

Ownership and the Problem of Moral Hazard

By Joe Whitefield

Good leaders are continuously engaged in continuous improvement. The saying that “everything works, but nothing works for long,” has never been truer than it is now. That is because everything changes. Change seems to be one of the few constants for today’s organizational leaders. Even good ideas and programs can have a short life because something will change, increasing the costs or diminishing the benefits.

One great challenge for organizational leaders is establishing an environment where change is expected and cultivated in such a way that positive outcomes and actual improvements result. One attitude that can be critical to a pro-change environment is ownership. How often do we hear a call to take ownership of some aspect of our work or the situation? What does this really mean?

MINE

Ownership is centered in the concept of possessing something. Possession implies that, in addition to having rights to any benefits, the owner incurs the costs of possession as well as retaining several responsibilities that can result in negative consequences if not properly carried out. In order to maximize benefits and minimize negative consequences, owners often take their responsibilities seriously and make decisions that support their interests. And ownership decisions are often different from non-ownership decisions.

We are all familiar with the question, “Who washes a rental car before they



turn it back in”? Although I have washed the cars that I own numerous times, I can honestly say I have never washed a rental car. Again, the responsibilities and consequences of owning something and simply using something are quite different.

This concept is so well engrained that we rarely have to explain it. We speak of taking ownership and most people know what we mean: Act like you own it so that you make better decisions, or take more pride in it and better results will follow. Adoption leads to improvement.

YOURS

As it turns out, there is actually an economic term, and a snappy one at that, which explains many issues related to ownership. It is *moral hazard*. Moral hazard is a circumstance by which individuals make different decisions, typically

involving more risk, when the cost or consequences of a bad decision falls to someone else. Think about the decisions people make when spending their own money versus spending some else’s money. A mother recently told me how her son always orders a foot-long sub sandwich when she is paying but only a six-inch sandwich when he uses his own money. Apparently, understanding of moral hazard starts early.

THEIRS

Moral hazard is more prevalent in businesses and more destructive than many people realize. To unpack this with a facilities management focus, let’s first consider where it might exist. Most university and college campuses, including mine, have numerous processes that involve some form of other-party payers or cost subsidization. This column has

discussed before the basic landlord structure that exists whereby facilities management services are delivered to tenants who often do not bear the direct costs or the full costs of the services. To these customers, services are simply provided. They include basic services such as:

- Routine maintenance—if someone else will repair/replace it, what is the incentive to protect it?
- Cleaning services—if someone else will pick it up, what is the incentive to properly dispose of it?
- Energy/utilities—if someone else is paying for it, what is the incentive to conserve it?

These attitudes are not only negative, they often have significant costs to the organization.

FUTURE COSTS AND CONSEQUENCES

There is another significant area where moral hazard is often at work, namely in the design of new buildings. Even with recent advances in the concepts of life-cycle costing and total cost of ownership, many design processes still fall short of providing for cost-effective out-year operations and maintenance.

Inaccessible equipment, inadequate system isolation strategies, non-standard/costly cleaning requirements, technologies that cannot be reasonably supported, and inadequate/unsupportable energy management systems and strategies are just some of the costly byproducts of a process in which those designing the buildings are not the ones bearing the costs or consequences of operating or maintaining the buildings. Being out-of-sight and out-of-mind, future costs and consequences are easy trade-offs for present building elements and amenities. It requires a special commitment to the principle of ownership to truly account for life-cycle costs.

INSTILLING OWNERSHIP

Ownership is an incredible attitude to instill in employees and write into the processes of an organization. There are a lot of books and resources extolling

the benefits of this attitude. At its core, it requires people to ask questions and make decisions as though the current and future costs and consequences would be theirs.

Make no mistake, however; it is never as easy as it might seem. Moral hazard is a formidable foe. As long as the conse-

quences and costs are passed along to someone else, there is little incentive to change. 

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