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## Securing Your Business & Key Employees With Vesting



Growing your business often relies both on your leadership skills and the ability of your employees to carry out your plans. As your business grows, it can become unwieldy to do everything by yourself. Having a strategy to keep your most important employees focused on achieving your goals could help you secure your business' success and avoid losing your best talent to other companies or, worse, competitors.

But how can you find ways to keep your most important employees engaged and motivated without breaking your own bank? The answer may lie in vesting strategies.

# The Power of Vesting

Most people understand the concept of vesting in terms of retirement accounts, particularly, their 401(k). But for business owners like you, vesting strategies can go well beyond having employees who simply stay with the company for many years.

Vesting could be a powerful strategy for business owners who want to achieve three important goals:

1. Stay in control of their businesses until they are ready to leave
2. Better ensure that their highest performers stay with the company
3. Attract outside talent

That's because, in the simplest terms, vesting strategies handcuff the company's most important employees, pay them more money when they achieve ambitious goals that benefit the business, and position the company for future growth even as a business owner considers their eventual exit.

Let's look at three elements of successful vesting strategies, how you might implement them in your company, and the benefits that they can bring if implemented properly.

## 1. Keeping the Key Employee

The vesting strategies that we are discussing today go beyond common vesting strategies that many companies use, such as 401(k) plans. These vesting strategies are aimed at key employees, which are the employees that your company absolutely cannot function without.

For example, if you have a sales director at your company that brings in 70% of all business, that employee is likely a key employee. This is an employee that you not only want to keep on the team but also continue to motivate to achieve even greater success for themselves and the company.

With this in mind, it is imperative that you know which of your employees are key employees before you begin creating vesting strategies to keep them in your company.

Determining which employees are key employees can be more challenging than it seems. It often requires business owners to determine what their long-term plans for their business are and how they will approach their inevitable exit from their business.

It is within this context that vesting strategies tend to have the most effectiveness. When you have a good idea about where you are and where you want to go, it can make it easier to determine which people and strategies you need to get there.

With this in mind, it could be a smart idea for you to connect with your Advisor Team to help you gain an objective understanding of which employees are critical to the business' success, whether you have the right employees to achieve your long-term goals, and how to attract outside talent to bolster your company's performance if necessary.

Once you establish which employees are best suited for a vesting strategy that takes your business to the next level, you can then begin the process of implementing a strategy.

## 2. The Handcuff

A major goal of implementing vesting strategies is handcuffing the company's most important employees. At the most basic level, handcuffing employees contains two important elements:

1. Establishing ambitious but realistic goals that employees must achieve within a certain long-term time frame to become eligible for the rewards of the vesting strategy
2. Offering a large enough sum of money (either as cash or stock, typically) to make achieving those long-term goals worthwhile

These goals are of equal importance. If the goals are too ambitious or unrealistic, it may cause employee burnout, which could lead to the employees leaving, which is what you were trying to avoid in the first place! On the other hand, if the goals are too easy to accomplish, it could lead to you and your company having to pay out money for tasks that simply did not require vesting strategies.

Likewise, if the amount of money isn't high enough, top employees may have no interest in the plan from the outset. If the amount of money you offer is too high, it could potentially harm your bottom line as employees achieve their goals.

Finding the sweet spot of the right amount of money for achieving ambitious goals could be a method for keeping your key employees onboard and motivated while growing your business.

The amount of money you offer and the goals that you establish for your most important employees vary based on your unique business situation. In many cases, your Advisor Team can help you establish an appropriate amount of money to offer, along with ideas for ambitious goals that will help you grow your business, to position yourself to successfully handcuff your most important employees to the business.

### 3. The Written Plan

Although the specifics about vesting strategies will depend on your unique business situation, successful vesting strategies tend to have one thing in common across all industries: They are delivered in writing.

Offering a written plan related to vesting strategies positions you to ensure everyone is on the same page, knows what the expectations are, and understands the consequences of achieving or failing to achieve the goals within the vesting strategy.

For example, you might offer one of your key employees stock options if the key employee can grow your company's market share by 40% over 5 years. Offering a written plan that describes the company's current performance and the tools that the employee has at their disposal to achieve their goals could help establish a baseline expectation for the employee.

Delivering vesting strategies in writing could also reduce disagreements related to the vesting strategy. Clearly defining expectations not only helps protect your business but also can reassure the employee that it's in the employee's interests to achieve your goals.

### Why Not Just Pay Them More?

A potential answer to the question "How do I keep my best employees motivated and onboard?" is to pay them more. However, simply giving employees more money up front can be fraught with risks. It may have negative impacts on your bottom line. It may not guarantee that your employees stay. In some cases, it simply may not be financially feasible.

Likewise, giving employees more challenges in the name of motivating them without an increase in their opportunities for more financial success can quickly lead to burnout and disillusionment. To avoid these potential pitfalls, many successful business owners rely on vesting strategies.

*We strive to help business owners identify and prioritize their objectives with respect to their businesses, their employees, and their families. If you have questions on this topic, we can help with more information or a referral to another experienced professional.*

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