Encouraging Good Stewardship: Act Like Your Company's Money Is Yours

By Gregory Milano

"Would you do that if it were your money?" This is a question I hope you ask yourself and your colleagues regularly, as spending company money like it's yours is a sign of good stewardship on behalf of the owners of the business.

Many of us have seen waste and inefficiency that would never have happened if the people spending the money acted more like long-term, committed owners. For leaders aiming to drive strong corporate performance, getting people to embrace an ownership mindset can lead to benefits that span beyond less wasteful spending.

The first benefit is agility. In my experience as founder and CEO of a consulting company, I've found most large and medium-size companies aim to control spending and minimize waste by establishing spending budgets and only allowing people to spend what's in their budget. While this approach can help reduce bad spending, I've noticed it can also stifle good spending. For example, when desirable new ideas come up midyear and do not fit in the approved budget, they are often shelved until it's time at the end of the year to discuss the budget for the following year. This makes companies sluggish, rather than agile, which is not ideal in today's fast-paced business world.

The second benefit is balance. People managing a profit center must make tradeoffs between sales growth and the cost of achieving that growth in order to drive higher profits. Here, again, it helps to think more like an owner but in a different way.

Consider a decision between two marketing options: The first option is to spend an extra amount on promotion, such as discounts, coupons and accessible shelf space, which will drive, say, an estimated 2% sales growth. If we repeat this for three years in a row, we expect about 6% cumulative sales growth.

If, on the other hand, we invest the same amount in highly effective brand-building activities like advertising, what might be different? With the absence of the sales-triggering discounts and such, it's quite possible that in year one the advertising option might not be as effective as promotion—so let's say first year sales only grow 1%. Any manager who chooses advertising and is paid a bonus based on profit versus budget would earn less income that year since they would get less sales growth with the same cost. So, most managers would prefer to spend money on promotion, and indeed, they are being paid to make such a decision.

But if it was your money, is that what you would do? The key consideration is that, for the most part, spending on promotion is designed to achieve current sales, with minimal lingering effect. The consumers attracted by the promotion will likely choose a competitor next week if that competitor offers a better discount. But advertising is designed to create a positive image in the consumer's mind, which goes beyond mere awareness by making an emotional connection, and that often lingers. So in year two, with repeated effective advertising, sales might grow more—maybe by 3%.

And then, by year three, the cumulative effect might be so strong and differentiating that sales might grow 4% or 5%. The cumulative growth over the three years might be far higher than with the promotion option. In cases like this, an owner thinks quite differently than a manager trying to beat an annual profit budget.

To dive deeper into this behavioral dichotomy, consider how a manager who does not think or get paid like an owner and chooses the advertising path would be treated in years two and three. We already established that they would earn less in year one. But the enhanced growth rate that is expected in years two and three would get baked into the budgets for those years, raising the standard required to earn a satisfactory bonus. The performance would be higher in those years but so would the budgets, so they never get paid for the success.

I've noticed this is a common problem for most companies, as with all multiyear investments, the payoff for the company in years two and later is normalized out in the budget process. Why bother if you are just going to get the same in years two and three and have the pay shortfall in year one?

The third benefit is culture shift. To get managers and employees to act like the money is theirs requires a cultural shift that starts with treating them more like owners or partners. I think they must personally earn more when they create more value for the owners, whether they planned for it or not. And the same is true in reverse: They must earn less when they destroy value, even if they sandbagged their budgets with understated sales and profit projections.

Business performance reviews need to change, too, in my view. Even if we pay people the right way, we will not get the behavior we seek, unless they see non-monetary cues that align with the ownership mindset.

For example, if a business unit projected a 30% return on an investment, well above the corporate hurdle of a 10% return, and then delivered actual performance of 25%, they should be praised. Consider saying: "Great job with this investment—it earned two and a half times our hurdle rate. Let's find more like this!" The fact that it earns less than projected should be investigated to learn more for next time. But it's important to avoid emphasizing in a negative way that the actual results are worse than the projections, or we may not hear about such good ideas next time.

So, although the idea to "act like the company's money is yours" gets us to think of spending less, it actually gets us to spend differently, and sometimes to spend even more. Getting a whole organization to act this way can be challenging, but it can lead to strong competitive advantages that are difficult to replicate.

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