

## Open Book Management

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I really enjoyed your brainstorming article a few weeks ago. It brought up a question that I have been tossing around for a long time. It was suggested that in order to get employees as excited about the business as I am I should let them look at the P&L. Isn't that risky? Do I really want to share with them confidential information? How much of a role should my employees be expected to play in the success and development of the company?

What if you, as a business owner, could achieve the following?

- Employee absenteeism drops, as employees are more involved in the company's success, see themselves as necessary to the company's progress, and know that their contribution is likely to be missed if they are out.
- The business outperforms closed book companies by 35%.
- Turnover drops, as employees become more invested in seeing projects through.
- Employees can see the results, positive or negative, and learn to self-correct, without running to the owners for input or assistance.
- Accountability becomes core to everyone's performance. Employees are all focused on a common set of goals. Disputes and finger pointing

drop, infighting all but disappears.

- Expenses drop by 15%, as employees watch costs and select line items to manage on their own.
- The mentality of, "it's not my job" is replaced by employees making decisions that improve the company's top and bottom lines.
- Employees accept control, take responsibility, and focus on improving results.

What owner wouldn't give his or her eye teeth to have those things happening in their company? Sounds great. How does it happen? It's called open-book management. Let's take a look at what it is, what stands in the way of implementing it, and how to set up a system in your company.

What is involved in open book management? Employers share the company's financial results with employees, up and down the line. Employees see numbers and results that typically only senior executives and owners are privy to. Employees participate in the results of a job well done, through performance incentives. Employees are expected to become more financially savvy, become personally accountable for delivering results, and are rewarded as they turn financial knowledge into bottom line profits.

Why isn't open book management a standard in every company? There are a few reasons, all of which can be overcome. The secret to implementing open book is changing owner attitudes.

Many business owners fear that with open book management, employees will see how much the owner makes, and decide that the owner makes too much. In my experience, most employees already assume the owner makes a lot more money than is actually the case. And, so what if the find out: you, as owner, already know how much they make.

Most employees don't understand what happens to the money the company brings in. They overlook the financial burdens most owners struggle to uphold. And those gaps in understanding often become a barrier to success, as employees get the wrong idea about what's going on.

Show that just because the owner takes home money, doesn't mean it goes in the owner's pocket. There are taxes to be paid, savings to be set up for lean times, expenses to be reimbursed, and so on. Educate employees about the risks and financing obligations that go with running the company. They'll be more likely to contribute to cost cutting in lean times, and support owner reimbursement in good times.

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Some owners fear employees will see the profit the company makes, and demand a significant increase their take-home pay. Instead, help employees understand all of the piles that profit has to get divided into: reserves, capital investments, debt reduction, marketing campaigns, to name a few. Show employees the lack of return that goes with taking money out of the company in excess compensation. Compare that to the value of re-investing to secure a future for the company, and how that helps secure everyone's future paycheck.

Some employees see the company's income, and don't have any idea what it costs to run the company. Employees inaccurately think the owner is burning through money. They may not understand that their own buying decisions and ineffective use of resources may be chewing through what otherwise might be available for profit and bonuses.

What do you have to do to set up an open book company? Here's a list of several things you need to consider.

Take a good hard look in the mirror. As the owner, you are probably part of the problem. You are going to have to significantly change your attitude, in order to become part of the solution. You are going to have to share information, good and bad, about

the company's performance. If you made a mistake, you're going to have to admit it. You are going to have to acknowledge that you don't have all the answers, and you can't control all of the outcomes. You're going to have to let your employees into your inner circle, to help you make decisions, share responsibility, and participate in the wins and losses.

Think through the pros and cons of giving up some measure of control. As a business owner, you are probably something of a control freak. You may secretly wish your employees would take more control, but your actions often show just the opposite. You may reserve critical information, or limit decision making authority.

Instead, set ground rules for the amount of risk an employee make take, and then let go. You'll find that with practice and guidelines, employees become as good as, sometimes better, than you are. And there are more of them to take action, which translates into you having less to do.

Figure out how you're going to educate yourself, and your employees, on the financials of the business. Things like budgets, forecasts, scorecards, and regular reporting on results are going to be essential tools you will all use, to get, and stay on the same page.

Weekly training sessions are probably going to be helpful, to get everyone up to speed financially. Hire someone to come in and conduct training sessions. Look for employees who grab onto what you're offering.

Build a set of goals for the company overall, and share those goals with everyone in the company. Don't be afraid to tell your employees how much gross and net revenue you want the company to make – the smart employees will figure it out on their own, anyway. Ask employees to link their personal actions, and their departments, to the company's goals.

Ask employees to take responsibility for monitoring and delivering on specific portions of the company's overall goals: from controlling expenses to bringing in new business, to negotiating more profitable contracts, or better terms from vendors. Ask employees to explain how they will measure and report on progress, in their departments and for themselves personally.

Be willing to share some of the excess profits that may come from a job well done. Remember that it's better to make more, and share some of it, than it is to make less, or noting at all. Tie every incentive to bottom line results. Don't try to figure out how to do that on your own – ask your employees to explain how they would measure bottom line



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outcomes that result from their work efforts.

Give employees authority to make decisions, by clearly defining their areas of accountability. Some employees will step up to the plate, and show you they are engaged, ready to take charge, and willing to act. Those are the keepers.

If results are lacking, don't hesitate to also show employees that there are both up- and down-sides to performance based systems. Teach your employees that people get rewards when it works, and when it doesn't, they have an incentive to figure out how to make things work, in order to get the reward they want.

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