

Employee-Based Project Incentives

Toolkit

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Employee-Based Project Incentives Toolkit

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Phase I

What Are Employee Incentives and Why Use Them?

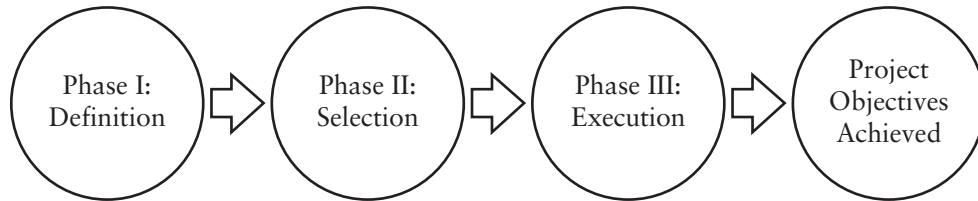


Figure 1. The Employee Incentives Work Process Model

Definition

An incentive is defined as “something, such as a punishment or reward, that induces action.” Incentives are encountered every day — we hope to get a pay raise because of job performance, or we stay within a posted speed limit because we are afraid of getting a speeding ticket.

Incentives are now commonplace in engineering and construction projects. Efforts to date, however, have focused primarily on incentives at the company level, e.g., an owner provides a contractor with a monetary incentive for meeting a certain completion date. Little documentation exists regarding the effects of applying incentives that are provided directly to individuals or groups of individuals (project team, specific craft, discipline group) based on results achieved on a project.

This toolkit focuses specifically on developing Employee Incentives Plans (EIPs) for individuals or groups of individuals who are working on a specific engineering and/or construction project. It does not address annual bonus plans or other similar performance incentives; rather, its application is limited to developing an employee incentive plan for a one-time project of defined scope and duration.

Sample Objectives, Incentives, and Results

Employee incentives tied to safety performance have been used for many years, with good success. Few companies, however, have tried linking employee incentives to other performance factors. The more successful programs have established a direct relationship between the project objectives and the performance criteria used to determine the incentive payout. This direct relationship helps in four ways. First, it

forces management to clearly establish project objectives and the performance criteria required to achieve them. Second, it helps the employees to better understand the project objectives and the employees' direct impact on project success. Third, it helps the employees to maintain their focus on the project objectives because the EIP provides continuous feedback on their level of performance, which in turn has a direct impact on project success. Fourth, independently of the type of contract, it is important to define who will be in charge of the EIP, and who will pay for it. The ideal situation is that the EIP driving company (owner or contractor) will take the lead and fund the program. This will ensure that the objectives of the EIP are aligned with the objectives of the EIP driving company.

Following are some sample project objectives, the employee level incentives used to help achieve the objectives, and the results achieved.

Sample Project 1

Contractual Relationship — Cost Plus and Partnered

Objective — Decrease labor cost by increasing attendance and retention of skilled craftsmen in a tight labor market.

Incentive — Additional \$0.75/hr paid for each week with no absences; banked for the project and paid only to those who remained until their portion of the project was complete.

Results — Absenteeism of seven percent and cumulative turnover of 48 percent for an 18-month project. Owner saved over \$20 million in labor contingency.

Sample Project 2

Contractual Relationship — Cost Plus

Objective — Reduce radiation exposure in asbestos abatement project at a nuclear power station. Workers would reach exposure limit less quickly, which in turn would mean fewer workers would need to be hired and trained for the work (the more workers that must be hired and trained, the more expensive the project is to the owner).

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Incentive — \$1500/millirem avoided, with 80 percent of incentive going to craft.

Five millirems is the maximum allowable per person per year. Crafts were given incentives in order to better plan and manage their work, thus decreasing the amount of time spent in a “hot” area.

Results — Normal exposure rate for the 10-day shutdown was 100 millirems; expected performance was 90 millirems; incentive goal was 70 millirems; actual performance was 30.9 millirems, less than 1/3 the normal rate. This in turn meant that workers would be available for three times as many projects. Shutdown was completed in seven days instead of 10, so unit could start up three days sooner. The key is to be creative in developing incentives to focus craft and discipline efforts on the correct areas.

Other objectives supported by EIPs include:

- Decrease costs on a project with high risks and contingency by offering incentives for innovative engineering/construction processes.
- Lower owner’s cost by allowing owner to self-insure for workers’ compensation; this was feasible only with an excellent safety record.
- Provide low-cost, quality design services from international offices.
- Improve teamwork between owner and contractor; improve project and business management practices.
- Reduce operational downtime, increase facility availability; reduce cost of repeat capital work.
- Reduce schedule.
- Improve community relations.
- Increase value engineering.

Phase II

Am I Ready for Incentives?

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The next step in the toolkit is for you to determine your readiness to implement an Employee Incentive Plan. To help, this section includes a self-evaluation checklist.

The checklist consists of nine important questions. The nine questions are divided into two categories. The first three questions are considered critical to the potential success of any EIP. That is, if your answer is “no” to any of these first three, then you are definitely not ready for an EIP. Each of the remaining six questions is important, but is not as essential to success. The more “yes” answers you provide on the last six questions, the better prepared you will be for successful implementation of an EIP. If you answer “no” more often than “yes” to these remaining six questions, it indicates that you have more work to do.

Following is a discussion of each of the nine questions. This will help prepare you for completing the worksheet (see page 9) at the end of this section.

Critical Success Questions

1. Have project-specific goals and objectives been established?

Before undertaking an Employee Incentive Plan, time and attention must be spent on collaboratively developing realistic project goals and objectives. Achieving consensus on these is critical. The team assigned this task should not exclude any stakeholders associated with the project.

2. Is the leadership team committed to the concept of utilizing an EIP on the project?

Besides the development of project goals and objectives, initiating an EIP is likely to concern the upper management of the involved organizations. Success will depend on the EIP’s proposed benefits and costs being approved. The boundaries upper management(s) impose on the EIP need to be identified in order to avoid surprises.

The decision of whether to implement an EIP becomes most critical when the issue of funding arises. The funding issue should be simple and straightforward in order to calculate the costs of providing incentives; it is more difficult to quantify benefits that often are only apparent near or at the end of a project. (Refer to question #5 for more discussion pertaining to the importance of establishing “key measures.”)

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3. Has a leader or champion of the Employee Incentive Program been identified?

The most successful EIP efforts are those where a “champion” is identified. Beginning an EIP requires a driven, committed team leader with a clear understanding of the project goals and objectives. The leader also must know how the project objectives can best be met by implementing an EIP. Failure and disappointment is likely if an EIP is simply imposed without ensuring the day-to-day presence of a champion committed to its success.

Important Success Questions

4. Have the effects of an EIP been considered and addressed within the context of the environment?

The “environment” refers to any number of what may be considered non-stakeholders in your decision making process; i.e., other contractors, owner employee groups, employees in other areas of the company, the community at large, and others. Care should be taken to consider those who may be affected by the decision to implement an EIP for a specific situation. An example might be an EIP being considered for a single project at an owner’s facility, but where other projects are ongoing. Implementing an EIP in one area without considering the impact on other groups is likely to have negative consequences.

Depending on where an EIP is planned for implementation, the most difficult obstacle can be overcoming concerns within the environment. The lack of communication with stakeholders affected by your plan has the potential to produce severe impacts on the outcome of the project’s goals and objectives.

Failure to consider and address the effects of a project-specific EIP can lead to a host of unwelcomed problems. An assessment of the impacts on other departments, business units, and field work forces should be considered. The key is to communicate early and often with all stakeholders. Be prepared to invest considerable time and energy on this issue.

5. Has the project team established “key measures” and have they ensured that there are systems and human resources to support their identification and reporting?

It is critical to have defined project goals and objectives before launching an EIP. It also is important to design an EIP so that it helps achieve project goals and objectives. Implementing an EIP requires one to consider what will be measured, how it will be measured, and by whom. An EIP’s financial outcome — cost versus benefit — is probably the most desired measure, yet is the most challenging to capture.

Creativity in measuring the financial success of an EIP is important. Often objective financial data are not readily available. A paradox exists regarding most projects reporting anecdotal financial success associated with EIPs, but they often objectively demonstrate the value of an EIP in monetary terms.

6. Is there an “expert resource” familiar or experienced with EIPs available to the project team?

An EIP is more likely to be successful when the leader and expert is the same person. This is an advantage because the leader is usually involved in the project throughout its life cycle and has a stake in achieving success. However, outside consultants can be engaged as EIP experts to help the leader design implementation of the EIP. The probability of achieving success with an EIP is enhanced when the leader and a knowledgeable expert are aligned, and if it is the same person, all the better.

7. Have similar EIPs been identified and explored?

The value of knowing about others’ past experiences regarding EIPs can be beneficial to the success of your project. There should be no limits on creative approaches used in designing an EIP. Decisions can be based on a trial and error approach. Benchmarking initiatives, contacting others who have had experiences outside the industry, and borrowing ideas all are recommended and can lend credibility to an EIP.

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8. Does your organization have a culture open to change; is it open and adaptive to the idea of an EIP?

An honest appraisal is important here. Companies may have cultures that are hierarchical and dominated by leadership who are resistant to change. A creative EIP is a significant step for these organizations. If you are the champion for an EIP effort and work for a company with such a change-resistant culture, your high expectations for a creatively designed, effectively managed, financially successful EIP that is perceived favorably by employees may be headed for trouble if all members of your company's leadership team have not accepted the EIP concept.

9. Have the costs and benefits of an EIP been considered and agreed upon by all project participants who have a financial stake?

The apportionment of costs and rewards associated with EIPs must be clearly understood and should be considered to be part of the contractual agreement between the parties in a project. This is often the exception. It is more common for this understanding to be created after the contract is awarded. Consideration of implementing an EIP often occurs after project goals and objectives are determined. The more creative and comprehensive these initiatives are, the more often the owner receives positive results.