

Case Study

Founders vs. Employees – Building Trust and Crafting a Succession Plan

Overview

- **Background:** The business was founded 30 years ago by four individuals with expertise in manufacturing and engineering. Over time, the owners hired key employees to manage sales, business development, and consulting. While the owners are largely absent from day-to-day operations, they maintain crucial relationships and have promised ownership interests to the key employees as recognition for their contributions.
- **Goal:** Develop a succession plan that compensates the owners fairly and establishes a clear path to ownership for the employees.

The Opportunity

The business is now run by the employees, with the owners pursuing other interests. Although the owners promised ownership stakes to key employees to acknowledge their role in the company's success, there was no clear plan in place. Over time, this led to frustration among the employees, who felt the owners' promises were not being fulfilled and viewed the owners as disengaged from the future of the company. The owners, on the other hand, had a specific valuation in mind but had not communicated this clearly with the employees, creating tension and mistrust.

The Solution

To resolve the conflict and build a comprehensive succession plan, we implemented the following steps:

1. **Stakeholder Meetings:** We conducted separate meetings with both the founders and employees to understand their goals, concerns, and expectations. It quickly became clear that there was a trust gap, exacerbated by unfulfilled promises regarding ownership.
2. **Trust Building:** The first priority was to rebuild trust. We facilitated multiple meetings with both groups to improve communication, address concerns, and identify areas of agreement. This open dialogue helped bridge the gap and set the stage for productive collaboration.
3. **Business Valuation:** With trust improving, we conducted an independent third-party valuation of the company. By providing an objective analysis, we helped both parties understand how a company's value is determined and how the buyout process works. This transparent approach allowed the owners and employees to align on a fair market value for the business.



4. **Succession Plan Development:** Once the valuation was agreed upon, we worked with both parties to create a cooperative structure within the succession plan. This plan enabled the owners to receive fair compensation for their shares while offering employees a clear path to ownership in the future.

The Result

- **Increased Trust:** Through open and honest communication, the owners and employees rebuilt trust. This fostered a more collaborative work environment, which led to improvements in operations, revenue, and margins.
- **Fair Buyout & Ownership Pathway:** The owners were compensated fairly for their shares, and employees were included in the ownership structure, making the transition smoother and more equitable.
- **Improved Employee Engagement:** The introduction of employee ownership helped boost morale and retention, attracting younger, dynamic talent to the company.

This case highlights the importance of clear communication, trust-building, and fair valuation in navigating the complexities of a business succession involving both founders and key employees.