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## Key Employee Retention Plans for Construction Firms

Retaining Top Talent Remains a Challenge for  
Privately-Held Companies

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## Retaining Top Talent Remains a Challenge for Privately-Held Companies

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Construction companies face a variety of overwhelming, unique challenges. Apart from the competitiveness of the industry—which is a challenge in itself—the fact that many projects take months or years to complete can make the workflow cycle much longer than in other industries. Other challenges in the construction industry include managing multiple projects simultaneously, the fluctuating cost of building materials, and properly estimating the cost of projects and changes required to those projects.

Two of the most overlooked challenges in the industry are the limited number of exit opportunities or succession plans for owners and their families and the retention of key employees. These are even more pronounced in markets where the competition is tight and the complexity of doing business is high, with New York being a perfect example. Few buyers will pay for a business that gets the majority of its work through the bidding process and luring key employees can be a way to get much of the value of a business without paying for the entity.

It may sound overly simplistic, but having a process in place for hiring the right people and retaining key employees may be the most effective way to mitigate these concerns. When construction companies talk about key employees, they generally are referring to senior level project managers and estimators. After all, these are the people with ultimate responsibility for overseeing the project and its profitability. The project manager is in charge of all aspects of the job, from dealing with the architect and engineers to hiring and scheduling contractors and subcontractors and obtaining any required building permits and certificates of occupancy. The estimator is responsible for planning out the costs of labor, equipment and materials for the entire project.

Since projects often span years—sometimes many years—it is wise for business owners to consider the duration of the project as they hire and when they structure their employee retention plans. The overarching objective in designing a key employee retention plan is keep the company strong and profitable by attracting the most talented staff, maintaining continuity on projects, and ultimately over the long-term building up a earnings base capital for use as part of a potential buyout.

Perhaps the two most important factors to remember when designing an employee retention program are:

1. The program should be designed around the company's long-term strategic plan, whether that plan is centered on continued growth or an exit strategy.
2. Key employees deal with the company's clients and other centers of influence on a regular basis, which makes them integral to the successful completion of the project. Whatever amount spent on retention is certain to be less than the cost of replacing a key employee, especially in the middle of a project, not only in dollars spent but also in terms of lost relationships and lost knowledge, which can be difficult to replace. Human capital and intellectual capital are expensive to replace.

When thought about this way, any expense associated with a company's retention strategy can be viewed as a benefit to the company's bottom line rather than as a cost.

Whatever the specifics of the plan may be, it is important that it be geared toward showing the individual that they are important to the success of the company. In effect, your goal as the employer is making employees feel they own the company without actually being equity owners. (Equity ownership should only be offered sparingly. It exposes the company to additional risks and responsibilities, not the least of which is the fiduciary responsibility to the new owner.)



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## **A Change in the Definition of “Benefits”**

Formal retention programs have changed over time. There are many reasons for this, not the least of which are the different ways the various generations which comprise today’s workforce define and value benefits. Traditional benefits such as monetary compensation and a good health care plan are still important, of course, but more attention is paid to intangible benefits—time off, flexibility, training, education, recognition, technology and the opportunity for advancement. These items have become an essential part of the mix, especially for key employees.

Another change in the key employee benefits arena is that packages are tailored to individual employees according to what those employees value. Here is a simple example: Suppose a key employee achieved a goal that is going to be recognized with a Friday afternoon off. It may seem natural to say something like “Good job, Mary. Why don’t you take Friday afternoon off,” but a better alternative might be this: “Good job, Mary. I’d like to thank you by giving you a Friday afternoon off. Does this Friday work for you?” The distinction may seem minor, but allowing Mary to voice her preference empowers her and emphasizes that her opinion is valued.

### Goals of a Key Employee Retention Plan

- Furthering the company’s strategic plan
- Motivating key employees
- Customizing benefits to individual employee needs
- Keeping continuity with client relationships and knowledge
- Building a base for possible future ownership

## **First Steps**

Once top management commits to the strategic importance of a key employee retention initiative, it is wise to begin by examining the company’s historic statistics. Research the company’s personnel records to ascertain information such as:

- How many executives have left the company over the past five years?
- Why did they choose to move on to a new opportunity?
- Have other employees gone with them?
- How much has employee turnover cost the company over the past five years in terms of recruiting fees, hiring and training new employees, disrupting client service?

Conducting an employee satisfaction survey can also be a good guide to what is working and what is not. At least some of the questions in the survey should be based on the statistics gathered from the firm’s track record. It is a good idea to conduct this survey anonymously, and it may even be beneficial to have it written and conducted by an outside source.

The answers gleaned from this type of investigation can offer great insight into how the company’s employee retention program should be structured going forward.

## **Implement a Hiring Process with Retention in Mind**

Retention efforts should begin at the time the decision is made to hire a new employee. After that, keep in mind that the strategy should include both intangible and tangible benefits since both are important.

Workplace culture and hiring the right person for the particular position each play an important role in employee retention. Does the job candidate have the experience and expertise the company needs to manage the projects that will be his or her responsibility? Does the person’s attitude seem to mesh with the company’s? What has been their longevity at previous employers? Once the hiring decision has been made, be sure to have a good orientation program in place to help the person integrate into the company and feel like a part of the team.

## **Intangible Benefits**

### ***Frequent and Ongoing Communication Is Key***

No one can be successful if they do not have a clear picture of what they are accountable for, or if they are not getting honest, timely and direct feedback about their job performance. This is as true for a worker on a construction site as it is for the key employees in the company.

Company leaders who are members of the Baby Boomer generation need to pay special attention to communicating with their Gen Y and Gen X employees—the company's future leaders—on a regular basis. These employees expect ongoing feedback, and they probably will not stay very long if they do not get it.

### ***Training and Education***

The costs associated with training and education can be high. Nevertheless, the benefits of offering training far outweigh the costs. Employees, particularly younger employees, feel they are valued more highly and that the company believes in them and their future with the company. This is especially important in an industry like construction where many companies are family owned and there can be a perception that it is more difficult to move up the ranks.

Whether or not there is room for growth, offering leadership training to key employees can contribute to a more vibrant company culture. Likewise, providing additional training in an area that complements, but is not directly part of, the employee's job description can be quite valuable. For example, a project manager may be offered a course in sitework estimating that will add to his or her understanding of how the business works—and may even result in an idea for a new process or procedure that ultimately benefits the company.

### ***Empower Your Team***

Leading is not about managing. It is about encouraging your team to perform to the highest level of their abilities. By giving them the freedom to express their opinions and engaging them in solving problems, the company sends a powerful message. Being available to listen to and address suggestions, complaints and workplace conflicts gives your employees a voice in the work process. These are just two examples of how you can show you value your key employees.

### ***Make Reward and Recognition Part of the Company Culture***

Rewarding accomplishments is another way of showing key employees (and all employees, for that matter) that they are valued by the company. The reward does not have to be monetary to be impactful: it can be an acknowledgement in the company newsletter or a handwritten thank you note from the company president.

The increased level of job satisfaction that results from these actions cannot be underestimated. These actions can have such a positive effect that employees use social media to alert their friends and colleagues about the honor, which puts your company's name out in the world in a very positive light and enhances your business's reputation.

## **Tangible Benefits**

### ***Compensation***

Monetary compensation is important, but it is not the only factor in whether a key employee stays or leaves. As long as dollar compensation is reasonable compared to the industry norms, the rest of the package can be structured according to the individual employee's needs and wants. For example, an additional vacation week may be more important to Employee A than a \$2,000 raise, while Employee B would prefer working from home two days a week over an increase in salary.

### ***Perks and Benefits***

Perks and benefits need to be something that makes sense to both company management and the employee. Key employees generally are entitled to more and/or a higher level of perks and benefits than lower level workers.

A wide range of choices are available. Popular options include:

- Life insurance (often set at a certain multiple of base salary)
- Long-term disability
- Tuition reimbursement for achieving an advanced degree, such as an MS in construction management or an MBA. Employers sometimes structure this benefit as a retention tool by reimbursing the employee a certain percentage over a set number of years rather than paid a lump sum.
- Leadership training

Other possibilities include discounted gym memberships and company discounts for amenities like cell phones. There are, of course, budgetary constraints and cultural restrictions. Quite often, the biggest stumbling block to meet the employee's request is the company's willingness to innovate.

### **Bonuses and Other Incentive Plans**

Incentive plans that offer future benefits can be part of the employment package offered to key employees. These plans, which require the employee to stay with the company over the long term in order to realize the full benefit, can take various forms. Deferred bonus plans, Employee Stock Ownership Plans (ESOPs), and phantom stock plans are examples of commonly used vesting plans, but they are not the only ones. Each type of plan works differently and each affords different tax benefits to the parties:

- *Deferred bonus plans:* Often called "golden handcuffs," these plans encourage key employees to remain with the company because they would forfeit earnings if they go elsewhere before a set retirement date. Here is an example: an employee is entitled to a 25 percent bonus if the company achieves certain set goals. But only 15 percent is paid at the end of the year in which it is earned; the next 10 percent is paid at the end of a defined period. The deferred bonus earns interest at a specified rate of interest and gross. The employee sees this as an "investment" in the future of the company and a boost to their retirement, college funding or other financial needs. It is complicated, but an added incentive is always waiting.
- *ESOPs:* The Company sets up a trust and makes tax-deductible contributions to it. Employees become fully vested over a set period of time. While higher paid key employees can benefit, the ESOP is not as effective at targeting or customizing benefits to key employees and can have rather high cost.
- *Phantom stock plans:* Phantom stock is essentially a cash bonus plan that is used by companies wishing to incentivize key employees without actually giving them equity. It can be an effective method of funding a future down payment for key employees to acquire equity.

Expert advice is needed before a company can decide which option to offer since the tax and financial consequences and level of risk to the company varies according to the plan.

While deferred payments owed to employees under certain of these plans are liabilities to the employees, the funds remain in the company to help fund operations. These amounts can be a source of funds for the employees to use as a down payment in an exit scenario involving an employee buyout.

### **Employee Contracts and Noncompetes**

Some companies outline the employee's benefits in employment contracts. These documents outline the employee's duties and responsibilities, the benefits he or she is entitled to, and any restrictions on future employment. An example of a restriction may be a time limit before an employee can solicit your customers after the employee leaves your company. There are pros and cons to using this technique, and, if it is used, the document should be carefully drafted by a qualified attorney.

### **Give and Get**

One additional way to show a key employee your commitment is to provide an additional payment of compensation in case of their death. This is usually very important to employees with spouses and /or children and can typically be funded with low cost term insurance. If the life insurance is payable to the company and the compensation is deductible, you can provide a tax savings to the company to cushion the cost of replacing the employee.

### **Conclusion**

A good employee retention plan motivates employees and makes them feel like equity owners even when they are not. On the company side, a high employee retention rate results in higher profits. Depending on the employee, the replacement cost is high. According to some experts, the cost can be a multiple of annual salary to replace specialized, high level employees. And that does not take into account the disruption to remaining employees and client relationships.

When weighing the costs and benefits of implementing an employee retention plan, remember that some of the benefits cannot be measured in dollars. They are an investment in the company and its future.



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