

My strategy for compensating employees

> Mark Zweig articulates his opinions on incentive compensation with nine strategies on how to reward employees.

Although there have been many compensation-related articles over the years in the pages of *The Zweig Letter*, I thought perhaps it was time to clearly articulate my own strategies for compensating employees in A/E/P and environmental firms. So here it goes:

Strategy number one— divide the employee group into two major pots. All employees go into one of two categories. First are those who could have a business of their own. I think SOME people (those who could make it on their own) give up a lot when they take a job with a company. That is always at the forefront of my mind when I consider how to pay

> Editorial

I am much more about bonus programs based on overall company and/or organizational unit performance than I am about those that reward or punish individual performance.

them. Second are those who do not have such options. This will impact their compensation packages. Those who could have their own businesses are going to do better— a lot better— than those who don't have that option.

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Incentive compensation in the twilight zone

> Most still agree that rewarding performance is fundamental, but difficult times put a twist on the equation.

While incentive compensation appears to be as important as ever for many A/E and environmental consulting firms, programs have clearly suffered with the recession,

> **Trends** with smaller bonuses being dolled out and smaller, more select groups of high performers receiving them, a new survey by *The Zweig Letter* has found.

For some, the changes could even result in a fundamental shift in incentive compensation, as people are generally more worried about keeping their jobs than in keeping their bonuses. Nevertheless, leaders are also warning against sudden changes in plans.



Jean Carr,
Principal,
Shea, Carr & Jewell,
Inc.

"While it might be tempting to eliminate bonuses in an era when many people are glad just to have a job, we think incentive compensation is an important element of showing our loyalty to and appreciation of our staff— and a good way to reinforce their loyalty and commitment to our firm," says Jean Carr, principal at Shea, Carr & Jewell, Inc. (Olympia, WA) a 22-person consulting engineering firm.

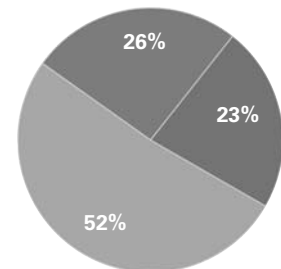
"I believe if you have had an incentive compensation plan in the past and can afford to fund it in 2010, you should.

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Special Focus: Incentive Compensation

> Employee Stimulus

How relevant will incentive compensation be in 2010?



As relevant as ever 52%

Not that relevant, given the economic changes 26%

Depends on the situation, but likely not as relevant 23%

Source: *The Zweig Letter* incentive compensation online survey.

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Incentive

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If you cancel the plan or choose not to fund it in 2010, you better do a great job of communicating the reason it was dropped or not funded, otherwise when good times return you might see an increase in your turnover rate,” says Bill Cooke, executive vice president at **Klotz and Associates, Inc.** (Houston, TX), a 120-person consulting engineering firm. “If you effectively communicate why the plan was dropped or not funded, chances are your employees will remain loyal. No doubt, good times will return, good people will be needed and they will be in demand.”

“If you cancel the plan or choose not to fund it in 2010, you better do a great job of communicating the reason it was dropped or not funded.”

The survey, conducted earlier this month, reflects the somber mood in the industry. While 52% of respondents said incentive compensation remains as important as ever, peeling below the surface reveals a far more complex picture, with many respondents saying they have reduced or eliminated staff-wide incentive compensation retention programs and have focused more on performance-driven programs that reward only key players.

TZL’s survey of 66 firm leaders shows that, while 48% of firms plan to leave their incentive compensation plans intact in 2010, 6% are eliminating them and 12% are giving out smaller bonuses. In addition, 9% are hiring at lower rates and not giving out bonuses, and 25% of firms are still reevaluating their 2010 plans.

Many executives expressed conflicted feelings on the subject of incentive compensation, and some even called for a shift away from the “entitlement mentality” often associated with such programs.

Despite the doubts, many still see executive compensation as essential in attracting and retaining the most talented

employees, and assuring a competitive edge. That benefit is both expected and seen as an obligation— although the pressure is certainly off, due to the economy.



Steve Briman,
Executive Vice
President,
Bartlett & West, Inc.

“The term ‘incentive compensation’ would be more aptly named ‘fair reward’ in our industry. A basis to fairly reward people is always appropriate,” says Steve Briman, executive vice-president at **Bartlett & West, Inc.** (Topeka, KS), a 285-person

firm offering services that range from engineering to landscape architecture. He rated incentive compensation as important as ever.

But even firms with strong incentive compensation plans are raising doubts about their viability in the current economy.



Bob Jones,
President,
Jones & Carter, Inc.

“Our incentive compensation plan is based on profit. Since we have experienced substantially reduced revenues and profit, bonuses will be significantly reduced or eliminated in 2009,” says Bob Jones, president of **Jones & Carter, Inc.** (Houston, TX), a 303-person, full-service engineering, planning, surveying and consulting firm. “Likewise, if our business is poor in 2010, there will not be bonuses in 2010 either, but that is yet to be seen. If an incentive compensation plan is truly an incentive plan based on performance, then the plan should be able to survive good years and bad. Unfortunately, in a bad year, a good plan will simply not pay out any incentive funds.”

Barry Koretz, president of **BKA Architects** (Brockton, MA), a 40-person architecture firm, sums up the quandary well: “Incentive comp is to reward those

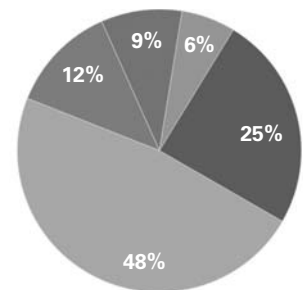
who have worked hard to achieve their goals and to prevent individuals from moving on, both of which are less relevant in this economy. Goals are not being met and jobs are not available,” he says.

ZweigWhite’s *Incentive Compensation Survey of Architecture, Engineering, Planning and Environmental Consulting Firms* shows that that amounts spent on incentive compensation doubled from 2006 to 2008 to a mean of \$3,240,494 per firm. That’s a trend unlikely to continue in 2009 and 2010.

Other data also show that until very recently, companies had predictable plans for compensation in place from year to year, but that might be changing. For example, in 2007, 66% of responding firms said that they included some kind of incentive compensation plan in their annual budgets, while the 2008 survey shows that 69% of firms planned the same. The just-released 2009 survey shows that every responding firm planned for some kind of incentive compensation in their budgets.

> Bottom Line

Are you making changes to your incentive compensation plan in 2010?



No, we're leaving our incentive compensation plan intact48%

Yes, we're giving smaller bonuses in 201012%

We're hiring at lower rates and not giving bonuses9%

We have eliminated incentive compensation and cut pay6%

We're reevaluating our incentive compensation25%

Source: *The Zweig Letter* incentive compensation online survey.

Nevertheless, reality has settled in and *TZL's* survey shows that while planned, in many cases, incentive compensation in 2009 had to be severely curtailed or readjusted.

“The term ‘incentive compensation’ would be more aptly named ‘fair reward’ in our industry.”



Robert Morrison,
President,
Morrison-Maierle, Inc.

“Due to the economy and its impacts on our firm, we have had to rescind incentives for the most part in 2008 and 2009,” says Robert Morrison, president of **Morrison-Maierle, Inc.** (Helena, MT), a 300-person engineering, planning, and surveying firm.

“We would like to be able to provide incentive compensation again in 2010, but that is obviously dependent on the economic position of the firm as we go

through the year,” Morrison says. “Our staff has gone through a couple of trying years similar to many other firms affected by the economy.”

Others are reevaluating their options.



Chris Anderson,
Vice President,
Hoefler Wysocki
Architects

“We have frozen salaries, effective Jan. 1, 2009, had one small round of layoffs (in early April 2009), and accordingly, are hoping to be able to utilize incentive compensation (year-end bonus) to reward our dedicated staff who have weathered the storm with us,” says Chris Andersen, vice president at **Hoefler Wysocki Architects** (Kansas City, MO), a 66-person architecture and engineering firm. “While our firm is experiencing business conditions that point toward full recovery and potential growth in 2010, we will evaluate our position at year end and make incentive compensation decisions accordingly.” ■

Plans

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the industrial assembly line model, and that’s not how they view their own work.”

A realistic look at a professional workplace, Rosen says, demonstrates the limits of incentive compensation plans. Many employees work as hard as they can regardless of a firm’s bonus structure—workers he describes as “incorrigibly good”—and some will be “incorrigibly bad,” no matter what incentives exist. “How many people are there that will actually work harder, and how many hours will they work harder? Not many. Your incentives may not have much of an effect,” Rosen says.

More effective plans, he says, examine what behavior is being rewarded, and why. “If you get people to create ideas—bring in new information and identify new opportunities—you can make quantum leaps forward,” he says.

Rusk agrees there are limits to the effectiveness of incentive plans. Managers, he says, “should not fool themselves into thinking they will substantially influence employee behavior with an incentive compensation plan of any type.”

“We view the incentive plan as a reflection of TPD’s corporate culture and strategic planning.”

That’s not an argument in favor of eliminating incentive compensation plans, Rusk says, but a warning to firm leaders not to let the plans become a substitute for good management.

“The managers’ job is not simply to reward the high performers with big bonuses at the expense of the low performers,” he says. “Their job is to train, coach and mentor all staff to perform at the desired level, and if necessary get rid of the ones that can’t or won’t rise to that level.” ■

> Calendar

VALUATION AND OWNERSHIP

TRANSITION: Being an owner in an A/E firm is not like owning shares in a public company. Owners and potential owners of A/E firms need to understand how value is determined, but without free market information, where do you start?

ZweigWhite Management Events presents *Valuation and Ownership Transition*, a one-day intensive seminar designed exclusively for principals in firms like yours. Course instructors Ian Rusk and Michael O’Brien make their living advising A/E firms on valuation and ownership transition issues. They each have extensive backgrounds in finance and A/E firm strategy. In just one day, they will explain how valuation and ownership transition works, how to evaluate ownership opportunities in an A/E firm, and how to establish a transition plan that supports your firm’s vision and growth strategies and makes ownership a “good investment” for both current and future owners. The program is being held in conjunction with Zweig White’s *AEC Mergers & Acquisitions Summit* as a pre-conference seminar on Dec. 2 in Palm Beach, FL. Your course fee includes a seminar workbook, continental breakfast, lunch and refreshments on the day of the event. Plus, you’re invited to network with program presenters and other attendees from forward-thinking AEC and environmental consulting firms.

For more information or to register, call 800-466-6275 or log on to www.zweigwhite.com/seminars/vot/index.asp.

BEST OF 2009 AWARDS: Organized by McGraw-Hill Construction, *The Best of 2009 Awards* is a series of special events to celebrate and honor the building teams that created the best projects of 2009 nationwide. These extraordinary projects are selected by juries of local prominent industry professionals. Categories awarded cover a variety of building and highway/heavy categories— from Best Commercial Project to Best Highway Project, and many more.

These events will be held in various locations in December, including: Dec. 2 in Chicago; Dec. 3 in Baton Rouge, LA; Dec. 8 in Dallas, Salt Lake City, UT, and San Francisco; Dec. 9 in Los Angeles, New York, and Orlando, FL; Dec. 10 in Memphis, TN; Dec. 11 in Baltimore and Seattle; Dec. 15 in Phoenix; and Dec. 17 in Las Vegas.

To register or for more information, log on to construction.com/events/bestof2009.