Seven Steps for Structuring a Plan That Keeps Your Top Performers on Board

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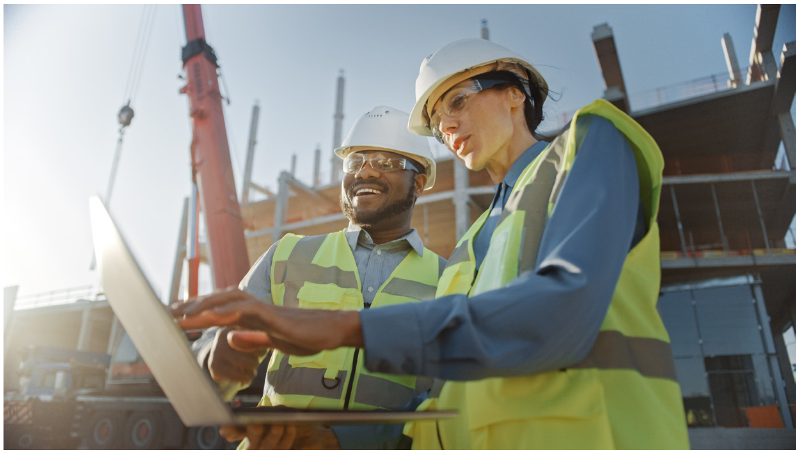
INSIDE EMPLOYEE INCENTIVES AND HOW TO IMPROVE RETENTION

It can be difficult for contractors to attract and retain qualified management personnel. As a result, contractors should proactively address employees' concerns about their positions and career opportunities within the company — before they decide to work for someone who will.

Construction business owners regularly evaluate the performance of their key employees, but considering the fluctuating market conditions throughout the last five or 10 years, it's no surprise employees today have the edge and are evaluating employers, too. Employees are constantly considering what the company can and will do for them. Improving retention requires intentional effort from company leadership.

Identify Key Employees

When you begin to design or revise your employee incentive program, first decide which employees you want to include in the process. Key employees typically include senior project managers, chief estimator, marketing director, and chief financial officer. Some companies have recognized that certain lower-ranking employees can also be a component of an incentive plan. Define your key employees by these standards:



The employee is a major contributor to the success of your company.

The loss of the employee could have a significant impact on your organization and its customers.

It would take a lot of time and effort to recruit and train a replacement.

Step Up Incentives

The most common method of providing incentives and rewards for performance is through a cash bonus program. Some employees and contractors find that a cash bonus program is more favorable than stock ownership plans, deferred compensation programs, or qualified profit-sharing arrangements.

Key steps you should consider in establishing or revising your incentive bonus program are summarized below. Note: No two companies are alike. Use whatever method(s) you determine will work best for your organization.

1. DEFINE COMPANY GOALS

First, define your company's overall goals. Determine whether your company's priority is to increase volume, increase net earnings, improve accounts receivable collections, expand into new markets, or just to have better control over your jobs. Then, quantify those goals in terms of dollars or percentage increases and establish a timetable over the next three to five years to achieve these goals. However, make sure the goals you're setting are attainable, realistic, and fit into the long-term plan for your company.

2. IDENTIFY THE PARTICIPANTS

Next, decide which key employees should participate in the program. Plan to include all employees who can help your company achieve its goals. They will recognize that you value them as employees, are invested in their development, and believe they have the skills and ability to help the company meet its defined goals. At the same time, you may also be able to determine who is and who is not committed to the long-term success of your company.

3. DEVELOP INDIVIDUAL GOALS

Begin to individualize the plan by establishing goals for each person. Make the goals different for each employee and capitalize on their special abilities. An individual employee's position within the company will be the determining factor in selecting which goals they can help the company achieve. Avoid giving an individual any type of goal that you recognize might be beyond that person's capabilities or control.

Quantify the goals. For example, one measurable goal might be that the employee must meet established deadlines or gross profit margins on a particularly important contract. Others may be implementing innovative technology to create controls and efficiencies. By making goals quantifiable, both you and the employee can easily measure the attainment of each goal.

Each participant's goals should also include some aspects that are subjective, as well as objective. Subjective goals include factors such as customer or owner satisfaction. Encourage each employee to help establish their own goals. This process will not only assist you in identifying what they think their capabilities are, but also help you make the best use of your resources.

If an employee has the opportunity to assist in developing their goals, they will take more responsibility for their success or failure.

4. MEASURE & EVALUATE RESULTS

The method you use for measuring and evaluating progress toward achieving goals is important. Develop a system for monitoring progress. Depending on the employee's role, your system can include producing and monitoring quarterly, monthly, or weekly reports of job cost, contract status, or accounts receivable.

The report should be generated on a regular basis and reviewed by both you and the employee. Employees should understand the evaluation tools and know how they are progressing. Be consistent when measuring goals.

Determine the method for measuring the goal at the beginning of the evaluation period, but be prepared to change the measurement tools when necessary. Over a period, you will develop better ways to evaluate the plan. However, be sure to notify everyone involved when the evaluation process is modified.

5. ESTABLISH METHOD & TIME OF PAYMENT

At the beginning of the program, establish the method and time when cash bonuses will be paid to those achieving their identified goals. Payout periods can be quarterly, semiannually, or annually. An alternative to making all the bonus payments in cash could be to make a partial cash payment annually with the balance deferred to a future date. This type of alternative program can help you with employee retention and cash outflow.

6. DETERMINE THE AMOUNT OF INCENTIVE COMPENSATION

Management should determine the actual amount of incentive compensation after the company's performance and achievements are reviewed and evaluated.

The employees should have an opportunity to list the contributions they made during the past year, so that all the factors they consider important are given attention. If an employee is paid based on their progress in meeting the goals, but the progress turned out to be minimal, the company has two options: distribute a small bonus to maintain employee goodwill, or distribute no bonus at all.

7. REGULARLY REEVALUATE YOUR PLAN

Review your incentive compensation plan annually. Take the time to identify weaknesses in the plan. Be creative with new goals and measurement processes. Make sure the plan is achieving the results you want.

About the Author

Chavon Wilcox, CPA, serves as a partner in Aronson LLC's Construction and Real Estate Services Group. She has over 20 years of experience in the industry. Wilcox specializes in providing accounting and assurance, business and personal taxation, and consulting services to construction and real estate companies. Wilcox is a published author in regional industry publications, contributing author and editor to Aronson blogs, and a presenter to local construction and real estate associations on accounting, tax and management issues. Visit aronsonllc.com.

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