

The objectives of recruiting a key executive from the marketplace are to make your business more profitable, to grow the company and / or to bring talent to your business that does not currently exist. You must design incentive plans that achieve those goals.

You will always be a slave to your business unless you have capable management in place to run the business when you are not there. If you someday hope to sell your business to an outside buyer, you will need to have solid managers in place to get serious consideration from an outside buyer. As is the case with many companies, the management team could someday become your buyers. If you want to transfer your business to your children, you will need key employees in place to assist them with the transition.

In order to attract the right person to your company, you must offer them an incentive plan that rewards them for efforts that increase the value / profitability of your business.

You should bonus a key employee for projects that they initiate. This could be an additional six percent or more of their base pay. When this key employee has a positive effect on the rest of the management team, pay them a bonus based upon that influence. This could be 10 – 20 percent of their base.

When hiring for key management, we find that most compensation packages combine base and incentives. Determine the incentive on the company's growth once that employee joins you. Decide how much you are willing to pay the right employee and then back into that figure.

For example, one effective concept is the Stock Appreciation Rights Plan. You create a benefit formula based on the growth of the company after the key employee joins. Most employees don't want ownership and the liability that goes with it; they just want the upside of ownership.

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Next, vest the employee. Example: your company is currently worth \$2 million. You will give 10 percent of the increase in value that the business experiences once the key employee joins you. The employee will be vested over years. If they leave the first year they only get 10 percent of the 10 percent, the second year 20 percent, the third year 30 percent, etc. Let's say the employee leaves you in five years and your \$2 million business is now worth \$3 million. You promised 10 percent of that increase to the employee (10 percent of the \$1 million growth). They are therefore, 50 percent vested so they would get 50K.

SAR plans are great incentives for key employees to grow your business. In essence, you only pay them if they grow the business.

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