CASE STUDIES

EMPLOYEE SELF- FUNDED INCENTIVE:

The company is a midsize general contractor on Oahu. Six years ago, the owner felt the employees were engaged but not at the level he believed was possible. After a series of basic financial educational meetings with all employees, the company began the year with a published yearly planned revenue goal of $24M and a planned profit of 8% ($1.92M).
The owner explained to the employees that the company goal was to earn 8% before taxes and if the planned profit percentage was exceeded the firm would share the excess with all employees in a three way split.

The split was to be as follows:

- 1/3 for the company
- 1/3 for taxes
- 1/3 for employees.

The employee portion was based on a person's W-2 wages and they received a point for every month they worked for the company in the first year of the plan (a weighted average formula).

The owner was quoted as saying "I would be mighty surprised if we were to achieve the 8% as that is 3% higher than we have ever achieved in the history of the company."
Much to his surprise, and with lots of communication throughout the year on the incentive plan, the company exceeded the planned profit by 34.5 % in its first year!
In the second year, the owner maintained the stretch profit (profit beyond the planned profit) percentage the same as the economy was contracting significantly. Much to his amazement, the planned profit of the company doubled.
While the owner believed the company did have some very good jobs with high margins, he was astonished to have the profit double.
Since that time, the Hawaii economy went through a recession nearly as bad as the great depression. However, with the employee incentive plan the company continued to excel and has provided an incentive bonus to all employees for the past six years as they have exceeded the planned profit.
NOTE: The stretch profit the owner did not expect to receive and the incentive plan is not an expense to the company.

STOCK APPRECIATION RIGHTS (SARS)

A senior project manager from a large Hawaii contractor started his own firm and wanted to grow to a $10M firm within three years. During the first six months in business, two superintendent buddies came to work for the company. Before starting the company, he promised them ownership in his new company if they joined him, once he was established. Then he had second thoughts, and after reading up on SARS but believed this was the way to create a sense of company ownership, and retain 100% ownership in the company for himself.
At the start, the owner pegged the book value of the SARS at $1/share with a five year vesting plan. He gave each of them 5000 SARS.
The company, now in its fourth year, exceeded its revenue goal after the second year and began 2014 with a $5M backlog.

In January of 2014, the value of the SARS had increased to $4.17/share.