



Analytical Graphics, Inc.

It is critical to any business to keep staff engaged and turnover down, and even more so in competitive sectors facing tight labor markets for highly skilled workers. A range of appealing benefits, a high-involvement management style, and the opportunity for employees to own company stock are typically key components of a successful human resources strategy, although what exact mix of things engages employees varies from company to company.

Analytical Graphics, Inc. (AGI), a 17-year-old software company with 250 employees that provides analysis and visualization solutions to the aerospace, defense, and intelligence communities, is a striking example. Headquartered in Exton, Pa., AGI mainly employs software and aerospace engineers to create sophisticated air, land, space, and sea analysis tools for the government and private sector.

Compensation Philosophy

AGI has built a compensation strategy to embody its belief that every employee contributes to and should share in the company's consistent growth and performance. Therefore, AGI offers all employees the opportunity to participate in a long-term, stock-based incentive program, alongside competitive base pay, a performance-based incentive program, comprehensive benefits, and a 401(k) plan.

At AGI, stock option grants have historically been available to all eligible employees. With company growth, however, AGI needs to monitor awards for Securities and Exchange Commission (SEC) regulations compliance that specify strict filing and disclosure requirements for companies with a minimum of 500 stockowners or option holders. These SEC requirements would have imposed significant compliance obligations upon AGI and threatened to limit the company's growth strategy.

From Options to an Ownership Trust

In 2006, AGI evaluated alternative long-term incentive programs that would enable it to address these SEC requirements while providing stock ownership opportunities to all employees. Recently, the company decided to change course, opting to use a tax-qualified stock-based profit sharing program that still allows employees to share in future company growth. According to the plan, AGI automatically enrolls employees as participants. The company makes annual contributions to the plan and participants' accounts; these contributions are based on a mixture of company performance and board approval. AGI then hires professionals to conduct annual external valuations. Participants vest after five years. Once a year, employees may make an election (based on vesting and plan parameters) to cash out or diversify a portion of their accounts. Balances accrued in the profit sharing plan grow tax deferred until the time of withdrawal.

Other Performance-Based Incentives

A portion of each AGI employee's total compensation is at risk, a structure used to keep staff motivated on corporate goals. This structure is built through a short-term cash incentive plan, where all employees are given a predetermined target incentive award that is paid out based either on the firm's overall achievement or a specific company goal within a division. If the company fulfills a predetermined goal, an employee could be paid 100% of the promised award; if the company outperforms the target, an employee could conceivably earn more, as these target awards are not capped. Payouts come in the form of cash, typically in quarterly increments, and are taxable at issuance.

AGI employees are also eligible for spot recognition awards, given to staff based on individual contributions and based on management discretion. These awards can be either monetary or non-monetary (i.e., gifts such as sporting tickets, electronics, etc.). AGI also has a 401(k) plan, in which the company provides a 50% match up to 3% of an employee's compensation. The company also makes additional discretionary contributions annually based on overall corporate profits.

Finally, the company has an incentive stock option program that grants options once a year on a discretionary basis. These grants are determined by sustained exceptional individual performance.

Perks and Culture

Aside from AGI's three incentive plans, the concept of ownership by employees is threaded throughout the company in other ways. For example, each Friday, employees eat lunch together and participate in video teleconferences that feature company reports from executive officers, managers, and other team members. These weekly meetings disseminate information in a fun and transparent atmosphere.

AGI, however, goes a long way beyond what most employers might provide for their staff. In addition to these Friday lunches, the company's high-involvement, high-trust culture encourages employees to make decisions without management's permission. In fact, there are only three executive officers at the company. AGI also provides an on-site health club and laundry facilities, a place to bring kids while working, free catered meals, on-site minor car care, back massages, fully paid health care for employees (plus a small additional fee for family coverage), and free carbon-monoxide detectors for home use—a gift that has saved two lives in the company's history. The benefits and the management style helped AGI be named the *Best Small and Medium Sized Company to Work For* in both 2004 and 2005 and netted it a turnover rate about one-seventh that of its competitors.

These benefits, of course, are costly, but AGI believes its much lower turnover rates more than compensate for the costs. Many industry experts, for instance, peg the cost of turnover at 1.5 times the salary of the replaced individual. ■