

Hello, everyone. This is Wayne Rivers at The Family Business Institute. As always, thanks for tuning in.

This week I want to talk about the cobra effect, it sounds ominous, and unintended consequences. Lots of things in life create unintended consequences, and I think one of the most famous examples is when the British ran things in India in the city of Delhi. The British people in charge thought that there were too cobras. They thought that it was a public health hazard that these snakes were all over the city. So, they came up with a plan. They created a bounty program so if someone killed a cobra and brought the dead snake to the British government folks, they would immediately receive a cash bounty.

Well, India at that time was a very poor country and people saw this in a very entrepreneurial fashion as an opportunity. So before long, they're catching and killing cobras, and people are raking in large amounts of money because of the bounty. Well, the snake population went down and that's not good for entrepreneurs. What they started doing, believe it or not, was they started breeding cobras in their homes and then they would bring in the baby cobras as each new group was born, and they would collect their bounty. Pretty soon, the British is paying out a lot of money in the form of these snake bounties and they said, "Holy moly, this program is too expensive. It's an unintended consequence," and they canceled the program.

Now people don't want snakes in their homes, so all the people that were breeding cobras released the cobras out into the streets and guess what happened? Delhi had more cobras at the end of the program than they did at the beginning of the program. A heck of an unintended consequence. So, what about this is important to you? Why am I talking about snakes in a blog about closely held construction companies? Well, there are lots of occasions where unintended consequences rear their heads. One of the most of the common one in construction companies is incentive plans. Of our 240 members, the incentive plan question comes up practically every meeting. It comes up at boot camp all the time.

Incentive plans are really hard to implement. Let me give you an example. The most common incentive plan that I've seen over the years is project managers being incentivized project by project to come in on time, on budget, et cetera, et cetera, and if so, they would receive a bonus. That sounds like a really good program. What's wrong with it? What unintended consequences might there? The project manager could get a nice bonus, but it could leave out the rest of the team. It could leave out the admin folks who are obviously integral to the company's success. It could leave out the project executive that helped. It doesn't do anything for the superintendent, et cetera, et cetera.

It could even be the case that the company loses money during the course of a year, and yet one project manager brought in two or three jobs successfully and receives huge bonuses. So, the company's under water at the end of the year on the PNL, and yet you're paying out \$100,000.00 in bonuses to a project manager. Another problem, hoarding of resources. If I'm incentivized on my project to get things done quickly, efficiently, et cetera, I am going to bring all the resources I can get to bear so that I'm assured of earning that project bonus. Now I'm hoarding resources at the expense of other jobs and other project managers. So, you can see the unintended consequences.

What's the best incentive program? Oh boy, you're excited now. Wayne, what's the best incentive program? It's not exactly what you want to hear. The best incentive program is to have a great company with a great culture that you have engineered intentionally, a relentless focus on your people, the care and nurturing of your people, having a great strategic plan that's communicated up and down throughout the organization that everybody buys into, having a CEO and senior leaders who focus on big pictures and their highest and best use, and avoid micromanagement and things like that, and a long term focus on the part of all the leaders of the company. That's the best incentive program.

If you have those things and you have a terrific company of that nature, the need to create incentives go away because you've got motivated people, you've got a great plan, you've got a great leader, you've got a great vision. Everybody bought into the mission. Now let's say you still want a more dialed in incentive plan. That's fine. Just make sure your incentive plan is heavily weighted to the success of the overall company, that way you don't have individuals getting large

bonuses when everybody else is potentially suffering. Make sure the company is the focus, because we're all in this together.

I'd be interested to know in the comments what has worked or maybe not worked so well for you. Let us have the benefit of your thinking. This is Wayne Rivers at The Family Business Institute. Thank you.