

# Planning Needs and Opportunities for ESOP Companies That are Often Overlooked

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The Planning needs and opportunities that may be overlooked for ESOP Companies can be divided neatly into two categories;

1. Repurchase Liability
2. Strong Management Team Continuation/Succession

Both can be very important issues in any company that has adopted an ESOP but will vary in degrees between different companies. Every company that has adopted an ESOP should consider both of these issues and the degree that their company may be exposed if any member of the senior management team passed away unexpectedly or if a

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critical member of the leadership and management left the company or retired creating a void in leadership. These deaths or departures could have an unfortunate consequence on the ongoing health and vitality of the company. As it is with all businesses, management teams have their normal career cycles and must be continually renewed in order for a company to be an ongoing success. Planning for these events and cycles is the best approach.

The senior management team likely has been involved with the initial transition while implementing the ESOP. If that is the case, the success of the company and the decision to elect the

ESOP likely resulted from their strong leadership and determination.

It is also likely that the primary attraction to use an ESOP was for the senior ownership team to create a ready market for their ESOP shares. This is often the most common reason to choose an ESOP.

Just as with all successful companies, the next tier of leadership must be highly skilled with many of the same attributes as the previous leadership team possessed. This is the challenge all companies face. A company with an Employee Stock Ownership Plan is just as at risk of suffering a leadership void as a closely held company is, perhaps even more.

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When it comes to maintaining a strong leadership team that has "contagious enthusiasm", competing on salary and bonuses and even the prospect of a lucrative retirement might not be adequate.

Because this is such a universal concern in all companies, we have identified that establishing what we refer to as Career Leadership Incentive Plans are increasingly necessary and are a great investment in the success of the company.

These types of plans give the company a tool to identify and segregate the likely candidates for a growing career path with the organization and do it in steps that may continue to expand or not.

If the candidate doesn't continue to grow the value of the plan remains within the control of the organization and can be reallocated to the next candidate providing them with meaningful protection, meaningful benefit enhancements and a future incentive that they won't likely find with another employer.

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this fact, it makes good sense to create a segregated benefit of compensation planning that reflects the reality of the business model and rewards the individuals that create measurable results and the largest impact.

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The second planning category is liquidity or repurchase liability. A feasibility study should be done to determine the need to insure the employees/owners to provide the liquidity necessary for future repurchase obligations that might exceed the company's ability to otherwise fund the repurchase of shares from corporate cash reserves. This can be done by a third party administrator, an independent appraiser, the company itself, if it is comfortable enough with factoring in all potential variables, or some third party expert in this process.

These risks are completely measurable and can easily be insured. Consider how partners in business would have a buy/sell agreement and insure each other's life against the possibility of either of their deaths. The motivation of not being in business with your partner's spouse is perhaps the most common motivation in an Employee Stock Ownership Plan. The risk of suffering a liquidity crisis should be just as motivating.

ESOP Plans have been increasingly popular in recent years, in part due to the anticipated Baby Boomer exodus from business ownership and leadership roles.

Because of this, planning strategies haven't been as widely circulated as other more common business planning strategies.

As government mandates expand, it will also become increasingly important to apply strategic strategies that reward results and not simply time and effort.

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