) the rewards are substantial; (2) specific and measurable; (3) tied directly to an increase in the company's economic value and the owner's objectives; and (4) designed to vest over time.

MOTIVATIONAL TOOLS

There are few better motivators for retaining top performing employees than making them an owner. Stock ownership provides a "golden handcuff," tying a key employee's financial goals and other interests to the growth and long-term success of the company. Many owners of closely held businesses, however, don't want to involve employees in all the decision making for the business.

Rather than giving or selling shares outright to a key employee, many closely held companies reward key employees by allowing them to share in the success of the business through cash-based plans, such as bonus and/or profit sharing plans, which are offered when key employees meet measurable goals; non-qualified deferred compensation plans, which provide supplemental retirement benefits for a select group of employees; or so-called "phantom stock plans" that give rights to the appreciation in stock value rather than the stock itself.

SELECTING THE RIGHT PLAN FOR YOUR BUSINESS

Retaining key employees is crucial to growing the value of a business and to the owner's goal of one day harvesting that value. A well-designed key employee compensation program can ARM your business for success by helping you to attract, retain and motivate the employees who can make a measurable difference in your company's bottom line.

Each of these plans requires careful planning, however, to maximize their effectiveness and to make certain that federal regulations are satisfied. That's why it pays to speak with your attorney, accountant or financial advisor to learn more about how a key employee compensation plan can help your business survive and prosper into the future.