

**Mixed Greens**

***Using a Variety of Compensation Options to Retain and Hire the Best***

Scottsdale, Arizona  
October 20, 2010

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***Participants will learn***

To...

- Recognize indicators that predict when market values are going to change.
- Identify next steps to insure competitive compensation.
- Use compensation programs to shape behavior and performance.
- Discuss the importance of shared company and employee risks and the need for scored performance criteria to create successful compensation programs.

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***Workforce Issues***

- Ann-ur-isms
  - “Not much of a talent retention strategy, is it?”
  - Right.com
  - BLR.com
  - Conference Board
- Other workforce studies and comments

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### *The Total Compensation Mix*

Compensation Element	----- Goal -----		
	Attract	Retain	Motivate
Base Pay	High	High	Low
Short Term Incentives and bonuses	Low	Medium to High	High
Long Term Qualified Deferred Compensation	Low to Medium	Medium to High	Low
Long Term Non-Qualified Deferred Compensation	Low	Medium to High	Medium to High
Perquisites	Medium	Low	Medium
Benefits	Medium	Medium	Low

Credit to Rick Sharpnack

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### *The Total Compensation Mix*

Historically, we know that during tough economic times...

- Base salaries continue to rise.
- Construction responds to economic conditions with changes in base salaries faster than other industries.
- Incentive and performance metrics change to address the company's most important issues.
- Variable pay becomes increasingly important.
- Some benefit and perk packages tend to re-adjust until the economy bounces back.

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### *The Total Compensation Mix*

Look for compensation plan alternatives during challenging times.

- Identify trends and your competitors practices.
- Explore ideas for plan alternatives.
- Look at different funding and distribution approaches.
- Evaluate alternatives against traditional practices.
- Determine if the alternatives just get us through the current times or can we blend them into a long term strategy.
- Determine if we should tie our plan to a formal program or be discretionary.
- Recognize that compensation plans will change yearly.

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### *Trends - What's Different This Time?*

- Turnover
- Unemployment
- Wage Increases

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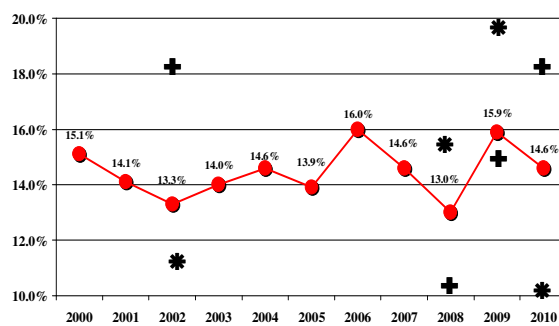
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### *Staff Turnover Rates*




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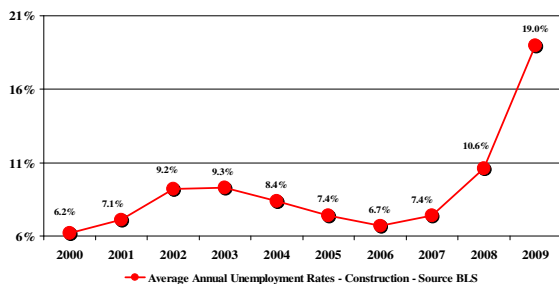
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### *Trends - Unemployment Rates*




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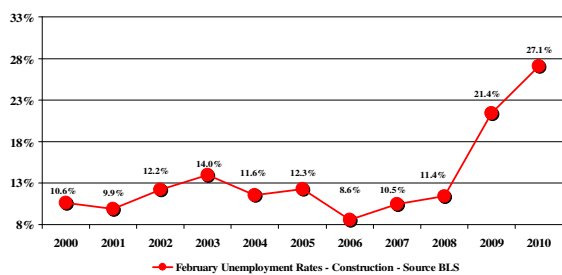
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### Trends - Unemployment Rates




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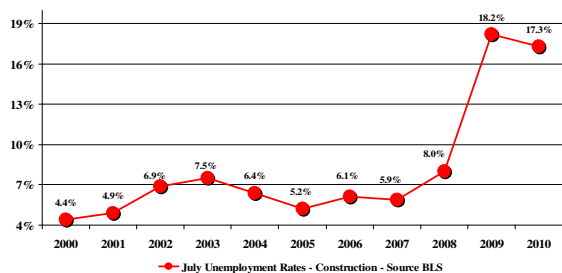
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### Trends - Unemployment Rates




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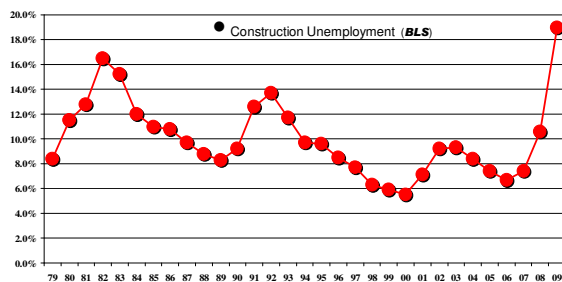
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### Construction Unemployment – 3 Decades




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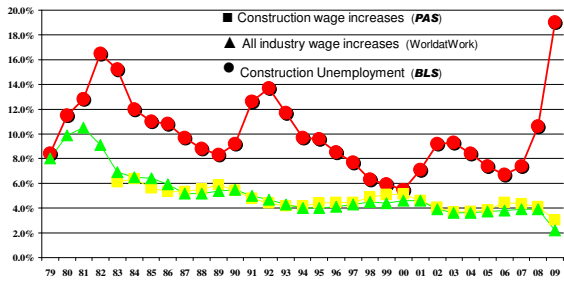
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### Construction Unemployment Compared to Wage Increases




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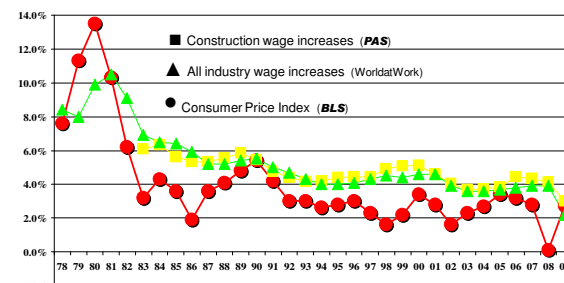
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### Cost of Living Compared to Wage Increases




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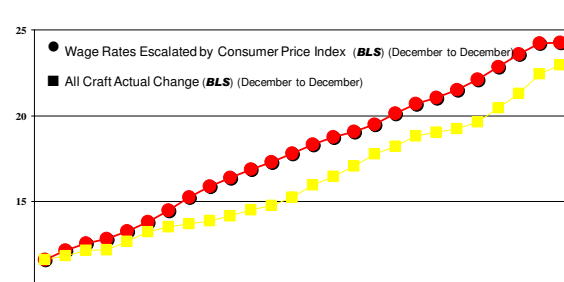
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### COL Compared to All BLS Craft Data




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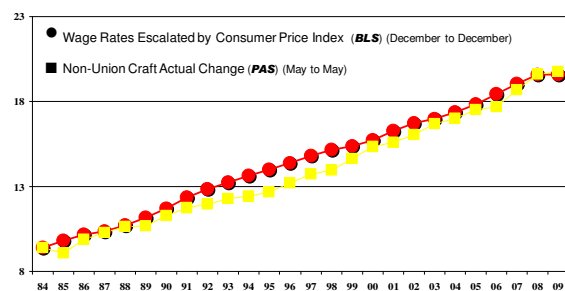
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### COL Compared to All Non-Union Crafts




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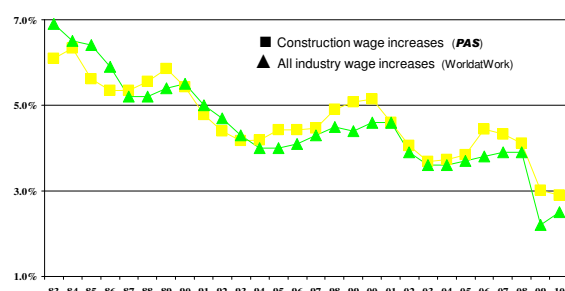
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### Construction Compared to All Industries Wage Increases




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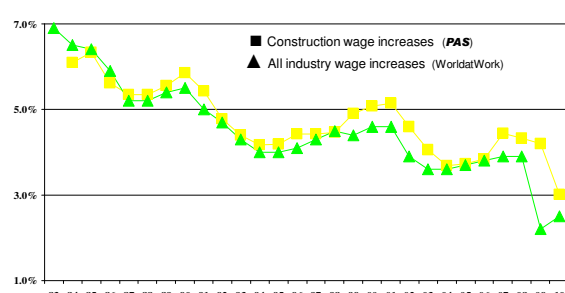
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### Moving construction over one year versus all industries wage increases




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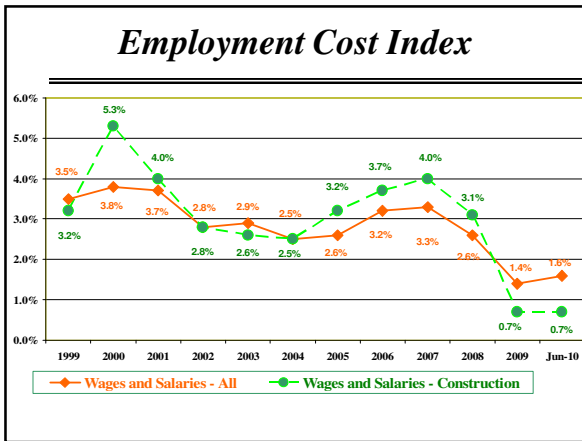
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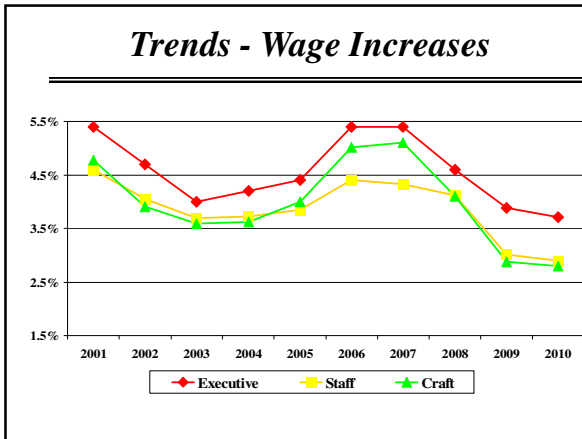
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### *More Base Pay Issues*

Other studies and numbers.

- WorldatWork
- Mercer
- Towers Watson
- Accountemps
- More studies and comments
- How will it impact construction and my company?

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## *Base Salaries*

### Salary plans

- Core program to which benefits, perks, and variable pay must be coordinated.
- Market-based systems are favored.
  - Obtain market data annually to track salary competitiveness.
  - Construction industry increase across the board.
  - Equity increases may be needed periodically to bring salaries in line with market.
  - Promotions or transfers are handled separately.
  - Differentiate pay based on circumstances.
- Must coordinate with internal equity issues.

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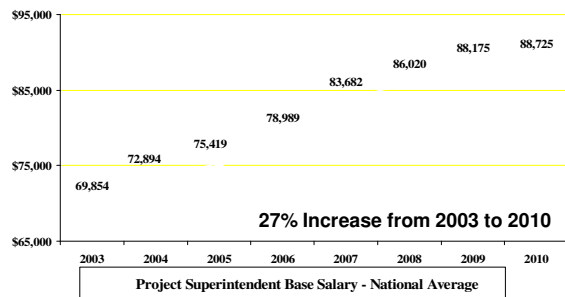
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## *Base Salaries*




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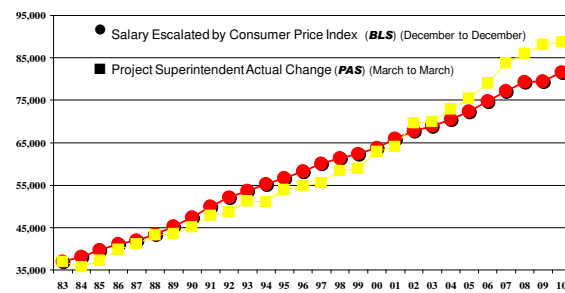
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## *COL Compared to Project Superintendent*




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### ***Short Term Incentive / Bonus***

#### **Short-term incentive plans (continued)**

- Recent typical metrics in practice
  - Profitability
  - Financial actions
  - Margin Improvement
  - Safety
  - Business development / marketing
  - Efficiency
  - Corporate contribution
  - Utilization of resources
  - Client relations
  - Client retention

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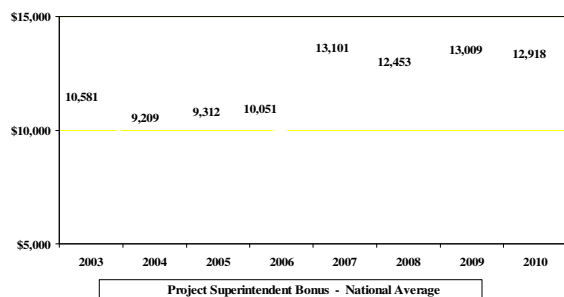
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### ***Balancing Base and Incentive***




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### ***Looking Into 2011***

- Defining your 2011 objectives. Things to consider.
- Recruit, retain and motivate - we can't say it enough... Take Care of Your Key Employees!
- Terry's taking it from here.

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***Why Compensation Matters Now***

*Prepare for Growth in 2011 & Beyond*

- To fight for the best people available, which are as rare as when the construction work was booming
- To establish a compensation structure for when the economy picks up steam
- To retain your good people so they don't leave the industry
- To create cultural congruence
- To protect the company's best interests
- To help build a proper pricing structure for bids & estimates

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***Why Compensation Always Matters***

*Serves as Cultural & Performance Driver*

- To drive higher ROI's and profits
- To improve employee performance
- To motivate personnel
- To encourage risk-taking
- To reward top performers
- To reduce costs & expenses

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***Compensation is Part of Overall Strategy***

- Compensation should be part of annual strategy sessions
- Compensation is overlooked because it's not a business function, but a strategic element
- Compensation needs to be part of each company's annual budget program and cash flow projections
- It's never good when companies allow compensation to get misaligned among various positions
- Great people are often lost for minimal amounts of money, but even more so from miscommunication
- Transparency beats secrecy with compensation every time
- Employees tend to distort their value to the company if position values are not communicated properly through compensation
- The squeakiest wheels are often paid the most when a compensation structure does not exist
- Companies can be hurt by overpaying as well as by underpaying

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### ***Compensation Perspectives***

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- The benefits from reviews are worth as much as the changes
- People will work as hard as they are paid
- fewer employees that are highly paid & productive will eventually burn out
- Compensation should never threaten a company's existence, cash flow, its ROI, or its growth plans
- Compensation should only be distributed if profit thresholds are reached
- Annual pay raises historically range between 3.5 % to 5.5 %
- It helps to have job descriptions outlined in order to pay employees appropriately fro their contributions
- Bonus systems work best when the top performers are paid well & the slackers are paid less
- All compensation programs are best designed with performance criteria
- Compensation is a useful tool for employee career development

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### ***Staying the Course with Compensation Strategies***

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- During boom times, pay scale stories are magnified and are not as frequent as the stories that are repeated
- Most employees lured away by sky-high compensation found out the package wasn't as appealing as they anticipated
- Companies should stick with reasonable, competitive strategies for base pay, bonuses, and fringe benefits
- Employees prefer working with solid growth companies that keep workers employed and that offer career tracks

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### ***Compensation Case Studies***

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- Field Incentive Plans
- Deferred Compensation
- Team Bonus Plan vs. Individual Bonus
- Stock Ownership Plan for Key Employees
- Executive Incentive Plan

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***Scenario: Field Incentive Plan***

- Subcontractor situation
- Job costs, phase costing, and cost codes were indicating uneven performance
- Overall jobs were exceeding budgets too frequently
- Companies were struggling to produce net profits
- Morale, construction process, paper work, and communication were suffering

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***Development of Field Incentive Plan***

- Jobs needed to be substantially complete to be part of bonus distribution
- Time & material jobs were excluded
- Re-work expenses would be deducted
- Payouts based upon gross margin threshold
- Distributions were based upon direct cost savings
- Payouts were scheduled quarterly
- Personnel only included Operations
- PM's had to play role in completed projects to be considered
- 50% of direct cost savings were set aside as bonus pool
- The starting bonus pool was broken into smaller position pools
- Distributions were based on performance criteria
- Sample distribution scenarios were outlined

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***Results of Field Incentive Plan***

- Dynamic environment created as poor morale evaporated
- Higher productivity & higher profits led to more aggressive growth
- Greater responsibilities assumed without forced delegation
- New leaders emerged
- Peer pressure squeezed out non-performers

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***Scenario: Deferred Compensation***

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- Heavy/Highway Company
- Consolidated geographic territories
- Younger brother had won leadership role over older brother
- Operations Manager (OM) was being solicited by competitors
- OM was superior performer & distinctly impacted the bottom line
- OM had unique relationships with field managers & crews that was motivational

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***Development of  
Deferred Compensation Plan***

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- Company needed to keep OM off the market for 10 years through “golden handcuffs”
- Performance criteria established to earn annual distribution
- Vesting schedule created
- Funds earmarked in financial statements based upon company financial performance
- Deferred compensation funds would accumulate over a 10-year period
- Although the OM continued working after the Deferred Compensation Plan had expired, the funds available at retirement motivated him to not seek employment elsewhere
- Payouts were initiated at a specified retirement age over a specific timeframe
- OM still participated in Operations Incentive Plan

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***Results of Deferred  
Compensation Plan***

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- OM stayed on board through key productive years
- OM earned a significant pool of Deferred Compensation
- The company benefited from the OM’s leadership and grew from \$ 15 M to \$ 90 M
- The company improved its project & field management systems

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***Scenario: Team Bonus Plan  
vs. Individual Bonus***

- General Contractor
- Embarked on growth plan that went sour because of poor project selection
- Select personnel were still earning solid bonuses while the company as a whole suffered
- Bonuses were based upon gross margin dollars, no matter how low the gross margin percentages were
- Employees were battling for large jobs
- Teamwork was not a high priority among the top bonus performers
- Employees were not sharing internal best practices

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***Development of Team Bonus Plan  
vs. Individual Bonus***

- The company now wanted everyone to share in rewards
- Company sought to increase teamwork, productivity, and profits
- Goal was to produce high profits on every job
- Communication goal was to create horizontal teamwork across departments
- All distributions were to be based upon ROI and net profit after thresholds were achieved thresholds, and based upon not individual project gross margins
- Amounts were distributed by position groups and position base pay values
- Negative pools would be created when goals were not achieved & were used to offset future positive performance
- Distributions were made annually after annual audit

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***Results: Team Bonus Plan  
vs. Individual Bonus***

- Dramatic increase in teamwork led to multi-disciplined project teams
- Operations personnel began assisting in estimating budgets & project selections
- Estimating & Operations personnel started to participate in Marketing meetings
- Significant increase in productivity and profitability; set profit records
- Rapid growth followed to push the company up the ENR rankings

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***Scenario: Stock Ownership Plan  
for Key Employees***

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- General Contractor
- Current branch offices produced uneven, sporadic performance
- Business systems were not aligned
- Personnel resources were not shared
- Common business best practices were starting to be discussed
- Branches were islands

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***Development of Stock Ownership Plan for  
Key Employees***

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- Company had multiple offices with plans for more, but questioned ability to standardize company performance
- Company wanted to decentralize decision-making and place more authority at branch locations
- Sought to eventually increase "ownership" of Branch Office and convert Branch Managers into Presidents
- Wanted to maintain leadership continuity & instill common business practices
- Plan outline included establishing limited number of non-voting Class B shares with vesting schedule
- Only selected high-level personnel participated
- Dividend payments were optional

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***Results from Stock Ownership  
Plan for Key Employees***

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- Branch systems & best practices became aligned to overall corporate direction
- Branch Managers were promoted and took ownership of their office & geographic territory
- Superior managerial performers quickly stood out & non-performers and non-team players were weeded out
- Company was able to accelerate cultural & procedural integration of existing offices with new acquisitions

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***Scenario: Executive Incentive Plan***

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- Multiple companies that shared common business functions
- Lackluster performances by individual companies
- Subsidiaries would sit back and allow 1 or 2 sister companies to perform strongly, which would ensure bonus payouts
- Division presidents were operating in silos although there were shared business functions
- Executives were reluctant to help each other if it hurt their bottom line

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***Development of Executive Incentive Plan***

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- Plan included percentage of combined net profit as a set-aside for executive bonus pool
- Allocations were based upon 3-year rolling averages
- Distribution splits were based upon divisional revenues
- Each executive was rated by performance criteria
- Annual payouts were made after subordinate reviews & audit was completed
- Separate Employee Excellence & Key Manager Excellence awards were created

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***Results from Executive Incentive Plan***

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- Tremendous success with program over 3-year period
- Overall & subsidiary profits shot up
- Company behavior was altered with increasing teamwork & collaboration
- Executives earned enough money to satisfy their goals & became more motivated

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***Problems with Compensation Plans***

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- Not distributing enough or distributing too much of the profits
- Expecting far too much of each employee
- Not asking for any change in behavior or performance
- Changing or discontinuing the plan when pay-outs are imminent
- Sabotaging the plan through poor strategic choices
- Excluding key personnel, positions, departments, or groups

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***How Companies Should Leverage Their Compensation Options***

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- When designing plans, always protect the company's financial interests
- Treat compensation plans as exchanges of performance & behavioral enhancements for monetary rewards
- Always measure & grade performance before committing to bonus payouts
- Hold your ground if employees do not meet performance standards or if company does not meet its profit & financial goals

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***Summary***

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**Take away**

- The importance of keeping your pay program "market driven."
- Focus on those indicators that may predict when compensation is going to change.
- Identify 2 or 3 strategies that will help retain your key People.
- Be in a position to recruit the best and the brightest when the economy recovers.

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