

Hello everyone. This is Wayne Rivers at The Family Business Institute. Thanks for tuning in. Please click on our social media icons and follow us on YouTube so that you never miss an installment.

This week I want to talk about the very best employee incentive program. Why am I bringing this up? Well, our members are always struggling. They're asking us, they're asking each other, they're looking to their other advisors and they're struggling with how do we get our employees to do the right things at the right time. How do we increase their ability and willingness to think like owners? They're always casting about, looking for the best incentive plan. I want to tell you about the very best incentive plan there is, and we think we've stumbled onto it.

Now, this comes from our most recent Boot Camp class. So just as I've worn you out over the years with talking about our peer group program, now I'm going to wear you out talking about our boot camp program. Just in case you're interested, the 2020 boot camp dates, Cohort Charlie will begin February 19<sup>th</sup> and Cohort Delta will begin on April 15<sup>th</sup>, 2020. In case you're interested in more about boot camp, click on the icon below. Charlotte can give you some more information.

In the context of boot camp last time we're sitting there, we're talking about incentive plans, and somebody says, "Well, what about Goodhart's law?" Okay, I didn't know what Goodhart's law was, but apparently, it's fairly common. Goodhart's law came from a 1975 article and from an economist named Goodhart obviously, and he said that, "Any observed statistical regularity will tend to collapse once pressure is placed upon it for control purposes." If you extrapolate that into common English and business English, you might say that employees who know they're going to be measured by some quantitative formula will optimize towards that measure whether or not their behavior is in the company's best interests. What it amounts to, and I'm really paraphrasing now, is people learn to game the system.

What we talked about in Boot Camp was if you create your incentive program to focus on job profits, well that might mean that you hoard resources, which hurts other jobs that people are trying to do, or maybe you have less safety because you're focusing on one thing and not the other. If on the other hand you focus your big metric is on safety, well that might mean less profits, because an over focus on safety, if there can be such a thing, or it might mean that you push the schedule in the interest of increasing safety. If you then focus on the schedule, well that might mean sacrificing quality, sacrificing safety or sacrificing profits. You see?

The problem with incentive plans, and this happens over and over and over again in our client companies, they put an incentive plan in place and ultimately, they realize that it focuses on the wrong things. Now, having said that, in 30 years, we have seen a couple of incentive programs that actually work. What that means, we've seen dozens if not hundreds of incentive programs, which don't work.

So, what is the very best incentive program for your closely held business to put into place?

The best incentive program is to have a company with a wonderful culture. That is absolutely the best incentive plan that you can possibly have, but nobody wants to hear that because creating a company culture takes intention and it takes a lot of CEO and leadership team time. It doesn't materialize instantly. It can take a year or maybe even a decade to materialize to the point where you want it.

Incentive programs on the other hand are sexy because boom, you incentivize a certain behavior right away by putting time off or financial rewards or something on the table. They generally don't work and can even backfire.

The best incentive program, I'm sad to say, but I'm happy to say, is to have a great company culture. I'd like to have your feedback. That's a little bit controversial.

This is Wayne Rivers at The Family Business Institute. Thank you.