

## *Ten Things We Learned from Working with ESOPs*



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**In the right set of circumstances, an ESOP can be a great tool for a company. Cornerstone has had the opportunity to work with clients who were instituting or disassembling an ESOP. From our experiences we have provided the following items that we have learned.**

- To successfully operate the ESOP, be prepared to manage more complexity than some advisors inform you about when you are considering adopting an ESOP. From rebalancing, redemption, recycling, to diversification, there are many things with which to become familiar.
- While there is a legitimate role for adding non-qualified arrangements, avoid putting in place non-qualified arrangements for top management that are excessively generous. We believe that doing so can defeat the underlying philosophy of the ESOP and cause its potential benefits not to be realized.
- Spend time upfront and throughout the life of the ESOP generating a deep understanding of the demographics of your workforce, with a focus on when diversification and retirements might occur. This will be very helpful information as you prepare your financial forecasts.
- Begin to quantify and potentially fund the repurchase obligation early in the life of the ESOP. Forewarned is forearmed, and these steps will help the company to avoid adversely affecting its ability to grow once stock repurchases commence. However, discuss with the valuator the impact of any such funding on the valuation, as advance funding typically elevates the company value.
- Be conservative with regard to establishing plan parameters such as the period of time over which the company stock would be allocated to the employees. You can always accelerate the allocation time period, but once established it cannot be extended.
- Be prepared for significant up-front costs to put the ESOP into place. While annual operating costs are not quite as heavy, they still must be estimated and considered.
- An ESOP is a specialized plan that requires applicable knowledge and experience. Select your advisors (including your Board of Directors and Trustees) accordingly.
- If you are not prepared to commit to ongoing communications with the employee base about the ESOP and the company, maybe you should rethink committing to an ESOP. Such communications are essential to realizing the full potential with the ESOP.
- Ensure that you spend time before you formally commit to an ESOP in order to build your strategic vision and related plans for the company. Confirm that an ESOP formation fits into your vision. Also, if significant problems are present in the company, fix them before you even think about adopting an ESOP.
- Succession planning is vital in order to ensure that the business and the ESOP continue to operate successfully. Strength in talent development and retention is required to do this well. If you are not strong in this area, consider securing these resources externally early in the ESOP formation process.

**If you would like more information about succession planning, assessments, or any of our other services, please email [info@cornerstoneadvisors.com](mailto:info@cornerstoneadvisors.com)**

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