A QUICK REFERENCE FOR BUSINESS OWNERS

Rewarding the Team That Helped Build It

Your options for recognizing key managers ahead of a future transition.

6 options to consider	3 stages in the decision	2 worksheets to help

OLIVEWOOD ADVISORS

INTRODUCTION

It does not have to be equity.

For many owners, a small group of people played an outsized role in building the company. They helped win important customers, developed employees and carried responsibility when the owner could not be everywhere. As you begin thinking about a future transition, it is natural to ask how those people should participate in what comes next.

There are several ways to reward key employees, keep them motivated and encourage them to stay through a transaction. The right structure depends less on finding the best plan and more on being clear about what you want the plan to accomplish.

It is also worth remembering that there may eventually be two parties designing incentives: you and the future buyer. What you put in place today should accomplish your objectives without unnecessarily limiting what a new owner may want to do after a transaction.

WHAT'S INSIDE

THE CENTRAL IDEA

You can address the team's contribution to getting here. The buyer will determine how it rewards them for where the business goes next.

Three different goals, often *confused.*

Most owners want some combination of all three. They are worth separating, because they do not call for the same incentive.

GOAL 01 · RECOGNITION

Reward what they already helped create

You believe several longtime leaders deserve to participate financially if the value they helped build is ultimately realized.

USUALLY POINTS TO

Transaction bonus, or a defined management pool

GOAL 02 · CONTINUITY

Keep them through a transaction

A sale process is demanding. Key managers become more important as buyers conduct diligence and build confidence that the company can run without you.

USUALLY POINTS TO

Retention or stay bonus, paid in tranches

GOAL 03 · VALUE CREATION

Motivate value before a sale

If the company may operate for several more years, you may want management focused on growing EBITDA, improving margins, reducing customer concentration or developing the next layer of leadership.

USUALLY POINTS TO

Value-creation pool, annual plan, or phantom equity

IF YOU WANT ALL THREE

Most owners do. That usually argues for two simple plans running alongside each other rather than one complicated plan trying to do everything.

At a *glance.*

The full page on each option follows. This is the view to keep in front of you when you talk it through with your advisors.

OPTION	WHAT IT REWARDS	STRONGEST WHEN	REAL EQUITY
01 **Transaction bonus**	A completed sale	You want the people who built it to share in the outcome	No
02 **Retention bonus**	Staying through a defined date	A process is underway and continuity is the risk	No
03 **Value-creation pool**	Value above an agreed threshold	You want performance and outcome rewarded together	No
04 **Annual performance plan**	Operating results, year by year	A transaction is still several years out	No
05 **Phantom equity or SARs**	Long-term appreciation in value	You want managers thinking like shareholders over years	No
06 **Actual equity**	Ownership itself	A sale is not reasonably foreseeable	Yes

THE PATTERN →

Five of the six accomplish something meaningful without issuing a single share. That is usually the right place to start when a transaction is possible.

01 Transaction or change-of-control bonus

A payment to selected employees if the company is sold. It might be a fixed dollar amount, a percentage of proceeds or a share of a defined management pool. For an owner whose objective is "if we sell this business, I want the people who helped me build it to participate," this is one of the most straightforward approaches.

WHY OWNERS CONSIDER IT

Easy to understand, requires no ownership, and ties the reward directly to a successful transaction.

WHAT TO THINK THROUGH

Define the qualifying transaction, the calculation, and what happens if someone leaves before closing. Watch the size: a payment large enough to fund retirement can undercut the goal (see below).

02 Retention or stay bonus

A reward for remaining with the company through an important period, whether that means staying through closing or remaining six, twelve or eighteen months afterward to support the transition. This becomes particularly useful once a sale process is underway and a few key managers matter to continuity.

WHY OWNERS CONSIDER IT

It gives important people a clear financial reason to stay engaged during a period that creates uncertainty.

WHAT TO THINK THROUGH

Retention and value creation are different objectives. A stay bonus keeps someone in the seat. It does not reward them for improving the company or achieving a better outcome.

SIZE IT CAREFULLY

A transaction bonus should reward the contribution, not fund a retirement.

Buyers read an outsized check to a key manager as a risk to closing, particularly for someone near retirement age. If the payment is large enough to make leaving affordable, a buyer will assume some of your team may do exactly that, and will look for retention or an earnout to protect against it. Paying part of it after a transition period keeps the incentive pointed the right direction.

03

Value-creation bonus pool

Rather than tying the incentive only to whether a transaction occurs, the pool is connected to the value ultimately created. It might grow as the transaction exceeds agreed enterprise-value thresholds, or track growth in EBITDA or another measurable objective.

WHY OWNERS CONSIDER IT

It rewards performance and outcome at once while you retain full ownership.

WHAT TO THINK THROUGH

The starting point and the formula carry the whole plan. A poorly built one creates confusion about how value is measured, or pays for outcomes management did not influence.

04

Annual performance or profit-sharing plan

If a transaction may be several years away, you may prefer to strengthen the company's existing annual program rather than create something tied to a sale. Bonuses can connect to EBITDA, revenue growth, gross margin, working capital, customer retention, or a mix of company and individual objectives.

WHY OWNERS CONSIDER IT

It keeps management focused on running and improving the business regardless of whether a transaction ever happens.

WHAT TO THINK THROUGH

It rewards operating performance without giving longtime managers a stake in the value realized at a sale. Many owners pair it with a separate transaction incentive.

WORTH NOTING

A strong annual plan is also diligence-friendly. It shows a buyer the team is already managed to measurable objectives.

05

Phantom equity or stock appreciation rights

Economics that resemble ownership without issuing actual shares. Depending on the structure, an employee participates in the company's value or in appreciation above an established starting point. For owners who want management thinking like shareholders over a longer period, this can be attractive.

WHY OWNERS CONSIDER IT

Meaningful long-term alignment without the governance implications of adding minority shareholders.

WHAT TO THINK THROUGH

These require careful legal, tax and accounting design. Valuation methodology, vesting, termination provisions and payment triggers all need to be defined clearly.

06

Actual equity

You can also issue or sell real ownership interests to key managers. For the right company and the right leadership team, genuine ownership creates powerful alignment. If a sale is reasonably foreseeable, though, the decision deserves careful consideration before you proceed.

WHY OWNERS CONSIDER IT

Management participates directly as shareholders and shares meaningfully in future appreciation.

WHAT TO THINK THROUGH

New shareholders introduce governance, tax, documentation and transaction considerations. If the objective is simply to reward several people when the company sells, there are less complicated ways to do it.

THE TEST

Before issuing shares, ask what real ownership accomplishes that a well-built pool would not. If the answer is not immediate, the pool is probably the better instrument.

Think in three *stages.*

Rather than solving every objective with one plan, it helps to see management incentives across the life of a transaction. Notice the bottom row in particular.

	STAGE ONE Before	STAGE TWO At closing	STAGE THREE After
OBJECTIVE	Build value and retain key people	Reward contribution and get through closing	Align management with the next owner
TOOLS THAT FIT	Annual incentive, profit sharing, value-creation pool, phantom equity	Transaction bonus, change-of-control payment, value-based pool	Retention bonus, new compensation plan, rollover or management equity
WHO DECIDES	**You**	**You, with buyer coordination**	**Increasingly the buyer**

KEY Your decision The buyer's decision

WHY IT MATTERS

Trying to design all three stages today creates complexity you do not need. Stage three is not really yours to build.

Two buyers, two different *futures* for your team.

You will not know which one you are dealing with until you are well into a process. That is precisely why the part you control should not depend on it.

IF THE BUYER IS PRIVATE EQUITY

Management is part of the thesis

For many sponsors the leadership team is central to the investment, particularly when the current owner plans to step back.

A sponsor may build new arrangements for key leaders combining market salary, annual bonus, retention incentives and longer-term equity participation.

Selected managers may be offered the chance to invest alongside the sponsor or join a management incentive pool. If the company grows and sells again, that can become another meaningful wealth event.

YOUR CAUTION

Specifics vary widely by buyer and deal. Do not promise employees today that a future sponsor will offer equity or any particular package.

IF THE BUYER IS STRATEGIC

Roles are less predictable

A strategic acquirer views the team differently. Some leaders are highly valuable for their customer relationships, operating knowledge or industry expertise.

Others hold positions that overlap with functions already present inside the acquiring company.

As a result, post-close roles and compensation are harder to anticipate. Some managers gain larger responsibilities and real career opportunity. Others may have shorter transition roles.

YOUR CAUTION

This is the clearest reason not to rely on a future buyer to reward a handful of people for what they helped you build.

THE LINE TO HOLD

You can address the team's contribution to getting here. The buyer will determine how it rewards them for where the business goes next.

The practical answer is usually *two layers.*

For an owner contemplating a sale without a defined buyer or structure, there are real advantages to keeping this simple.

One
REWARD THE OUTCOME

A transaction bonus or management pool

Selected leaders participate financially if a sale occurs. If you want, the pool can provide additional upside when value exceeds agreed thresholds. This is the layer that recognizes what has already been built.

Two
PROTECT CONTINUITY

A separate retention component

This rewards important managers for remaining through closing or another agreed period. Keeping it separate from layer one means each does one job, and each is easy to explain.

Later
LEAVE TO THE DEAL

The post-close package

Once a buyer is selected, this gets addressed as part of the transaction. Private equity may bring management equity or other long-term incentives. A strategic buyer will likely have its own compensation and retention programs.

THE BENEFIT

You accomplish something meaningful for the team without trying to anticipate every decision a future owner will make.

What you say, and *when.*

Design and timing belong in the same conversation. A plan communicated at the wrong moment signals more to the organization than you intended.

STAGE ONE

No sale contemplated yet

Introducing a “transaction bonus” now communicates more than you intend. Frame the conversation around long-term value creation, retention and performance, without tying it to a sale.

WHO KNOWS

You and your advisors

STAGE TWO

A transaction becomes likely

A small number of key managers may need to know more. They will help assemble information, participate in diligence, meet buyers and carry extra responsibility while still running the business.

WHO KNOWS

A deliberately short list

STAGE THREE

Those people are carrying the process

At that point, clarity about how they will participate becomes valuable rather than risky. Put it in writing.

WHO KNOWS

The same list, in more detail

THE OBJECTIVE

Give important people confidence and alignment without creating uncertainty across the broader organization.

Who is actually on the list?

Name them before you design anything. Keep the group intentional rather than extending it to every manager by default. The last two columns are where the real decisions get made.

NAME	ROLE	WHY THEY ARE ON THIS LIST	REWARDING THE PAST, STAYING, OR GROWTH	SHARE OF POOL
01				
02				
03				
04				
05				
06				

NOW SIZE IT, UNDER THREE OUTCOMES

	LOWER OUTCOME	EXPECTED	STRONG OUTCOME
Enterprise value			
Total pool, in dollars			
Same pool, as a percentage			

BEFORE YOU MOVE ON

Look at the dollars and the percentage together. Owners are often comfortable with one and surprised by the other.

A few things worth settling first.

Your legal and tax advisors can structure and document almost anything. These are the decisions that are yours to make, and having them thought through makes that conversation a much shorter one.

1	**Who am I trying to reward?** Keep the group intentional rather than automatic.	
2	**What am I rewarding them for?** Past contribution, future performance, staying through a transition, or a combination.	
3	**How much value am I comfortable sharing?** In dollars and percentages, under several potential outcomes.	
4	**When should they earn it?** Over time, at closing, after a transition period, or across milestones.	
5	**What happens if someone leaves?** Voluntary departure, termination and retirement, decided in advance.	
6	**What do I want the future buyer to control?** Preserve enough flexibility for a buyer to build its own program.	
7	**When should I tell the team?** Aligned with your broader succession and transaction plans.	

THEN HAND IT OVER

With these seven answered, your advisors can determine the appropriate structure and document it correctly.

IN CLOSING

Reward the journey behind you. Leave room for the one ahead.

No single incentive structure fits every privately held company. But for most owners the underlying objective is the same: recognize the people who helped create the value, keep them engaged through an important transition, and give them reason to be excited about what comes next.

None of that requires solving every question of management ownership today. When a transaction is possible, preserving flexibility has real value. You can decide what feels fair for the journey already taken and build incentives around the work still ahead. When the eventual buyer enters the picture, the next chapter of management compensation gets designed with the actual buyer, capital structure and roles in view.

That lets you reward the team meaningfully today without making decisions that properly belong to tomorrow's transaction.

A LAST THOUGHT

Most owners already know who these people are. They have known for years. Putting something in writing is less about designing a plan than about making sure what you have always intended for them actually happens.

This guide is intended as a practical framework for considering management incentives, not legal, tax or accounting advice. Tax, employment, securities, ERISA and accounting implications vary by structure and circumstance. Specific arrangements should be developed with the company's legal and tax advisors.