



### Open-Book Management Changes Attitudes

Working the press brakes on swing shift, Dewey misreads the gauge and overbends a dozen side panels. He *should* tell the night supervisor, who'll know if the parts can be fixed. If so, the company can salvage most of their value. If not — well, the rate for scrap stainless was up a few cents today, somewhere.

Dewey, however, sees a write-up coming either way. So he forms another plan — one that gives up *all* value, but still makes sense from his point of view. He puts the damaged parts on a lift, motors out the door and dumps them in Mud Creek. On the way back in he grabs a dozen good parts from the warehouse and adds them to his stack. Second-shift problems are so easy to fix.

You can change plenty of things — improve training on the brakes, tighten warehouse security, block off Mud Creek. But to win big at business, you need to change Dewey. By sharing financial and other operating information, companies provide employees like Dewey the motivation they need to make the right decisions.

### Open the Books!

For some business owners, the phrase “open-book management” calls up images of peasants and pitchforks. Closely-held businesses in particular are often loath to share critical financial information — the instinct comes with the territory.

But over nearly two decades, more and more companies have implemented open-book management, or OBM. And the approach has delivered significant, measurable, long-term benefits.

Author John Case's 1995 book *Open-Book Management* coined the term, but the concept originated several years earlier in Missouri. Jack Stack, CEO of the Springfield Manufacturing Company, told that company's story in his own book, *The Great Game of Business*.

The goal of OBM is to draw more fully on a company's internal strengths — which often may be greater than the owners suspect.

## **What Is Open-Book Management?**

Open-book management is often defined simply: A company shares its financial information with its employees. In the real world, it's more complex.

OBM does indeed *begin* with financial metrics, because those figures provide the clearest and most objective index of a company's health. But the open-book school holds that a company's financials can also serve to motivate employees. By understanding the numbers, and how they can influence those numbers, employees gain a line of sight between their own daily tasks and the company's big picture.

*It's already clear as glass, says Dewey. I produce more, the owner's kid gets a Jag.* Dewey's glimpse at a few figures may well harden his attitude, because a little knowledge can be a dangerous thing.

But open-book management isn't about dumping ledgers on shop tables. It includes not only transparency in accounting, but a clear and cogent presentation of the figures. And it involves two other key elements as well.

One is education, since employees — like the general public — harbor deep illusions about the realities of business. It's not just high finance that confuses them, but even such basic principles as the distinction between sales and profits.

The other pillar of OBM is rewards. If employees have essential information, comprehend its meaning, understand their own roles in advancing the project — *and have a significant stake in the outcome* — they can be expected to act from enlightened self-interest in a way that's best for all concerned.

Transparency, education, rewards: These are the foundations of open-book management.

## **Success On the Ground**

Proponents emphasize that OBM principles are most likely to succeed at companies where a foundation of trust already exists. But for dramatic effect, consider a place where trust was in short supply. <P>One Cincinnati firm, profiled in the *Harvard Business Review*, was close to hitting bottom. Its profits were vanishing, but its union refused to reopen the contract. A new owner appeared, carrying a stopwatch and muttering about "morons." The contract expired. The company demanded wage cuts. The union struck.

The company won the battle, but the war continued by other means: a steady

barrage of grievances, work-to-rule rituals and heated arguments over job descriptions.

That's when the owner decided to change. He declared the adversarial era over, announced an impressive profit-sharing plan and published the company's financials for the entire workforce to see. He educated employees about what the figures meant — both to the company and to individual paychecks.

Gradually, interest grew. Employees began tracking scrap, examining labor efficiency and studying quality control. Confrontation ebbed. A few years later, employee committees were in full charge of purchasing, scheduling, safety, temporary hiring and the company's skill-based pay system. Productivity had doubled, and 35 percent of every employee's pay, on average, was from shared profits.

### **What Are the Real Dangers?**

Business owners know that information is power. The question is, who will exercise power? Jack Stack identified the three “great fears” of OBM.

1. *The competition will learn our secrets.* Competitive intelligence is useful, of course — and it's not that hard to come by, even about a privately held company. The point is that the short-term tactical advantage a competitor gains is small compared to the power of OBM.
2. *Our employees will misuse the information. They'll make poor decisions, or use our own figures against us.* But in practice the new transparency — when accompanied by universal education and meaningful rewards— works to make such events much less likely. The numbers are up for all to see, on shop-floor walls and lunchroom boards, on computer screens and in newsletters. They refute rumors and misinformation, show exactly where foul-ups occur and provide everyone an opportunity to see and correct errors. Accountability is built in.
3. *The numbers will show how badly we're doing.* What's the alternative — show employees only the “good” numbers? Stack, Case and other OBM leaders are adamant on this point: The only way to build trust is by being honest. When a company's leaders do that, employees are more likely to forgive the leaders' mistakes and follow them through the hardest of times.

Open book management is a bold step for a business owner. It requires self-confidence, stout commitment and abiding faith in the potential strength and competence of one's employees — in other words, in one's company.

*If you'd like to take a closer look at the theory and practice of open-book management and see if it might fit your company, our firm can help you get started.*