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Exploring Employee Terminations in Search Fund–Acquired Companies and Small Businesses

Firing employees is an inevitable part of the CEO role; CEOs must do it fairly and well to prevent further friction

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Being a search fund or small business CEO is filled with many fun and intellectually challenging functions. Crafting a guiding strategy, arranging the capital structure, and winning new customers are all engaging aspects of leading a company. Unfortunately, many mundane aspects of CEO life are unavoidable, too. Dealing with irate customers, managing the down network fire drill, and addressing the ERP implementation that did not go quite as well as planned are all inescapable CEO tasks. There is an additional unpleasant challenge that entrepreneurship through acquisition (ETA) CEOs are fated to tackle: terminating employees.

Unfortunately, if a business has employees, the point will almost certainly come when the CEO needs to terminate someone. This is undoubtedly one of the worst CEO experiences imaginable. It is awful for both the employee and the person delivering the terrible news— especially in a small business where there are many personal connections. Furthermore, there are repercussions and an emotional toll for the rest of the employee team who see a co-worker dismissed. However terrible the situation is, it is inescapable, and, because many ETA CEOs are young, inexperienced, first-time executives, they may likely have never previously terminated an employee before ascending to their fresh CEO role.

Small businesses experience both voluntary (when someone quits) and involuntary (when someone is terminated) turnover. This note focuses on involuntary turnover, particularly one-off terminations driven by performance issues rather than economic factors.

Anecdotally, we do not know a single ETA or small business CEO who has not had to fire employees. As the business ages and scales in headcount, CEOs gripe about more firings. We are not gamblers, but we would bet heavily that search fund CEOs will terminate plenty of employees in their leadership stints. That feels like a certainty. If it is indeed an inevitability, CEOs might as well develop firing skills, understand the issues surrounding the topic, and know how to do it well and fairly.

A business maxim often cited in the ETA ecosystem is to hire slowly and fire fast. Perhaps this aphorism influences the media's perception of terminations. Typically, in movies and television shows, a boss impulsively bellows to an underling after an infraction, "You're fired!" This Hollywood version of employee relations is hardly an accurate depiction of reality. Terminating an employee actually unfolds over weeks and months, often with meticulous planning and well-scripted procedures. It is not nearly as dramatic as Hollywood implies. While we agree with the notion of firing fast when a person is not working out, it is often only done after a complicated dance of preparation.

We colloquially refer to employee terminations as firing someone. The origins of this phrase are not perfectly clear, but according to urban myth and investigations into its meaning, it appears to be derived from a 13th-century English tradition for how to treat people who did not satisfactorily contribute to their working community. In that situation, the offender was burned out of their home and set adrift from the community—the ultimate indication that one is neither wanted nor needed.[3] Firing someone in any context is a burdensome endeavor that is not to be taken lightly. It can be devastating to the firee, and it is also awful for those witnessing the firing.

There are multiple dimensions that ETA and small business CEOs must consider when contemplating an employee termination. Whether or not the CEO is specifically involved in the process (they will absolutely be in some circumstances), they must still design an organizational approach to this function. In this note, we will explore several concepts that can serve as a primer for ETA and small business CEOs when approaching the topic of employee termination. It is not our intention to pretend we are labor lawyers providing legal advice; we are not lawyers, and we will share some directional perspectives, but they are not legal advice. We will explore some technical components of this sticky theme, and we will attack a few qualitative dimensions, too. Specifically, this note will explore the five vectors detailed in **Figure 1**. Although no guidance can remove the difficulty of firing someone, this note provides best practices to make the process more structured and empathetic, benefiting all parties involved.

Figure 1: A quintet of topics we will discuss in this note

- **01** **The most important question to ask**
- **02** **When to terminate an employee**
- **03** **How to terminate an employee**
- **04** **Risks to contemplate**
- **05** **Legal considerations**

We do not take this topic lightly, and we think of employee termination as a last-resort option when all other choices have failed. Terminations produce many ripples, including significant financial implications. Terminating an employee is a decision that extends far beyond the immediate conversation or paperwork. For organizations, the economic and operational consequences of firing can be profound, while the undulating effects on morale and productivity often linger long after the employee has left. These costs, both direct and indirect, highlight why firing should always be a last option.

Consider the immediate financial burden. Many employers, even when it is not legally required, offer severance packages to departing employees to ease the transition and minimize potential legal disputes. These packages, which commonly range from one to two weeks of pay for each year of service, can quickly add up. For example, an employee earning $1,000 a week over five years might be entitled to a severance of $5,000 to $10,000.[4] For smaller businesses, these expenses can pose a significant financial challenge, especially when compounded by additional obligations like accrued benefits. If that same employee had 80 hours of unused vacation time at an hourly rate of $25, the company would owe another $2,000—costs that are often overlooked when managers consider termination as a solution.[5]

Beyond severance and benefits, compliance with laws like COBRA[*] adds another layer of complexity. Companies with 20 or more employees are required to offer former employees continued health insurance coverage, a process that demands administrative oversight and resources.[6] Employees have 60 days to enroll in COBRA, and while COBRA is temporary, in most circumstances, former employees can stay on COBRA for 18 to 36 months. While the former employee typically pays the premiums, managing compliance can strain smaller HR departments that are already juggling multiple responsibilities.[7] For companies unprepared for these obligations, even the smallest misstep can create unnecessary expenses or legal complications.

Then, there is the potential for legal disputes,[8] which are among the most daunting aspects of termination. Defending against claims of wrongful termination—even when the employer ultimately prevails—can cost tens of thousands of dollars and absorb significant time and energy. Beyond the legal fees, there are administrative costs tied to the termination process itself, from processing final paychecks to updating internal records. Each step requires careful attention, further straining already stretched teams.

However, the impact of firing does not end with dollars and logistics. The emotional and cultural toll on the workplace can be equally damaging. The departure of a colleague, particularly one who may have worked closely with others for years, often leaves teams feeling unsettled. Productivity can dip as remaining employees absorb the emotional weight of the decision and grapple with fears about their own job security. Over time, these factors can erode trust in leadership, creating a workplace where employees feel disengaged and less willing to take creative risks.[9]

Replacing the terminated employee brings additional costs. Recruitment and onboarding are not just time-consuming—they are expensive. According to estimates from the Society for Human Resource Management, it can cost six to nine months of an employee's salary to find and train their replacement. For a $60,000-a-year position, that is an investment of $30,000 to $45,000.[10] Yet even these numbers fail to account for the loss of institutional knowledge that leaves with the departing employee. Such losses can disrupt workflows, hinder innovation, and leave organizations scrambling to regain their footing.[11]

Poorly managed terminations can also have lasting cultural consequences. A company that regularly cycles through employees or mishandles dismissals sends a powerful, if unintentional, message to its workforce: You are expendable. This sentiment can drive talented employees to seek opportunities elsewhere, further compounding turnover and making it harder to build a cohesive, motivated team. Employees who stay often grow cautious and become reluctant to take risks or innovate out of fear of making mistakes that could jeopardize their positions.

All told, firing an employee should not be taken frivolously and should be perceived as a final step when rehabilitation and corrective actions have failed. It is not a simple process and there are material quantitative and qualitative costs to consider. In other words, the bar for a separation needs to be pretty high.

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[*] Consolidated Omnibus Budget Reconciliation Act.

The most important question to ask

When deciding to terminate an employee, a CEO must first ask: “Why are we firing this person?” This fundamental question shifts the focus from solely evaluating the employee’s performance to considering whether the organization’s systems, processes, or leadership practices contributed to the situation at hand. A reflective approach not only promotes accountability but also reduces the likelihood of similar issues recurring in the future.

A CEO’s responsibilities extend beyond strategy setting to creating an environment where employees can thrive. This involves ensuring that hiring practices are robust enough to select candidates who align with the company’s needs, with regard to both skills and cultural fit. Missteps during recruitment often set the stage for later difficulties. Similarly, onboarding and training programs must adequately prepare employees for their roles. If employees are not provided clear expectations, proper mentorship, or sufficient training, they are likely to struggle, regardless of their potential.

An underperforming sales representative, for instance, may be struggling not due to a lack of effort or capability but because they lack access to a customer relationship management system or sufficient training and coaching to meet targets. Beyond individual resources, CEOs should assess whether broader team dynamics or systemic issues, such as poorly distributed workloads or conflicting priorities, have contributed to the employee’s difficulties.[12]

This process of reflection—asking “Where did we go wrong?”—helps uncover gaps in the company’s structure or leadership. By taking accountability for organizational shortcomings, CEOs can reinforce a culture of continuous improvement. Such an approach not only helps prevent future missteps but also demonstrates to employees that leadership is committed to fairness and learning. Importantly, this perspective aligns with research emphasizing the importance of transparent and structured termination processes.[13] Thoughtful reflection on leadership’s role fosters trust, preserves morale, and ensures that decisions are viewed as just and measured. While the entire blame for an employee separation cannot rest with the company and CEO, at least some of it does. If an employee is being dropped, the company is responsible for at least some of the failure.

Four critical areas (**Figure 2**) are frequent points of breakdown that can set employees up for difficulty from the start. Addressing these systemic issues not only reduces the likelihood of underperformance but also strengthens organizational stability by fostering an environment where employees are positioned to succeed. Recognizing and correcting these failures ensures that dismissals are reserved for genuine cases of misalignment, while helping to build a culture of accountability and continuous improvement.

When considering these four critical areas, it is vital to remember that building a balanced and effective team requires leaders to recognize that not every employee will be an “A player,” nor should they need to be. Instead of striving for uniformly high achievers, successful organizations embrace the value of diverse strengths, understanding that steady, reliable performers are just as critical as top-tier talent. Especially in small businesses and search funds, an overemphasis on finding exceptional performers can lead to unnecessary turnover and the loss of employees who contribute meaningfully, albeit quietly. Effective leadership involves identifying and developing potential across all levels, offering opportunities for growth, and creating an environment where “B players” can evolve into strong contributors.

Ultimately, effective termination decisions rely on balancing individual accountability with organizational self-assessment. Firing should always be a last resort, pursued only after exploring whether the organization has done everything possible to enable an employee's success. By prioritizing introspection and improvement, leaders can ensure that such decisions align with both ethical practices and strategic objectives.

Figure 2: Key areas of potential company failure

- **01 Employee selection**
- **02 Onboarding and training**
- **03 Compensation and motivation**
- **04 Coaching and remediation**

01 *Employee selection*

Selecting the right candidate involves more than simply checking off skills and experience; it requires ensuring that the candidate aligns with the company's values, team culture, and role expectations. When hiring decisions are rushed or based on incomplete assessments, new hires may find it difficult to meet the demands of the position or integrate smoothly into the team. Issues arise if a candidate's working style or personality clashes with the company's environment, even if they possess strong skills. Such misalignments often lead to underperformance, creating the need for future corrections or, ultimately, dismissal.[14]

02 *Onboarding and training*

A structured onboarding process is vital for setting new employees up for success. If the onboarding experience is brief, disorganized, or fails to clarify expectations, employees may lack essential knowledge, skills, or direction. Incomplete training can leave new hires confused or unsure about key processes, leading to a slower adjustment and higher error rates. This lack of preparation often impacts an employee's ability to perform well, making it difficult to recover later and increasing the likelihood of prolonged struggles that may eventually lead to an involuntary separation.[15]

03 *Compensation and motivation*

Compensation has a significant impact on employees' motivation and job satisfaction. When pay is below market standards or does not clearly reflect an employee's contributions, it can lead to feelings of underappreciation and disengagement. Ambiguous compensation plans, such as unclear performance incentives or overly complex bonus structures, can further discourage employees, eroding motivation. Employees who feel their compensation does not match their efforts are often less productive and may seek opportunities elsewhere, which can lead to higher turnover and costly rehiring.

04 *Coaching and remediation*

Ongoing feedback and guidance are essential for helping employees identify areas for improvement and build the skills they need to succeed. When managers provide consistent coaching, employees have the chance to address issues before they escalate. However, if support is lacking or feedback is inconsistent, employees may remain unaware of performance gaps, leading to repeated mistakes and unaddressed weaknesses. Structured support, such as Performance Improvement Plans (PIPs), can help employees get back on track, but without these opportunities, minor issues can accumulate over time, ultimately leading to termination as a pis aller.[16]

When to terminate an employee

The decision to terminate an employee is complex, requiring leaders to carefully weigh both quantitative and qualitative considerations. Clear evidence of underperformance or a lack of fit must be paired with a structured and transparent process, ensuring fairness and minimizing risks. By identifying unfixable performance gaps and exhausting all avenues for improvement, leaders can approach termination as a process that serves the best interests of both the organization and the terminated employee. We identify three specific catalysts for when a CEO and company should move towards a termination (**Figure 3**).

Termination should always be viewed as a final gambit, pursued only after genuine attempts to support the employee's growth have been made. Leaders who approach the situation with transparency and fairness can ensure that their decisions are justified and defensible. If, despite these efforts, performance fails to improve, termination may be unavoidable to prevent further strain on team morale, resources, and overall productivity. This approach ensures that every option for resolution has been explored, underscoring the organization's commitment to fairness and integrity in its decision-making.

Figure 3: A trio of reasons to begin an employee termination process

01 **Performance has declined enough to warrant attention**

02 **Core job requirements remain unfulfilled with no realistic prospect of improvement**

03 **Exhaustive efforts have been made to improve performance**

01 *Performance has declined enough to warrant attention*

An employee's declining productivity, disengagement, or behavior misaligned with company values often signals underlying performance or fit issues. These concerns might manifest through missed deadlines, frequent conflicts with colleagues, or disruptive behavior that hinders team morale. Such signs warrant immediate attention and intervention to determine whether the issues are temporary or indicative of more profound incompatibilities.[17]

02 *Core job requirements remain unfulfilled with no realistic prospect of improvement*

Consistently failing to meet the fundamental requirements of a role is one of the most apparent reasons to consider termination. Persistent performance gaps—such as a sales representative who fails to meet quotas or a project manager who repeatedly misses critical deadlines—can undermine team productivity and hinder organizational goals. Before concluding that an employee cannot meet expectations, leaders must ensure that the individual has received sufficient support, such as access to training, mentoring, and adequate resources.[18]

03 *Exhaustive efforts have been made to improve performance*

Termination should only be pursued when all reasonable measures have been taken and the employee is still unable to fulfill the role's core competencies. If there is little to no realistic prospect of improvement despite these efforts, retaining the employee may place an undue strain on resources and morale. In such cases, termination becomes the best option to protect the interests of the team and the organization as a whole.[19] Structured interventions, such as PIPs, provide a formal framework for addressing performance issues and setting clear, measurable goals. When using a PIP, allow sufficient time. Thirty days is typically too short for improvement, but 60–90 days is sufficient and more common. Targeted training and role adjustments can also help employees address weaknesses and contribute more effectively.

How to terminate an employee

Separating an employee is not as simple as just conveying the painfully bad news. It is actually a well-orchestrated process involving multiple steps. Many of those steps take place in advance of the actual conversation when the news is delivered. While no amount of preparation and planning can altogether remove the pain and risk of firing a team member, the action steps we discuss below can help make the process smoother and tamp down some of the potential perils. In this section, we will discuss six elements to consider when moving towards a termination (**Figure 4**).

Figure 4: A sextet of steps to help facilitate the termination process

01 **Reviewing the employee handbook and company policies**

02 **Deciding whether a lawyer is necessary**

03 **Practical preparations – managing system credentials and assets**

04 **Conducting the termination meeting**

05 **After the meeting**

06 **Terminations in a remote world**

Like many things in life, terminating an employee is mostly about steps taken *before* the actual event. By doing the appropriate homework and establishing a foundation of what needs to be done prior to the separation, the CEO and company pave the way for a polished and less emotional conversation.

The person tasked with firing an employee is likely to feel rattled, apprehensive, or nervous, emotions that are natural but can lead to skipping important steps in the process. These feelings heighten the risk of mistakes, such as overlooking key details or mishandling the conversation. Proper preparation, including rehearsing the discussion, using detailed checklists, and ensuring the presence of a second person to observe and document, helps mitigate these risks. Partnering with a Professional Employment Organization (PEO)[20] can also provide guidance and structure, ensuring the process is handled professionally and consistently. We will now enumerate a handful of termination steps that are best practices.

01 *Reviewing the employee handbook and company policies*

One of the first and most essential steps in this process is revisiting the employee handbook. It might seem mundane, but this document often carries more weight than we realize. Courts have treated employee handbooks as quasi-contracts in some cases, meaning the words on those pages could bind the company to specific procedures.[21] If the handbook outlines steps like issuing written warnings or implementing a PIP before termination, skipping them could lead to significant legal risk. More importantly, it would cause the company to fail the fairness test—something every leader should prioritize.

Then there is the question of documentation. If a CEO has been honest with themselves, they have likely seen the signs of trouble long before arriving at the brink of termination. Have they communicated those concerns? Given formal warnings? Perhaps even put the employee on a PIP?[22] A PIP, while dreaded by many, is not just a bureaucratic box to tick—it is an opportunity. It says, “We see potential here, but things have to change.” It gives the employee clarity, a timeline, and support to succeed. And for a leader, it builds a record that says, “We tried.”

The handbook is also a tool for consistency. Every organization develops a rhythm for how it handles performance issues and terminations, and the handbook reflects that rhythm. Reviewing it ensures the company is not making exceptions or setting precedents that could come back to haunt it later. Employees notice when policies are unevenly applied, and nothing erodes trust faster than inconsistency.

But this is not just about legality or optics—it is about doing what is right. Employee handbooks often house guidelines that protect employees against discrimination and provide paths for them to voice grievances. By adhering to these guidelines, the CEO signals that the organization values fairness and transparency. It is not just about avoiding lawsuits; it is about treating people with dignity.

Paperwork and plans, however, are only half the equation. There is a human side to this process that cannot be ignored. Open discussions are where it often begins—not a tense, one-sided critique, but a genuine conversation. “Here’s what I’m seeing. How do you see it?” These moments, though sometimes uncomfortable, allow for a mutual understanding to emerge. Sometimes, the employee doesn’t even realize the gravity of their underperformance. Other times, they will share struggles the firm could not have known about—personal issues, unclear expectations, or even feelings of being set up to fail. These talks can shift the trajectory entirely or reinforce that a change must occur.[23]

As the CEO or manager follows these steps, they should take a moment to reflect. What message is the organization sending to the rest of the team? If people know the process was thorough and transparent, they will trust that decisions in the enterprise are fair. They will see that the CEO has taken every measure to address issues before making the hard call. This matters—not just for morale but also for the culture most ETA CEOs are trying to build.

02 *Deciding whether a lawyer is necessary*

Even the most thorough preparation cannot guarantee smooth sailing—especially in situations that are unique or unfamiliar. If this is a CEO's first time navigating a termination or if there are unusual circumstances, consulting a lawyer can help ensure the right steps are being taken. Legal expertise can provide clarity, reduce risk, and help the CEO approach the situation with confidence.

Generally, ETA entrepreneurs engage employment counsel to provide preventive guidance by reviewing employee handbooks, advising on terminations, drafting employment agreements, and setting policies related to performance improvement plans, compensation, and disciplinary actions. They also depend on attorneys for dispute resolution strategies involving severance, separation agreements, or settlement offers. In addition, employment lawyers support training and compliance efforts by helping management and HR teams adopt best practices for hiring, discipline, and termination, thereby avoiding potential pitfalls.

Navigating the legal complexities of an employee termination requires the proper legal support to ensure compliance and alignment with the company's values. When choosing a lawyer, consider several key factors. Start with general fit—the lawyer should align with the organization's mission and values, understanding how fairness and compliance shape decisions. Their reputation among peers and clients will provide a strong indicator of expertise, while their style should balance clear, actionable advice with approachability. Availability is crucial, as terminations often require swift action, so ensure they can respond promptly. Look for domain expertise relevant to the company's industry, as specific sectors, such as healthcare or technology, have unique legal nuances. Finally, consider cost, ensuring their pricing aligns with the enterprise's budget and the scope of services the organization requires. Balancing these factors will help locate a lawyer who not only minimizes risk but also upholds a commitment to ethical and thoughtful decision-making.

03 *Practical preparations – managing system credentials and assets*

When an employee leaves an organization, especially under challenging circumstances like termination, one of the most crucial yet overlooked tasks is managing system credentials and reclaiming company assets. This is not just about logistics; it is also about protecting the organization while ensuring the offboarding process is handled professionally and respectfully. A seamless, well-organized process can reduce stress for everyone involved and maintain trust within the remaining team.

The first step is addressing system credentials. Modern businesses rely heavily on digital tools, and an employee's departure means their access to these systems must be revoked promptly. Using onboarding and offboarding software can make this process far more efficient.[24] Tools like Okta Workforce Identity and CyberArk can deactivate email accounts, revoke system access, and update directories with just a few clicks. For companies with more complex workflows, platforms like BetterCloud provide detailed offboarding checklists, ensuring that no system or access point is overlooked.

Think about the sheer number of systems an employee might use: email and communication platforms like Outlook, Slack, or Teams; cloud storage systems like Google Drive or Dropbox; and customer management tools like Salesforce. Each of these must be accounted for and secured. It can feel overwhelming, but having a detailed plan ensures that nothing slips through the cracks.

Beyond digital tools, there is the tangible, physical side of offboarding: reclaiming physical and digital assets. Teams may forget to retrieve items like laptops or ID badges, leading to unnecessary follow-ups and sometimes even security risks. Laptops, phones, credit cards, and even uniforms need to be returned promptly. Digital storage devices, like USB drives and external hard drives, are equally important, as they could hold sensitive company data.

It is easy to focus on digital security and hardware, but manual systems often get overlooked. Forgetting to update physical keys, building access codes, or security badges can create vulnerabilities that are easy to avoid with a bit of planning. Updating access control logs immediately is a simple yet essential step that can prevent headaches later.

Finally, it is imperative to close the loop with a thorough audit. Partnering with IT and HR teams to confirm that all access points have been addressed and assets returned is a vital step. There's nothing worse than discovering weeks later that an old account is still active or that a key piece of hardware is missing. Preparing an internal communication plan ensures that the team understands the offboarding changes without breaching confidentiality or professionalism. Notifying departments like finance for payroll adjustments or facilities for security updates ensures a seamless transition and avoids disruption to the broader team.[25]

04 *Conducting the termination meeting*

The timing of employee terminations significantly impacts the process's effectiveness and its effects on both the departing employee and the organization. Research suggests that early-day terminations are advantageous as they allow employees to access support services during business hours, enable administrative teams to promptly handle offboarding tasks, and provide the employee with privacy to process the news.[26] Conducting terminations earlier in the week, such as on Tuesday or Wednesday, further ensures resource availability, facilitates task redistribution within the team, and allows colleagues to provide and receive emotional support. Experts caution against end-of-week or late-day terminations due to the risks of isolation over the weekend and delayed administrative processes, which can exacerbate distress.[27]

During the meeting itself, creating the right environment is key. Hold the conversation in a private setting,[28] ensuring two people are present—one to deliver the message and another to observe and document.[29] In most instances, having a lawyer present heightens anxiety and may escalate the situation, so avoid having one attend the termination meeting. A clear and rehearsed script helps maintain focus, providing a concise explanation of the termination, the effective date, and any separation terms. Avoid lengthy explanations or emotional escalation by sticking to the facts and framing the conversation with professionalism.[30]

Tone and approach play a critical role in the success of the meeting. It is vital to remain direct and unambiguous, avoiding overly vague or sympathetic language that could confuse the situation. At the same time, keep the meeting brief to minimize stress for both parties. While empathy is essential, the meeting should not devolve into a counseling session—focus instead on clarity, fairness, and respect. By handling the termination with thoughtful timing and a professional tone, organizations can balance operational efficiency with compassion for the departing employee.[31]

05 *After the meeting*

Once the termination meeting concludes, the focus shifts to ensuring a smooth and respectful transition for the departing employee. Escort the individual to collect their personal items, maintaining privacy and professionalism throughout the process. This step is essential both for security and to preserve the employee's dignity during a difficult moment.

Processing final wages promptly is another critical responsibility. Adhering to the company's payroll policies and legal requirements not only demonstrates fairness but also reduces the risk of disputes. Whenever possible, provide outbound support or resources to help the employee transition to their next role. This could include resume assistance, job placement services, or access to professional networks. Taking these actions reinforces a sense of care and compassion, even in challenging circumstances, and reflects the organization's commitment to treating employees with integrity.

06 *Terminations in a remote world*

With remote work becoming more common, terminating an employee virtually requires additional considerations beyond traditional in-person firings. While all standard principles of respectful and professional terminations still apply, the lack of face-to-face interaction necessitates careful planning.

To convey empathy and maintain a personal connection, use a secure video conferencing platform rather than a phone call or email. Test all technical aspects beforehand to avoid disruptions. Prepare by outlining key points to cover, such as reasons for termination, next steps, and available support. Coordinate with HR and IT to schedule the meeting thoughtfully, considering time zones and ensuring the employee's system access can be revoked promptly afterward. Have the necessary documentation ready to send securely following the meeting.

Ensure both parties are in private settings to maintain confidentiality. However, be prepared for the possibility that the employee may record the meeting without requesting permission, as it's easier to do so remotely. This awareness underscores the importance of communicating clearly and respectfully throughout the process. Employers should assume virtual meetings could be recorded and conduct themselves accordingly—look no further than the viral Cloudflare employee who recorded her termination meeting.[32]

Risks to contemplate – personal safety, operations, and culture

Employee terminations can sometimes provoke intense emotional reactions and, in rare cases, escalate to physical confrontations. Preparing for this possibility is crucial. Ensure the meeting takes place in a private but secure setting, with a second person present to observe and document (we know we have suggested having a second person in the room previously, but its importance cannot be overstated). Having a plan in place to handle any escalation, such as involving HR or security personnel if necessary, adds a layer of precaution that protects all parties involved.[33]

The consequences of improper offboarding can also have organization-wide effects. The Maroochy Shire sewage spill of 2000 provides a cautionary tale. After being terminated, ex-contractor Vitek Boden exploited his retained access to the sewage control system, using stolen equipment to release 800,000 liters of raw sewage into public areas.[34] Similarly, the case of Brian P. Johnson, a former systems administrator, underscores the importance of immediate de-credentialing. Johnson retained access to an industrial facility's systems post-termination, using it to disrupt operations—a reminder of how insider threats can stem from incomplete offboarding procedures.[35]

Beyond operational risks, as discussed, terminations can profoundly affect team morale and organizational culture. Employees often look to how terminations are handled as an indicator of company values. An empathetic and humane approach can maintain trust within the team, whereas mishandling the process can damage morale and productivity.[36]

Managing employee terminations effectively requires safeguards to minimize risks to both the organization and the departing individual. Significant strategies include utilizing separation agreements and maintaining thorough legal documentation. Non-compete agreements, where applicable, address future employment limitations and help protect company interests by clarifying contractual obligations. Additionally, meticulous documentation of the termination process, including performance reviews and disciplinary records, reduces the risk of wrongful termination claims and supports the employer's decision if disputes arise.

For organizations seeking additional support, Professional Employment Organizations (PEOs) offer specialized HR services that can streamline and standardize termination procedures. As depicted in the film *Up in the Air*, third-party experts manage complex aspects of employee separations, bringing both expertise and objectivity to the process. While dramatized in the movie, the role of professional guidance reflects real-world solutions that many companies rely on to navigate terminations professionally and legally.

PEOs ensure compliance with federal and state labor laws, assuming joint liability for compliance issues and helping employers avoid legal disputes. They prepare and organize critical documentation, such as termination letters and separation agreements, to safeguard businesses. For challenging situations involving discrimination claims or Americans with Disabilities Act (ADA) accommodations, PEOs provide expert guidance to minimize risks and ensure fairness.[37]

Beyond the termination meeting, PEOs handle post-termination tasks, including issuing final paychecks, terminating benefits, and processing COBRA notifications. Some even offer outplacement services to help former employees transition to new roles, reducing potential animosity and preserving goodwill.[38]

For smaller ETA businesses, partnering with a PEO can be transformative. Businesses gain access to advanced HR expertise and legal protections at a fraction of the cost of maintaining an in-house HR team. This support allows leaders to focus on strategic priorities while ensuring that terminations are handled with professionalism and compliance. [39]

Legal considerations

Employment laws in the U.S. establish critical boundaries for termination decisions. While most states operate under "at-will" employment,[40] allowing terminations without specific cause, federal protections such as Title VII of the Civil Rights Act and the Americans with Disabilities Act (ADA) prohibit terminations based on discrimination or retaliation. It is essential to ensure that every termination is supported by a legitimate, documented reason that complies with these protections. This not only reduces exposure to legal claims but also demonstrates a commitment to ethical practices.[41]

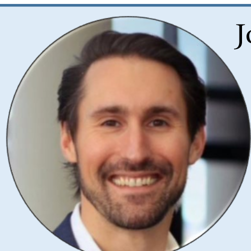
Thorough documentation serves as a vital safeguard against wrongful termination claims. Performance-related records should focus on objective, behavior-based criteria, such as unmet targets or failure to fulfill the terms of a PIP. Consistency in recordkeeping across employees in similar roles is key to demonstrating fairness and avoiding allegations of disparate treatment. Objective documentation ensures that termination decisions are defensible and equitable.

Separation agreements and employee releases provide an additional layer of protection for organizations. These agreements typically offer severance or other benefits in exchange for the employee waiving certain legal claims. To be effective, separation agreements must use clear, straightforward language and be in compliance with state and local employment law requirements. Confidentiality and non-disparagement clauses are ideally introduced in employee handbooks (and often further formalized in stand-alone agreements) and can help protect the company's reputation and sensitive information. If such documents are not signed upon hiring, it is important that any separation agreement or employee release include these conditions. A well-structured agreement can prevent prolonged disputes and foster a smoother transition, benefiting both the organization and the departing employee.[42]

Protected status claims require particular attention, as they are often context sensitive. Courts evaluate factors such as managerial behaviors and team dynamics to determine whether discrimination has occurred. Terminating an employee soon after they have filed a discrimination or harassment complaint can lead to claims of retaliation. Generally, waiting at least 90–120 days (if possible) or having clear documentation justifying performance-related concerns helps reduce legal exposure. Consistency in applying standards across all employees and maintaining impartial documentation is critical to minimizing the risk of such claims.

Improper terminations can lead to significant financial and operational risks, with legal disputes potentially costing thousands to millions of dollars depending on liability and case complexity. Beyond monetary costs, litigation disrupts operations and damages organizational morale.[43] By carefully considering legal requirements, documenting decisions thoroughly, and offering structured support through tools like separation agreements, organizations can approach terminations with professionalism and integrity. This approach not only reduces legal exposure but also reflects a commitment to fairness and respect for all employees.

A mini-profile: a search fund entrepreneur managing employee terminations



John Yanchek is the CEO of Montis Financial, where he manages with a focus on conscious leadership, culture building, and operational excellence. After graduating from Middlebury College and spending nearly a decade in investment banking and private equity, Yanchek launched his search fund in February 2020. In December 2021, he and his partner acquired Montis Financial and began the task of transitioning Montis from a lifestyle practice into a high-performing business. This transformation was no small feat. It involved significant top-grading of the inherited team, implementing the Entrepreneurial Operating System (EOS), and establishing clear mission, vision, and values to get traction and accountability in the business. Given the legacy lifestyle orientation, many employees struggled to align with the company's new direction, requiring a significant number of terminations and reassignments during the first two years.

I believe that a lot of first-time, inexperienced CEOs are likely bad at terminating employees in the beginning, and I was no different; I feel we have made tremendous progress in this area since we bought Montis. My first termination, which occurred during the COVID-19 era, was marked by inexperience and a lack of human capital processes, particularly around company core values and performance. We didn't have a methodology for agreement of performance standards, metrics to compare against, or transparent feedback, which led to frustration on both sides. Even though the terminated employee had been underperforming both in terms of performance and alignment with company culture, the termination process did not feel good to me, nor did it feel good to the terminated employee, given the unintentional lack of compassion and empathy. I didn't know what I didn't know about terminating employees, and I learned a lot of what not to do by trial and error.

One of the most important lessons I've learned since beginning to run Montis is the importance of leading with kindness, compassion, and empathy. I have learned that what is said is not as important as how it is said, and terminating an employee is a perfect example of this in practice. In the instance of my first termination, I could have been more proactive in addressing the employee's performance issues in an empathetic manner well before the termination. There was clearly a feeling that this employee was not in the right seat, including constant frustration from me and other members of the team around lack of responsiveness, accountability, and work product, and there was no clear way to get this employee where they needed to be. We didn't have sufficient human capital management in place, which is common for many early-stage search fund companies.

Early in my journey, I leaned heavily on legal counsel for terminations, working closely with lawyers to ensure compliance and minimize liability. We were so concerned about legal risks, however, that it made the process overly formal and less empathetic than it could have been. Over time, as I became more experienced, the role of lawyers in the termination process certainly evolved. For recent terminations, legal involvement has been minimal, focusing mainly on standard documentation like separation agreements and release of claim waivers.

Today, Montis has a robust framework for both hiring and firing, grounded in EOS principles. Employees are evaluated quarterly using the GWC framework (Get it, Want it, and Capacity to do the job) and Montis's core values—discipline, exceeding expectations, proactivity, team orientation, and empathy (DEPTH). These metrics help identify trends and guide real-time feedback, ensuring that the data supports the feelings around performance; then, feedback is given in as compassionate a manner as possible. We are also a big proponent of significant one-on-one time with direct reports, which is another great conduit for feedback, both positive (which most leaders and managers unconsciously ignore) and constructive.

Empathy is important in difficult decisions and discussions. Firing has a very negative connotation, but it can ultimately be a positive experience if done the right way. Termination is generally the culmination of an employee not having the right energy or aptitude for the role, and separation from the role and company can (and likely will) be a "freeing" event for the struggling employee. Leading with kindness and compassion can help facilitate the employee being on the same page as the manager, resulting in an optimized chance of amicable offboarding.

My most recent termination reflects this more evolved approach. The employee was aligned with Montis's culture but struggled with performance. Rather than resorting to a sudden decision, I worked closely with the individual, offering support and regular feedback to try to get them back on track. Once we realized that was not working, we continued to explore the employee's strengths and how they did not fit the criteria needed to be successful in the current role. We did not have a role that better suited their affinity match, so we helped the employee determine a better path for themselves and devoted time to finding a better-fitting person for the role. The employee eventually transitioned to a new company and position with Montis's full endorsement, even expressing gratitude for the support during the process.

I do a lot of executive and conscious leadership coaching, which has made me a significantly better leader and CEO. Offboarding is a very challenging, but important, part of the CEO role, particularly in a growing company. While offboarding is never an enjoyable process, if led with empathy and compassion, it can be mutually beneficial and be effectuated with both sides feeling good at the end of the day.

Conclusion

Terminating an employee is never a comfortable experience, yet it remains a critical responsibility in any organization's life cycle. Handled thoughtfully, it can serve as a pivotal moment for reinforcing values like transparency and fairness. ETA leaders who practice open communication, provide clear expectations, and examine their own organizational shortcomings before making a final decision ultimately shape a workplace where people understand why tough calls sometimes have to be made. Such diligence also reassures remaining employees that the process is guided by genuine concern for everyone's well-being rather than hasty judgment.

Across every stage—from carefully reviewing company policies to conducting that final meeting—decisions about terminations benefit from compassion, foresight, and structured procedures. By prioritizing employee development, embracing legal best practices, and involving external experts as needed, organizations maintain credibility and a positive work environment. While parting ways is never easy, consistently approaching these moments with empathy, respectful dialogue, and balanced accountability can help preserve team morale and protect the company's integrity for the future.

We hope that you spend relatively little time firing employees in your ETA odyssey, but the situation will arise. We hope that this note will better prepare you for the awkwardness and reality of terminating an employee. Good luck with your search fund quest, and we wish you smooth sailing and victory!

Exhibit 1: Additional resources

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Endnotes

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