

Empower staff for business success

By Tom Addyman on Monday, February 08, 2010

Transparency has long been an issue in this part of the world. There is a constant reminder that in order to achieve respect and trust from the international financial community, an open book is required. On a smaller scale, that open book plays a similar role in terms of trust, but its philosophy is more like confiding in friends than impressing new peers.

Traditional business has been conducted with a hierarchy of the top, the middle and those, well, not quite so in the middle. Executive decisions and performance indicators were shared on a 'need to know' basis: "How's the third quarter looking in terms of year on year, Jim?" "Love to tell you Bob, but I'd have to eat you." I'm not sure that cannibalism has ever been mentioned in 'any other business', but secrecy has often been a typical feature behind closed boardroom doors.

In a radical move away from that model, Open Book Management aims to share all information with all employees. The concept is more than just a morale booster or some psychological carrot dangled to 'involve' staff. This is a hands-on, honest-to-goodness business strategy. As a boss beginning this management method, you would first need to educate your employees on how to understand basic budgeting, accounting and book keeping. You must explain how your business survives, what challenges it faces, how it moves forwards and, most importantly, how it is faring.

The vast majority of business owners will see this as ludicrous. Why involve democracy in daily commerce? Why share a decision with the shop floor? How can an eager, but financially uneducated, worker compete with an MBA?

And you can see the argument. There seems very little advantage to changing a tried and trusted model when it's working well. But when things go wrong, drastic times call for drastic measures.

It's 17 years since the term 'open book management' was first coined by Jon Case from inc. magazine. He said: "A company performs best when its people see themselves as partners in the business rather than as hired hands." The rest of the world said: "Don't be ridiculous Jon, they can work, and we'll take the money."

As I said, it tends to be when a company is struggling that it looks for other solutions, and this is when open book management became a reality.

Jack Stack is probably one of open book management's greatest advocates. The Springfield Re-Manufacturing Corporation (SRC), a producer of automobile parts, agricultural equipment and construction vehicles, was in deep trouble. Stack assumed control as part of an employee-led buyout and taught the workers how to read a balance sheet. They shared key financial information and learned how key performance measurements impacted the bottom line. Twenty years later, the company's sales had grown from \$16 million (Dh58.7m) to more than \$160m. A remarkable tale and one that unfairly slips into the urban myth category for anyone unfamiliar with

opbn mook Management.

And so, [apart from a 1,000 per cent increase in sales] what are the benefits to this radical way of thinking? Basically, you have a workforce who are not just reeling numbers off in parrot-fashion, but are actively involved in trying to optimise profits and steer the company towards steady and sustainable growth. You have a steady stream of input, inspiration and motivation that could revolutionise your business. And why is that?

Well, up until now, it's all sounded very altruistic and for 'the good of mankind'. Typically, there is also a system of bonuses and rewards. You have a wealth of experience from people who know the industry, who know where greater efficiencies can be made and who understand the incentives and frustrations of the company. Surely, they deserve a bonus?

There are three basic rules of thumb for open book management which cover an introduction, a review and a reward: 1) Know and teach the rules – every employee should be given the measures of business success and taught to understand them. 2) Follow the action and keep score – every employee should be expected and enabled to use their knowledge to improve performance, and 3) Provide a stake in the outcome – every employee should have a direct stake in the company's success *and in the risk of failure. (Note the very important asterisk.)

Of course, not everything in the garden is rosy. There are dangers. Firstly, if you are prepared to share all of your financial details and working practices with every member of staff, it could well be that one or two share it with a member of someone else's staff. You could say this is an unenviable, but inevitable, consequence of open book management, and a price worth paying... or you can say it's irresponsible. This is an all-or-nothing game. You can't be 'a bit open'. That just makes you ajar.

So, on what sort of scale would this model work best? Despite Jack Stack's amazing feats with SRC, the cynic in me still believes that for this strategy to truly reach its potential, you need to have a small, even intimate team, where there are no doubts, no secrets and professionalism and integrity are beyond reproach. Remember – you can't dabble in this, so you'd better make sure that you're on solid ground. Small and medium is about right.

So, the theory is for all to see. You involve your workforce to such an extent that not only do they have access to the health of the company, you provide them with the business acumen to assess it, and where appropriate, influence it. It's not as simple as a union of shop-floor decision makers who happen to be undiscovered industrialists. There are specific parameters and critical points. This branch of economics is far more science than socialism.

And for anyone wondering about where poor old Jack Stack is now, and his goal of a loyalty-led business-savvy workforce, dry your eyes. SRC Holdings now constitutes 10 separate companies, with a workforce running into several hundreds, none of whom have been laid off during the recession. I'm alright Jack.

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