

Open-Book Management

Employees understand what it takes to successfully run the business.

By Lea A.P. Tonkin

Does your company share financials and operating results? Great idea. Does your organization let everyone in on these numbers and prospects for future business? That's still a radical idea in many organizations. For companies practicing open-book management, such as Web Industries, Central States Manufacturing and Springfield



Remanufacturing, there's no reason to debate the point. When employees are equipped to make better decisions, an organization gains competitive traction.

“Open book management is an umbrella term for a spectrum of activities, from sharing more information than is required by law to transparency in the organization's books,” said Loren Rodgers, executive director of the National Center for Employee Ownership (NCEO). Rodgers contends that most fears about sharing company information are overblown. More important concerns for companies using the practice include:



Loren Rodgers

- How much data is shared, based on factors unique to the organization.
- Education — how to create an understanding that will enable employees to use the information for the organization's advantage.
- Action plan — how to share operating and financial details in an effective manner, with the goal of improving overall performance.

Develop a Plan

“It does take an investment on the firm’s part to educate employees and create a structure for them to do something about the information they gain,” Rodgers said. “It’s easy for companies to over-promise what information will be shared and how it will be followed up.”

Move forward gradually with the transition to open-book management. “There are two really good ways to start,” he said. “One is to focus on two or three critical, easily understood numbers, such as on-time delivery performance or the scrap rate. Get a good connection in people’s minds about the numbers and how their actions can affect them.”

Targeting a single problem, such as health insurance costs, is the second basic approach, labeled a “narrow, deep dive” by Rodgers. Get people involved in creating options and seeking better numbers. Sharing numbers about current and projected performance is a low risk in organizations characterized by a positive environment based on mutual trust. “There are some cultures where an organizational overhaul is needed, to get the poison out of the system first,” Rodgers said.

With organization-wide information and understanding about “how we’re doing,” everybody (not just senior management) can make better decisions about what to work on, what customers want and what impacts success. In turn, employees innovate and improve with their goals in mind. “People are happier to be at work, feeling more engaged,” said Rodgers. “They have a good reason to think beyond the immediate future.”

Rodgers shared several suggestions for effective open-book management strategies:

- Post and discuss performance results in shorter time increments (such as weekly or monthly), then share information about how these numbers affect annual results and bonus payouts, if appropriate.



- Senior leadership should introduce and champion the program, then get out of the way. Let a cross-functional program committee update and post the numbers; it's a good way to build buy-in.

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- Communicate during good and hard times. Be ready for downturns. Rodgers cited a company that developed a four-stage contingency plan; metrics and remedial action steps for each level of overall performance enable employees to see what the company needs to do when storms develop, giving them a sense of control and a focus on improvement.

Web Industries: Competitive Advantage

Sharing company performance data and explaining how employees' day-to-day actions affect the numbers contributes to competitive strength at Web Industries, Dayville, CT. "We face strong competition, here and abroad," said Todd Pihl, general manager. "Open-book management has been helpful in creating and retaining jobs. Our employees are better educated and well informed about the issues our business faces, enabling them to make a more positive impact on our performance." Web Industries' primary product lines at Dayville are multilayer flexible medical laminates and components for the wire and cable industry.

Pihl said Web Industries' 60 employees at Dayville receive monthly financial updates on gross sales, net sales, labor costs, new sales by department and expenses. All significant

variances from budget are reviewed during monthly plant meetings. A committee including operations management, accounting, quality, sales and other managers facilitates this open-book program. “I believe it helps us to grow a whole group of business people,” he said. For example, employees were informed about the \$500 cost for a pressure transducer on an extruder. “We related the cost of a pressure transducer to the cost of a big screen TV. If we are not all aware of the costs of the equipment and supplies we use, how can we make a positive impact on our financials? We also look at initial equipment cost, depreciation, preventive maintenance and other factors in their decisions about operating and maintaining the equipment.”

The company’s wellness program also draws on employee interest in participation, partly fueled by its impact on insurance premiums. Health awareness, weight loss, walking and related programs lead to lifestyle changes and help Web Industries manage health insurance costs over time, Pihl said. “In addition to the positive impact this has on costs, we are all living healthier lifestyles, which brings benefits that cannot be monetized,” he said.

As a company with an employee stock ownership plan (ESOP), Web Industries continues to improve communications linking daily activities to the company’s success. “Open-book management educates employees about how they can positively impact their business. The better informed they are, the better decisions they can make,” Pihl said.

Central States Manufacturing: Employees Act as Owners

Open-book management enables employees to enhance their impact on overall performance at Central States Manufacturing in Lowell, AR. “We are an employee-owned company. Open-book management has been very much part of our culture since the beginning,” said Ladena Lambert, human resources director. “We act as employee owners in making day-to-day decisions.” The company manufactures quality metal building components for the post-frame, light gauge, architectural/residential and commercial markets. Product offerings include exposed and concealed fastener panel profiles as well as trapezoidal standing seam panels and other products.

Employees hear and discuss updates on the company’s financials, the business growth plan and strategic direction during company-wide monthly meetings. “We try to educate employees about what it takes to run a business,” she said. “We dollarize what they do and its impact. Scrap metal is an example. We are a metal building component manufacturer. So, we bring to the attention of our machine operators the importance of reducing scrap in their production processes, which saves the company dollars. If they understand that every foot of scrap costs a dollar, for instance, they can conclude that when they have 400 feet of scrap, it costs us \$400. They can then tie that to how much we pay them to run the material.”

An “aha” moment happens when employees realize that the amount of weekly scrap costs more than they are being paid to run the machines, Lambert said. “When people can tie their performance to the company’s performance, it helps them to act more as an owner in making decisions,” she said.



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Each of the company's 375 employee-owners annually attends a training class on applying its mission and values to everyday decisions. Core values are integrity, excellence, accountability, success/quality of life and financial success. The values are in priority order; financial success is not even considered if the decision does not meet expectations for the other core values.

"Our employee owners are well equipped to make good decisions," Lambert said. "We give them a lot of responsibility and authority. In some companies, employees may only care about their area and their paycheck. Here, we see people suggesting improvements in their own area and also asking about improvements in areas not specifically related to their job. Every single day, we are looking for ways to improve."

Lambert said she does not perceive any downsides to open book management. "People are acting and operating as owners, with information they need to be engaged," she said. "It is built on trust, and it nurtures trust and accountability."

Despite the recent economic downturn, Lambert described Central States Manufacturing's performance as "incredible." "We have continued to break records and grow at an impressive rate. A lot of it is due to our culture," she said. For other organizations considering the move to open-book management, she recommended the book, *The Great Game of Business: Unlocking the Power and Profitability of Open Book Management*, by Jack Stack and Bo Burlingham and information available through NCEO.

Springfield Remanufacturing Corporation (SRC): Provide a Stake in the Outcome

Companies need great ideas and active support from all employees to succeed, said Steve Baker, vice president of the Great Game of Business division of Springfield Remanufacturing (SRC) in Springfield, MO. He recounted how SRC CEO Jack Stack and 12 other managers bought a failing division of International Harvester in the early 1980s, hoping to save jobs. They had a heavy debt load and didn't know how to run the business. The managers learned together, developing a business plan in 1983 and striving to make a bank loan payment.

“Contributions from everyone in the organization, acting as owners, were needed to make that payment, whether they were bookkeepers or machinists,” he said. When leadership adopted open-book management, communicating through numbers so that everybody could see what was going on, employees learned how to focus on important issues facing the company. In turn, SRC prospered. As others clamored for information about this successful approach, SRC began to offer plant tours. The Great Game of Business book by Stack and Burlingham drew new converts. Related conference and training information is available at the Great Game of Business website, greatgame.com.

“Open-book management is two components: transparency, or opening the books, and also educating people,” Baker said. “Unless people understand the numbers, they don’t mean much.”

Leadership needs to run the business in an open way. After targeting a critical goal, such as paying a bank loan, they should continue to educate employees about measures of success and how they are achieved; weekly huddles with employees serve well, he said. Baker emphasized that huddles are not gripe sessions; participants discuss production, sales and other key numbers.

“Follow the action and keep score,” he said. “You can open the books and no one cares unless they get involved in creating the numbers every day. When you share the numbers it doesn’t matter how many locations you have or how many languages people speak; the numbers are the same.”

Baker suggested providing a stake in the outcome for employees. “If people are going to help us move the needle, they need to be a part of it through recognition, incentive plans, a bonus program, share equity, etc.”

Many people mistakenly believe that open-book management is a “magic pill” that will transform their business, cautioned Baker. He suggested that transparency works well during the ups and downs of business cycles.

“It’s not management by best seller,” Baker said. “Once you open this knowledge to people and they understand the pressure that you’re under, they motivate themselves and continue to change. This works in service and manufacturing, not-for-profits, etc. It gives regular folks who are doing a good job the power to understand and take needed actions, breaking down the walls between management and labor. People are building not a great product, but a great company. It delivers real results.”

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Open-book management is underlined by the theory that workers are more motivated and productive when they are treated as business partners " who traditionally have access to financial data " rather than employees. While the traditional approach focuses on financial data, open-book management can provide employees with other forms of data on business performance " the Open-book management (OBM) is a management phrase coined by John Case of Inc. magazine, who began using the term in 1993. The concept's most visible success has been achieved by Jack Stack and his team at SRC Holdings. The basis of open-book management is that the information received by employees should not only help them do their jobs effectively, but help them understand how the company is doing as a whole.