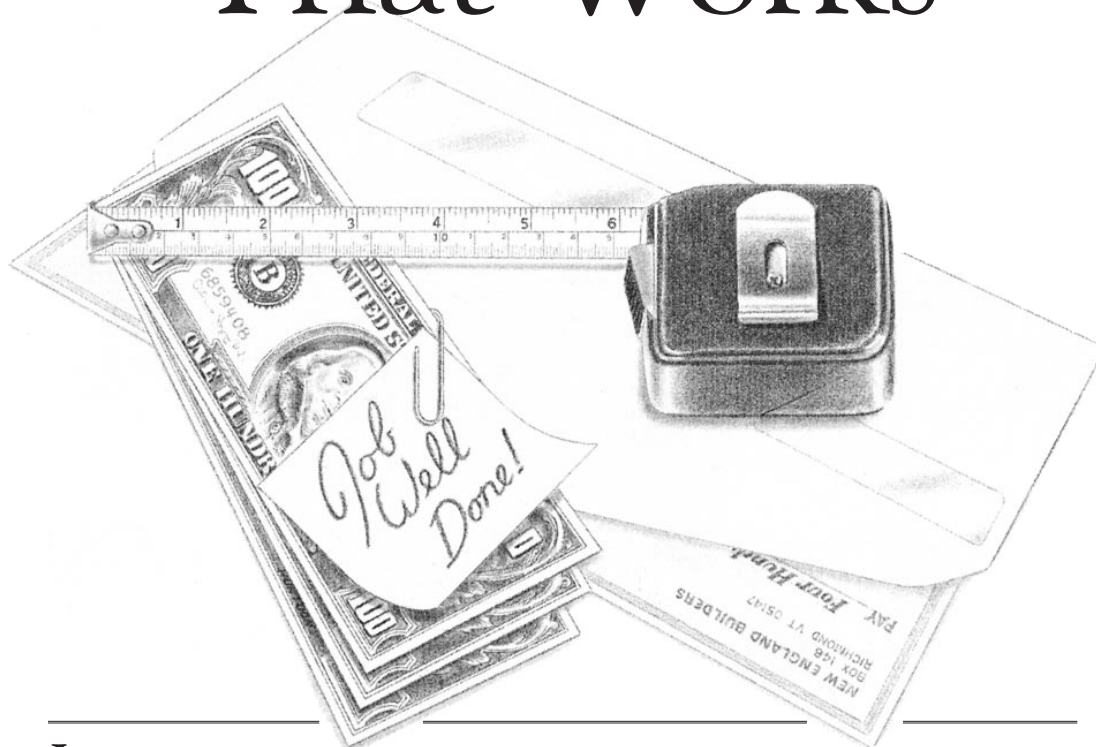


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BY JACK TENHULZEN

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# A Bonus System That Works



I started my residential remodeling company in 1979 with a pickup truck and a box full of tools. Within four years, I had become so infatuated with residential remodeling that I set a long-term goal of becoming the best remodeling contractor in my local market. Even though I had the necessary trade skills and business management experience, I soon realized that I couldn't do it all myself. My wife joined the business, and as we hired additional carpenters, we also began to appreciate the importance of being good managers of people. From the beginning, we demanded quality craftsmanship and high productivity from our employees, but we also expected loyalty to the company. We had to find a way to instill a sense of

commitment to the long-term goals we were setting for the company.

Our business plan recognizes employees as the backbone of the company. Our philosophy is that our employees have entrusted us with their careers, and it is our responsibility to provide the proper environment for their personal and professional growth, job security, and financial reward.

***A successful bonus system must rely on objective measures of performance. Here's one approach.***

## **The Problem With Bonuses**

Over the years we've built up a strong benefit package that includes medical and dental insurance, paid vacation and holidays, fuel reimbursement, and a retirement plan. But one of the most difficult benefits to establish was an employee

ILLUSTRATION BY ROBERT HUNTTOON

# Skill Assessment

One of the most valuable evaluation tools we use for new employees is a form called *Assessment of Trade Skill*. (We used to call it “strengths and weaknesses,” but we didn’t like the negative overtones that title implied.) The form breaks down all the different skills a carpenter needs to master. Both management and the employee fill out the form, measuring on a scale of 1 to 5 their comfort level and competence in each category.

In addition to giving us an “objective” way to evaluate a new employee’s place in the company, the form serves two very practical purposes. First, it keeps us from setting someone up for failure. Before we assign an employee to a particular task — installing cabinets, for example — we can check their most recent skills assessment to see if it’s the kind of work they’re comfortable doing. We can also track their progress (we perform the skills assessment every six months) to see if they’re in a rut or making progress.

Second, the form allows us to pair people together so that a more experienced employee can train a newcomer. This kind of on-the-job training is crucial to both the success of the company and to the morale of our employees. — J.T.

## Assessment of Trade Skill

Name \_\_\_\_\_ Date \_\_\_\_\_

TASK	(GOOD)	1	2	3	4	5	(BAD)	COMMENTS
CABINETS								
CERAMIC TILE								
CONCRETE: FORMS								
FLAT WORK								
COUNTERTOP: CORIAN								
LAMINATE								
CROWN MOLDING								
DOORS: HINGED								
GARAGE								
DRYWALL: HANG								
TAPE								
TEXTURE								
DUCTWORK: HOODS								
FANS								
HVAC								
ELECTRIC: PANEL								
OUTLETS								
LIGHTS								
3-WAY								
RANGE/OVEN								
FLOOR: HARDWOOD								
MARBLE								
TILE								
VINYL								
CARPET								
FRAME: RAFTERS								
HIP/VALLEY								
GUTTERS								
INSULATION								
LANDSCAPE								
MANTEL								
MASONRY: BRICK								
STUCCO								
MILLWORK TRIM								
PAINT: SPRAY								
BRUSH								
ROOFING: ASPHALT								
SHAKE								
METAL								
TILE								
PLUMBING: COPPER								
ABS								
GALVANIZED								
FINISH								
GAS								
SIDING: ALUMINUM								
STUCCO								
SKYLIGHT: VELUX								
STAIRS: DISAPPEARING								
WINDING								
VACUUM (CENTRAL)								
WALL PAPER								
OTHER								

A new employee’s trade skills are evaluated every six months. This form helps supervisors avoid assigning new employees to tasks that are beyond their ability. It also helps pair skilled and unskilled workers together for on-the-job training.

# EMPLOYEE PERFORMANCE APPRAISAL

TENHULZEN REMODELING, INC.

Employee name \_\_\_\_\_ Date \_\_\_\_\_

## Performance Ratings (scale from 1 to 10)

- (10) *Consistently exhibits exceptional performance. The employee is performing at a level well beyond job standards.*  
(8) *Performance is above job standards.*  
(5) *Performance is satisfactory. Job standards are being met.*  
(3) *Performance is at the minimally accepted level. Improvement is required.*  
(1) *Performance does not meet minimum job standards.*

MAJOR PERFORMANCE RATINGS			
Area	Area Weights	x Area Scores	= Weighted Total
Key Accountabilities (What is accomplished)	60%		
Process Skills (Means of execution)	25%		
Development (Current & future skills)	15%		
GRAND TOTAL			

KEY ACCOUNTABILITIES	
Comments	Relative Weight x Performance Rating = Total
Productivity	25%
Profitability	25%
Motivation/attitude	20%
Customer relations	15%
Communication	15%
AREA SCORE	
PROCESS SKILLS	
Comments	Relative Weight x Performance Rating = Total
Problem solving	50%
Technical skills	30%
Supervisory skills	20%
AREA SCORE	
DEVELOPMENT SKILLS	
Comments	Relative Weight x Performance Rating = Total
New skills	50%
Training courses	50%
AREA SCORE	

**Figure 1.** Twice a year, employees and management both fill out this form, which measures performance factors such as productivity, profitability, problem-solving ability, and technical skills. In each subcategory, the overall performance rating on a scale of 1 to 10 is multiplied by the "relative weight." A profitability rating of 8, for example, when multiplied by 25, yields a score of 200. Area scores are totaled and multiplied by the percentages called "area weights." Weighted totals from all three areas are added to give the grand total.

bonus system. At one of our monthly company meetings several years ago, a veteran lead carpenter suggested we provide individual performance bonuses. He had already mapped out details for how such a bonus plan might work.

Since it is our policy to include employees in the decision-making process for every issue that affects their livelihood and standard of living, we put the idea of bonuses on the table for general discussion. As we studied various models, we all agreed in principle that exemplary performance deserved additional compensation, but we had trouble coming up with a measure that would be fair to everyone.

One obvious method of measuring performance is on a “per job” basis. The problem is that the size and complexity of a project — and the corresponding responsibilities for the person in charge — introduce a sense of inequity. Two lead carpenters may be assigned to work on a large project. Both may be capable of running their own job, but only one is given that responsibility for this particular project. Such a large responsibility should be rewarded when the project comes in under budget. But what about the other lead carpenter who worked on the project and does not receive a bonus or receives a smaller one? He may begrudge the fact that he was placed as a second hand on the job instead of being given a project of his own.

We encountered this problem often. It was obvious that the lead carpenter ought to receive a bonus, but what about others on the team who worked side-by-side with him and helped to make the job profitable? Adjusting for costly mistakes complicated the question further. We discussed the idea of reducing bonuses to compensate for mistakes (it’s illegal to dock an employee’s pay for this reason), but decided it had too many problems. How could we fairly determine the cause of a mistake, for example, and what would we do if more than one person was responsible? We finally decided that the threat of a penalty wasn’t the ideal way to motivate employees to perform better. It was obvious that we needed a bonus system that would recognize accomplishment without creating feelings of jealousy, blame, and guilt.

## Reviewing Performance

We hit on the answer while we were preparing the next year’s business plan and budget. We realized that if we set aside money for bonuses in the annual operating budget, those funds could be paid to individuals based on the results of performance reviews.

The whole company worked together to develop both the review process and the evaluation form. We agreed that the most objective approach would be for each employee to perform

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**It was obvious that the lead carpenter ought to receive a bonus, but what about others on the team who worked side-by-side with him and helped to make the job profitable?**

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a self evaluation. Management would simultaneously evaluate each employee using the same form.

We have three classifications of carpenters: apprentice, production, and lead. The form we use helps us to measure factors in three areas for each classification: Key Accountabilities, Process Skills, and Development Skills (Figure 1). We fill out the forms before the interview and use the results as a basis for discussion.

**Key Accountabilities.** One of the things we measure in this part of the evaluation is *productivity*. We look at the total dollar volume of work produced by each lead carpenter during the period and measure it against the job description and against other leads in the company with similar responsibilities. One of the reasons our company has grown so rapidly in recent years is that two of our lead carpenters each produce about \$250,000 worth of work a year. If this volume drops significantly during one evaluation period, we discuss the reasons with the lead car-

penter and set up goals for the next year.

*Profitability* is another factor we look at for lead carpenters. We keep detailed records throughout the year showing which type of work makes the most money for us. We know, for example, that our most profitable jobs are between \$10,000 and \$25,000 in size. We also know which type of work — kitchen remodels, for example, or one-room additions — is most profitable. For each lead carpenter, we perform a standard net profit calculation on the volume of work for which he had responsibility. If it is close to 10% (our net profit goal), then he scores high marks. If it is low — say, 4% — we try to discover why.

It’s difficult to measure production and profitability in this way for apprentices and production carpenters, so for these employees we look more closely at *motivation* and *attitude*. Our analysis is less statistical, relying more on conversations with the individual employees, their fellow workers, and the lead carpenters they have most recently worked under. We look at employee characteristics such as punctuality and amiability, and whether or not the person is well organized. We have worked hard to nurture an open atmosphere so people are not shy about expressing themselves. The bad apple shows up pretty quickly.

The personal comments from the employee’s self-evaluation are very important for this part of the evaluation. They give us an idea of how the employee feels about the work he’s doing and the people he’s working with. If there’s a problem, the evaluation interview is a perfect time to talk it out and come up with solutions.

We measure *customer relations* by sending a Customer Quality Audit to our customers after each job. We use a standard New England Business Service (NEBS) form (Figure 2, next page) to get feedback from clients on how our lead carpenters and crews performed.

Finally, we try to measure *communication*. We review all of the comments from all of the interviews to measure how well the employee communicates in various relationships. There is also a very practical side benefit in doing this. We have found that some employees don’t take verbal instruction well,

TO: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Date \_\_\_\_\_

Dear \_\_\_\_\_

> Thank you for contacting our company and giving us the opportunity to work with you on your project. If we can be of help in the future, please call us! We're always available to discuss your needs. We take pride in our work and are constantly striving to maintain our high quality. Would you help us by taking a minute to answer the following questions? Your comments are valuable and will help us serve you better in the future. **Thank You.**

• **Were we responsive to your needs?**

Before the job ☐ Yes ☐ No  
During the job ☐ Yes ☐ No  
After the job ☐ Yes ☐ No

• **Was the job...**

started on time? ☐ Yes ☐ No  
completed on time? ☐ Yes ☐ No  
left clean? ☐ Yes ☐ No

• **Were our workers courteous?**

☐ Yes ☐ No

• **Did we do everything we agreed to do?**

☐ Yes ☐ No

• **Were you satisfied with the price and value of the job we did?**

☐ Yes ☐ No

• **Were you pleased with the quality of our work?**

☐ Yes ☐ No

• **Would you consider us for future projects?**

☐ Yes ☐ No

We invite you to write in any additional comments...

**General Comments:**

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

• **May we use your name as a reference on future jobs?** ☐ Yes ☐ No

Signature \_\_\_\_\_ Date \_\_\_\_\_ Phone \_\_\_\_\_

**Figure 2.** Customers fill out this standard NEBS form after completion of their job. The form gives management some insight into the lead carpenter's ability to manage the project and communicate with the customers.

but if you give them a written work order, they're fine. For others, it's just the opposite. Still others communicate better using drawings. By determining each employee's individual style of communicating, we can better control the way we give instructions and pass along information.

**Process Skills.** The second area we look at is Process Skills, which measures the means people use to get things done. One important factor here is problem-solving ability. Problem-solving is the essence of remodeling. During the evaluation, we look at how each employee approaches the many kinds of problems that inevitably arise on a remodeling job. Most of this information comes from our lead carpenters

and from observations we make during weekly visits to all of our sites.

We also measure *technical skills*. We use a separate form called *Assessment of Trade Skill* (see "Skill Assessment," page 53) that tracks an employee's progress from year to year in learning to work with different tools and materials, and in performing different kinds of tasks.

We evaluate *supervisory skills* by talking to crew members about the lead carpenters and also by watching how jobs progress. When you visit a site, it's easy to distinguish between a job that is well organized and one that's being run haphazardly.

**Development Skills.** Finally, to measure *development* over time, we

compare the last trade skills form with the most recent one to track new skills acquired and weak skills improved. We examine this history every six months for the first two years an employee is with us, and annually after that. We also account for training courses the employee has completed successfully during the evaluation period.

## Making It Work

The evaluation process is a major undertaking. We do it twice a year — in August and in February — spreading the interviews out over a month. We conduct one interview each evening after work, spending about 1½ hours with each of our 20 employees.

After an employee has been with us for two years, we move to an annual review. At this point, the Assessment of Trade Skill is not as important because the employee has usually mastered most of them and is bumping his head against the ceiling. So the higher an employee is on the ladder, the more importance we attach to communication, customer relations, and supervisory skills. If productivity and profitability are in line, we place more emphasis on the comments employees make on their self-evaluation form than on "objective" criteria.

We have had a positive experience with this bonus system because it is based on performance, tenure, and company profitability, and it is supported by a huge amount of historical data about each employee. It rewards all company employees — field and office staff alike — and it does so frequently enough to keep everyone motivated. And because the cost of the bonuses is planned for in the annual budget, it's not coming out of profits — it's a part of our overhead. We usually budget bonuses at 1% of annual volume — in a \$2 million company, this amounts to a pool of \$20,000. We award the actual cash bonuses twice a year, but we are careful to make sure our employees understand that bonuses are discretionary. Even if things are going well, there's always a chance that we'll have a slow year, and we don't want bonuses to become something everyone expects to receive regularly. ■

*Jack Tenhulzen runs Tenhulzen Remodeling in Redmond, Wash.*