The Secret to Higher Employee Engagement

BY GARRETT J. SULLIVAN

As a management consultant, I hear a similar refrain over and over again from contractors: "My employees are interested, but they aren't as highly engaged in our company as I am." Given that employees aren't enjoying all the benefits of ownership, this shouldn't be surprising. Many contractors institute bonus plans to motivate key employees, but this still depends on the talents of the individuals at job-sites. Bonuses can be subjective, easily misunderstood and, if not monitored, become predictable, alternative forms of compensation.

Don't expect your employees to be excited about working hard to make money for *you*. They will more likely be interested in making money for *themselves*. Here are three proven ways to help them do that and add incentive at work.

Self-Funded Bonus Plan

To enact this program, owners must determine planned revenue and profit at the beginning of each year. The actual amounts don't really matter—but once set, they cannot be changed. These numbers (or percentages, if you prefer) are announced along with a promise that any profit above the projected benchmark will be shared with employees. The split can be made in a number of ways: for example, one-third to the company, one-third to taxes and one-third to employees. There are also many options for disbursing the employee portion. Employees can earn points toward the bonus for each month worked in a weighted-average formula, using their year-end wages as a base. An advantage of this method is that the company incurs no expense because employees are compensated with money you weren't expecting to receive.

Synthetic Stock (SARs)

Synthetic stocks, also known as phantom stocks or Stock Appreciation Rights (SARs), have become very popular. While similar to common stock, SARs have no legal standing as shares in the company.

To implement SARs, the firm must establish the book value of its stock at the beginning of the year. This can be translated back to $1 per share, a percentage or a starting baseline of 100. Key employees are then awarded a set number of SARs. An agreement lays out terms and conditions, such as the determination of book value and the distribution of payouts. The SARs obligation is then carried on the books as a liability. At the end of the fiscal year, when the new book value is set, employees can take a distribution or continue their "investment" at the revised rate. Adding a five-year vesting clause to the program is an innovative way to retain key talent as well. Like self-funded bonus plans, this method is not an expense to the company.

Employee Stock Ownership Program (ESOP)

This system provides employees with actual ownership interest in the company. In an ESOP, companies provide their employees with stock (often with no upfront costs) that is then considered part of the employees' remuneration for work performed. Shares may be held in an ESOP trust until the employee retires or leaves the company, at which time the shares are sold.

The primary challenge for ESOPs is scaling the plan to accommodate the number of employees needed to make it work. Additionally, a considerable amount of reporting is required for qualified plans—and laws are moving toward similar accounting for nonqualified plans as well.

While ESOPs can raise engagement, younger workers often find themselves having to wait for older employees to retire before increasing their share of ownership. New employees may also find the long-time horizon of these plans daunting.

When properly executed, employee engagement will almost always increase dramatically within a year of starting one of the above programs. I often ask contractors how long they think they could leave their company and still return to find it operating smoothly. A week? Two weeks? With contractors that take employee engagement seriously, their answer is: "I could leave for a *month* and not worry about what I might find when I come back." Spare yourself the insomnia, commit to an employee engagement program and take your well-deserved one-month vacation next year.

For a self-funded bonus plan and deeper analysis of SARs case studies, visit www.SullivanHI.com.

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