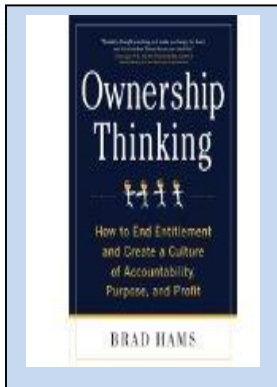


## Ownership Thinking Brad Hams



### Why read this book?

“It’s an insidious disease that is crippling companies, destroying our economy, and crushing potential. It’s infecting the very roots of business performance, and it’s spreading fast. It isn’t the recession, market volatility, scandal, or greed.

**It’s ENTITLEMENT.**

**And it may be killing your business.**

Ownership Thinking shares Hams strategy for the Right Education, The Right Measures, and the Right Incentives so employees will learn to think and act like owners and become active participants in the financial performance of the business.” (Jacket)

### Key Quotes

“As we Americans have prospered over the decades, I’m afraid we have lost sight of what made us great. We have become a bit soft and have created more and more entitlements that allow us to have smaller lives focused on day-to-day satisfactions and gratifications that are, in the great scheme of life, not all that compelling. (P. xvi)

“It would never occur to a person of self-esteem and independent judgment that one’s ‘identity’ is a thing to be gained from or determined by others.” (P. 9)

“OT is about moving employees away from only the “me” way of thinking and toward the concerns of the business and its financial performance.” (P.5)

“One of the most common reasons that initiatives fail (or never realize their full potential) is that the stakeholders are not involved in the implementation and follow-through of the initiatives.” (P. 196)

“Your organization should always have at least one RIP in process.” (P. 179)

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*Braeuler Consulting works with organizations to leverage Strategic Thinking and Execution Planning and we encompass many of the principles in these books into our Four Decisions™ methodology and development of company’s One Page Strategic Plans. Whatever system you decide to use, understand them fully, implement them slowly and completely and maintain the discipline and rhythm necessary to see concrete results. Employees tire of “Flavor of the Month” and thrive on organizational alignment, execution of plans and achievements that garner a sense of accomplishment.*

### Brad's Bio

- Berkeley Ski shop at 2.50/ hour
- Boot store manager in Oakland
- Put himself through college and graduate school
- Manager at a bakery
- PepsiCo – worked operations and finance to leadership role in corporate
- Ran his own business in Mexico
- Successful consulting company
- Voracious reader

### What concerns you day to day?

Business Owners	Employees
Profit	Paycheck
Cash flow	Benefits and health care
Risk	Getting my work done
Competition	Job security
Employees	Recognition
Cost controls	Time off/work environment

Judith Bardwick in her book *Danger in the Comfort Zone* says:

*Entitlement is an attitude, a way of looking at life. Those who have this attitude believe that they do not have to earn what they get. They get what they want because of who they are, not because of what they do. When this rich nation stopped requiring performance as a condition for keeping a job or getting a raise, it created a widespread attitude of Entitlement. Entitlement destroys motivation. It lowers productivity. In the long run it crushes self-esteem*

Ownership Thinking requires:



### Why Ownership Thinking is desperately needed

- ❖ “To create cultures of employees who think and act like owners, with the purpose of creating wealth...the creation of wealth allows for investment of that wealth to create more wealth.
- ❖ It is about creating extraordinary organizational cultures – cultures where employees learn the business of the business, are active participants; where everyone is challenged and must take responsibility for their company’s destiny and their role within it; where workers know what the heck is going on and how they contribute; where everyone is a “part of”; and where people have fun.” (P. 3)

Abraham Maslow lists 19 assumptions he suggests we should make of people (P. 16). The four that are most relevant to the point that people are tougher than we may think are:

- ❖ Assume in all your people the impulse to achieve.
- ❖ Assume an active trend to self-actualization.
- ❖ Assume people can take it, that they are tough, stronger than people give them credit for.
- ❖ Assume that people are improvable.

## Common Characteristics of Great Companies

- ❖ They care. Deeply. About one another, their product/service, their customers. And a higher purpose.
- ❖ They have fun.
- ❖ They have high expectations of performance. Not about activity but operational/financial excellence.
- ❖ They have winning cultures.
- ❖ People.

## Creating Incentive Plans...That Work!

EVERY incentive plan MUST be SELF-FUNDING!

This is NEVER a BONUS (a gift) but an INCENTIVE (a condition of a behavioral change)

It IS an OPPORTUNITY – to create more personal wealth and is not considered compensation

### Elements of a POORLY designed incentive plan:

- ❖ It creates separate fiefdoms (us vs. them; one unit's profitability does not equal Co. Profitability)
- ❖ It is discretionary (e.g. holiday bonuses – not tied to behavioral change and really just a gift)
- ❖ Employees think goals are unrealistic/unattainable (Let them help ID goals so they see them as achievable)
- ❖ No perceived value (incentive has to get their attention!)
- ❖ Goals not communicated (employees must connect what THEY do to goals to be achieved)
- ❖ Changing the plan (don't change during the year and lose credibility yet remind them the plan may change year over year and communicate those changes clearly)

### Elements of well-designed incentive plans

- ❖ They are self-funding
- ❖ They have perceived value
- ❖ They have shared targets
- ❖ The goals are understandable
- ❖ The goals are a stretch, but attainable
- ❖ They clearly align employee behavior to business objectives

### Designing Your Plan

1. What key indicator will drive your plan? **A successful indicator is PBT – employees understand it and can directly impact it. You may need a second number i.e. Cash flow → use Average Collection Days**
2. Who will participate? **Best is a Broad-based plan which includes everyone**
3. What is your threshold? **Factor in shareholder ROI, debt retirement, capital needs, covenants & TAXES**

4. What is your stretch goal?
5. What is your total payroll? Number of employees? Determine what percent of PBT will go into pool. Sweet spot is 8-12% of total wages at stretch goal.
6. What is your percentage share? Easiest method is based on percent of salary to total
7. Should your plan be capped to a maximum payout? If so, what is it and why? Not recommended unless dealing with ESOP, Nonprofit, or industries with wild profitability swings tied to market conditions.
8. What is your distribution method?
  - a. Based on wages or percent of salary
  - b. Equal distribution regardless of position
  - c. Distribution based on shares based on responsibility and impact on performance
9. Should the plan be quarterly, annual, or something else? Frequency helps shape behavior.
10. Should there be a separate management pool? Depends on your company needs. Should be a separate plan with a smaller payout. It is important to communicate this in general terms to all employees as they will find out anyway. Transparency is critical to morale and trust.

### The arguments against incentive plans (Daniel Pink)

- Extinguishes intrinsic motivation
- Diminishes performance
- Crushes creativity
- Crowds out good behavior
- Encourages cheating, shortcuts and unethical behavior
- Becomes addictive
- Fosters short-term thinking

## Your Employees Think you make Wheelbarrows of Money

### The importance of business acumen training for employees:

- What your employees don't know can hurt your company
  - Assumptions of High Profit Margins tends to create wasteful employees
  - Where's my piece? – creates morale problems
- In the absence of information, people make stuff up (ask them what is your company profit %?)
- So what if your competitors found out your numbers – there are probably few surprises in them!
- Keep it simple
  - $P\&L = \text{Revenue} - \text{expenses} = \text{PBT} - 40\% \text{ for TAXES}$
  - Cash Flow Statement = Cash in (collections, loans) – cash out (payments, capital expenditures) = change in cash; Key difference between P&L and cash flow is timing
  - Balance Sheet = what company owns, what it owes, and what it REALLY owns
    - Your house = value of house – loan (what is owed) = Your equity
  - Capital Expenditure: purchase price – no impact on P&L; asset on balance sheet; then expenses for depreciation, interest, maintenance/costs. Offset: improved revenue or efficiency to help make money.

- Share the difference between sales and profitability and savings and profitability.
  - At 5% margin \$1.00 in sales = \$0.05 in profit
  - A \$1.00 saved goes direct to the bottom line
  - To create \$ 1.00 in profit requires \$20.00 in sales
- Average Collection Days: drive the conversation to how each employee can impact that metric.

## Measure Through the windshield not the rearview mirror

Financial statements are historical documents – LAGGING indicators. Employees do better when focused on leading, activity-based measures that drive financial results. What CREATES your financial performance? – Your people and the stuff they do! (P. 107)

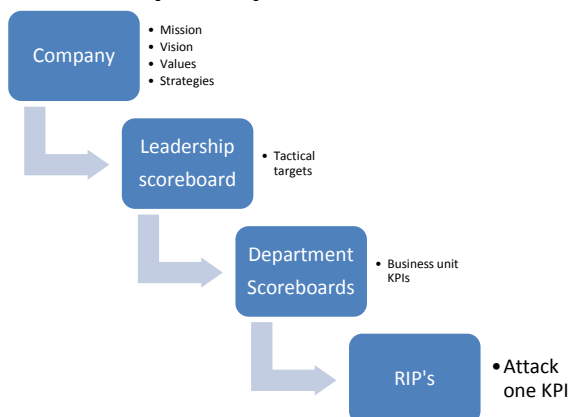
- Revenue – what actions/measures do YOU do that can help drive revenue e.g. customer touches, sales calls, service delivery, call for additional business.
- COGS – What actions/measures do YOU do that can help drive down COGS e.g. Overtime, material variance, scrap, rework, discounts...
- Cash Flow – Average collection days, aging,

Identify your KPI's and then create a score board

XYZ Company		Month1	Month 1	Month 1	Year to Date	Year to Date	Year to Date
Owner		Budget	Forecast	Actual	Budget	Forecast	Actual
Name	Existing Cust Rev						
Calculation	% total revenue	000	000	000	000	000	000
ETC							

- Budget is set prior to start of fiscal year and DOES NOT CHANGE! Forecast populated at beginning of the month to provide a more real time estimate and actuals are populated at the end of the month.
- Book provides great details on huddles – who participates, when, and how to run them effectively.
- Each department should also create and maintain their own level scoreboards.

## Get RIP'd – Rapid Improvement Plans



### Creating your RIP

1. ID KPI needing improvement
2. ID quantifiable goal and time
3. Quantify financial benefit
4. Determine action and people required to achieve goal
5. Name RIP and create theme – have some fun
6. ID a celebration for reaching the goal

### **Make a commitment:**

*“In 1992 I was offered the job of president for Mrs. Fields Cookies in Mexico...I packed all my belongings...and moved. This was by far the most terrifying thing I had ever done. I didn’t speak Spanish. I knew very few people, and I had no close friends in Mexico. I didn’t understand the culture. And I was taking the reins of a company that was struggling. What was I thinking?”*

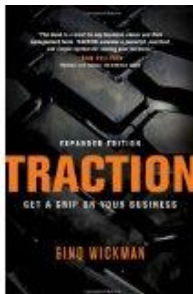
*My point here is that I **had moved to Mexico City**. I **had** to learn the language. I **had** to make friends and get involved in the business community. I **had** to get familiar with the culture. I **had** to get my arms around the company and the issues it was facing.*

***Here is the thought I want to leave with you: I want you all to move to Mexico!”<sup>1</sup>***

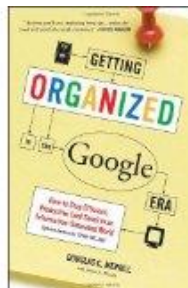
## Actions to take from the book

- How can you help employees to identify the “cracks in the table” – inefficiencies and missed opportunities?
- What would happen if your focus were on ideas for improvement and innovation?

Friday September 25<sup>th</sup>



Friday October 16<sup>th</sup>



Friday November 20<sup>th</sup>

<sup>1</sup> Ownership Thinking, Brad Hams P.225