Motivate Employees to Behave Like Construction Company Owners, Part 2

Written by Brad Hams

Measure performance through the windshield, not the rear-view mirror.

Editor's Note: This is the second in a three-part series that examines how you can create a culture of accountability and purpose in your construction company. Read Part 1.

In This Series

Creating a culture of employees who think and act like owners can lead to amazing results, both financially and culturally. In this article series, Brad Hams shares three elements required to create an ownership culture:

1. Teach your staff business and finance fundamentals.

2. Focus employees on leading factors that drive your financial performance.

3. Create a broad-based, self-funded incentive plan tied to your company's increased profitability.

Construction companies (just as other companies) primarily use financial statements to keep score. However, business owners should actually use these financial statements to actively engage their employees in the company's financial performance. But it is important to remember that using only financial statements to create an ownership mentality will be problematic for three reasons:

1. Financial statements are historical documents. By the time they are available, it is too late to do anything about the results. Given this, business owners tend to manage their companies reactively—as if they are managing through the rear-view mirror.

2. Most employees never see detailed financial statements. And even if they did see these statements, they might not understand them or use them to make decisions.

3. Financial statements tell you nothing more than the score at the end of the game. They do not show what happened during the game that led to that score.

If financial statements are not enough, then what should you focus on? To answer this question, you must recognize that your financial performance is based on two things: your employees and the work they do. Of course, you must still focus on the end game, but to be proactive, you must first focus on measuring the most critical activities that will accomplish this ownership mentality.

In baseball, for example, a team must focus on runs, hits, errors, balls, strikes, walks and many other measurable activities that impact the score. The same applies in business. These measurable activities are called key performance indicators (KPIs).

Identifying your KPIs begins with simply identifying the critical issues that have the greatest impact on your business. To do this, conduct a brainstorming session with your leadership team. Schedule a full day, and begin by reviewing historical financial and operational data. A list of common construction industry issues to address may include the following: backlogs, average collection days, estimating accuracy (bid to actual), on-time job completion, number of punch list items and time to complete each item, safety and equipment damage.

Try This

The scoreboard is a mechanism to manage the business from a global perspective. To drill this throughout every layer of your company and engage everyone, attack one KPI at a time in a high-involvement manner. This can be accomplished with rapid improvement plans (RIPs). Follow these steps to create an RIP:

1. Identify a KPI that needs improvement.
2. Identify a quantifiable goal and a time frame for the RIP.
3. Quantify the cost savings of reaching the goal.
4. Determine the actions and people required to achieve the goal.
5. Name the RIP, and create a theme (have some fun).
6. Identify a celebration for reaching the goal.

Once you have identified your key issues, translate these into your KPIs, and build a scoreboard. See the scoreboard example below.

Once the scoreboard has been completed, begin using it in regular forecasting sessions (brief huddles). This will allow you to more proactively manage your KPIs, which ultimately will help meet or exceed budget expectations. These huddles also create accountability and a learning opportunity for employees. The huddles should be consistently held the first and third week of the month on the same day of the week and at the same time of day.

The three columns on the right-hand side of the scorecard example should be filled in with numbers. The first column is for the budget numbers, which should be populated prior to the huddle. This information should come from the company's budget (which should be created at the end of the previous year), and each "line owner" (the person with the greatest influence over each number) should identify these operational budget numbers.

The second column is for the forecast, which should be populated in real time at the huddle. (Some companies consider the forecast an opinion.) The line owners will give their forecast—what they believe the number will actually be at month-end. At the end of the meeting, everyone will know where the company is headed, what issues need to be addressed and how everyone can support one another to improve problem areas.

Construction Company Scoreboard Example **Current Month**

Week 1 **April 2011**

Line Owners		**Budget**	**Forecast**	**Actual**
Tom	Lump Sum Revenue			
Frank	Cost Plus Revenue			
Calculation	**Total Revenue**			
Bob	Cost of Goods			
Calculation	**Gross Margine**			
Zac	Overhead			
Calculation	**Profit Before Tax**			
Operational KPIs				
Tom	# of Prospects			
Frank	Backlog			
Zac	Average Collection Days			
Bob	Labor Variance (Bid to Actual)			
Bob	Materials Variance (Bid to Actual)			
Tony	% On-Time Completion			
Tony	Average # Punch List Items			
Tony	Average Time to Complete Punch List Items			
Josh	Lost-Time Accidents			
Josh	Equipment Management ($)			

The third column is for the actual numbers when they are available (typically midway through the following month). Remember, the purpose of the forecasting session is to identify where the company currently is and where it is headed. These huddles should take no more than 30 minutes and should not be focused on fixing problems. Problems should be handled in separate meetings. Keeping score with KPIs, scoreboards and RIPs will create an ownership culture and substantially increase your company's profitability.

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Brad Hams is the founder and president of Ownership Thinking, a consulting and training firm. He is the author of Ownership Thinking: How to Eradicate Entitlement in Your Organization and Create a Culture of Accountability and Purpose, and he speaks to business leaders on this subject. For more *information, visit www.ownershipthinking.com.*

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