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Protecting Yourself Against Employee Risk

Successful business owners constantly strive for growth. And when everything's humming along, it can be easy to think the good times will last forever. However, it's crucial to protect yourself, your company, and your future against employee risk throughout your growth and planning.

While it's likely that many of your employees are good people working in good faith, just one error or bad-faith employee can ruin years of planning. Today, we'll walk through a few ways to mitigate employee risk and the consequences of succeeding and failing in doing so.

Protecting Against Bad-Faith Employees

Key employees are those who consistently exceed expectations and tangibly affect company performance. You likely know how important it is to keep key employees on your team for the sake of your long-term success. But it's just as important to prevent key employees from wielding their power against you.

For example, a key employee might understand how important they are to the company and take advantage of it. One key employee working in bad faith can purposely sabotage your plans to get ahead for themselves.

In the worst cases, they may attempt to blackmail you if they know you need them to achieve your goals. For instance, if they find out you intend to sell your business on the condition that they stay, they may demand a slice of the sale price as a condition for staying, putting you in an impossible bind.

Protecting against these possibilities is paramount to your long-term success. You might consider implementing non-compete and non-solicitation agreements for your employees to prevent such issues from the outset, to the extent they are available for your company and the employee in question. That way, if an employee leaves on poor terms, you position yourself to take legal action against bad-faith actors.

You may also consider implementing more checks and balances in the critical functions inside your business. Having two different employees involved in essential tasks such as collecting accounts receivable, vendor contracts, or preparing financial statements can reduce an employee's temptation to engage in self-dealing or theft.

Retaining Great Employees

Even in less extreme circumstances, a key employee who threatens to leave can do irreparable harm to your planning. For instance, a key employee may tell you they received an offer from a company outside your industry. While that key employee may not intend to harm your business, simply leaving your company could harm it. They may also unwittingly position clients they brought on to leave.

In such cases—where a key employee might find a place to work that's a better fit for them—you might consider retaining them with a strong incentive plan.

With the right kind of incentive plan, you might reduce the likelihood of key employees leaving for greener pastures. However, the “right” incentive plan

depends on what your key employees want. While some may have interest in ownership, others just want more money. Likewise, you must make sure that what the key employee wants can ultimately contribute to your success.

In short, key employees are both a benefit and a risk. A strong incentive plan is one of the most direct and effective ways to increase the benefits they provide while decreasing the risk they'll try to leave for something better.

Repositioning Ineffective Employees

Even the best-intentioned employees can slow or stop your planning. For instance, you may have employees who always bring a can-do attitude but simply don't have the skills to help you achieve your goals.

It's important for you to find ways to have the best people making the biggest decisions for your company. That means avoiding the temptation to install people with the right attitude in positions that aren't the right fit.

For example, you may have a sales manager who's really nice and likeable, but who merely hits quotas every month when you need someone who can outperform those quotas. Relying on that person to drive sales performance may not be appropriate for your longer-term business goals, no matter how nice that person is.

Instead, you'd likely want to consider finding the right person—whether internal or external—to drive the results you need to achieve your goals. You can still find a more appropriate role for the nice, average performer. But simply installing people in positions that can affect your success because they're likeable can be an act of planning self-sabotage.

Planning Impacts Employee Risk

Planning can help you leverage your team's best qualities, and reduce the risk associated with some of the more negative aspects of human nature. Looking for ways that you can do both, through planning, can give you peace of mind and an advantage in a competitive world.

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.

Please contact Dan O'Brien for a free one hour consultation on your exit planning needs

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