

**EMPLOYEE OR PARTNER: HOW TO DECIDE WHEN TO MAKE A
KEY EMPLOYEE AN OWNER IN YOUR BUSINESS
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In most small to mid-sized businesses, the question arises at some point in the life of the business whether to bring in a new or additional partner to the company. Usually the question arises under one of two circumstances: (1) the employee is a dynamic rain-maker and you want to make sure he or she stays around; or (2) the owner or owners are beginning to look for an exit and want to find their successor who can maybe take them out of the business at some point.

The Rainmaker

Often your best employees are ambitious, hard-working individuals who want to be rewarded for their efforts. The best employees may push you beyond your comfort-zone in terms of compensation, not necessarily because you don't want to pay them, but because of the potential impact on other employees. They may also think they want to become owners without really understanding what ownership really means.

Generally, making a rainmaker a partner simply to try to keep her or him on the team is a bad idea. While making someone a partner does create some pull that can make it more difficult for someone to decide to leave, these type of employees are often driven by money are more than loyalty. Their ego and their personal drive and ambition, qualities that can make them great salespeople, may be qualities that make them a poor partner, where you will be looking for someone who want to put the best interests of the business over their own personal interests. With a hard-driving rainmaker who is most concerned with his own wallet, your better approach is to find creative ways to compensate him or her that both reward their efforts and create incentives your competitors will find hard to match.

The Successor

Identifying the person who can take over your business and buy you out is often a key goal of business owners. Be careful however not to over-estimate an employee's capacity in filling that role. As you know, being a business owner is a whole different game than being an employee. Does the potential successor have what it takes in terms of temperament, people skills and business savvy to step into a management role? Are they at a point in life where they are ready for that challenge? Is your company prepared to fill the void if you transition the employee out of their current position? Oftentimes the ability of an employee to pay for the purchase of the business is dependent on their ability to successfully operate the business after you are gone. Make sure your potential successor has the abilities necessary for all of the crucial aspects of your business.

An equally important consideration is whether it is realistic for an employee-successor to be able to pay full value for your business. While the concept of an employee as

successor is always worth considering and is sometimes the only way to “retire” for some business owners, in many cases there may be more money to be found from an interested competitor or outside investor. Selling your interest in your business in order to retire is first and foremost a financial transaction. Before you make a sentimental decision to try to continue the business through current employees, make sure you understand exactly what your business looks like in the marketplace and whether there may be more lucrative options available from outside the company.