

H A R V A R D
Management
Update



A
NEWSLETTER
FROM
HARVARD BUSINESS
SCHOOL PUBLISHING

DECEMBER 1997 • VOLUME 2, NUMBER #2

What You Can Learn from Open-Book Management

by John Case

EVERY COMPANY, SO IT SEEMS, gives at least lip service to the concept of empowerment these days. Employees are expected to manage their own work, serve on problem-solving teams, even schedule their own time and track their own hours. Plenty of companies have found that empowerment leads to improved performance. As the saying goes, who knows how to do a job better than the person doing it?

The potential trouble with most empowerment schemes, however, is that people may focus only on their own job or their team's, and not on the performance of their company or business unit. At best this leads to a myopic concentration on individual tasks. At worst it leads to buck-passing and finger-pointing. ("We got the product down to shipping but they didn't get it out the door.") Empowered employees need to learn to take responsibility for whole business processes, not just for the parts of the process that they happen to work in.

One route to responsible empowerment is a system called open-book management. In it, companies "open the books" to employees throughout the organization, and, in a series of systematized steps, educate them so that they can see the same big picture that more senior executives do. With that shared understanding, employees are better equipped to tailor their actions to the requirements of the day. Since the mid-1980s companies have been finding that open-book management helps people solve problems faster, stay on track, innovate more quickly, and generate earnings. Springfield ReManufacturing, an open-book pioneer that competes in the gritty business of engine remanufacturing, has grown a consistent 15 percent each year for the past decade. Physician Sales & Service (PSS), a \$600-million distributor of medical supplies to doctors' offices, has grown to become the largest company of its kind. And the open-book R.R. Donnelley & Sons printing plants (written about more extensively in the March-April issue of this year's *Harvard Business Review*) are among the top-performing units in the corporation.

At root, open-book management relies on only three simple ideas:

People work better when they know what's going on.

In open-book companies, employees learn to understand the business's fundamental objectives and metrics. They learn how their jobs affect their unit's results, and how the unit affects the company's performance. Warehouse workers and customer-service clerks aren't expected to become CPAs, but they are expected—and are taught—to understand budgets, forecasts, P&Ls, and many of the other report cards by which companies gauge their accomplishments.

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Open-Book Management...

People who know their company's objectives and metrics can take responsibility for their own work. In companies of yore, it might have been only the manager who worried if a factory's shipments were lower than plan or a store's average sale per customer was down 10 percent. In open-book companies, everybody sees these numbers—and everybody shares responsibility for bettering them. So people tend to think a lot about how to get the work done better, faster, and cheaper.

People need a stake in their company's success.

Employees of most companies make the same money no matter how the company does. They're hired hands. Open-book companies ask their employees to think and act as if they owned the place, and they structure compensation accordingly. Typically, they'll pay sizable bonuses whenever the business hits its financial targets. Many have generous employee stock-ownership plans as well.

These principles are part of a management system, and so reinforce each other. At PSS, the medical supplies distribution company, employees of every branch see the facility's operating P&L—actual numbers compared to plan—at monthly meetings. To help them understand these numbers, PSS sponsors customized question-and-answer games based on the TV shows *Family Feud* and *Jeopardy*, which can occasion a good deal of hilarity. Any number that is off plan provokes a round of discussion and brainstorming about what employees can do to get it back on track. PSS employees have strong incentives to watch these numbers closely: Nearly all are shareholders. They'll get bonuses potentially worth thousands of dollars apiece if the branch hits or exceeds plan while meeting certain other financial goals.

Opening the books in "closed" organizations

Sounds good. But what's the gap between theory and practice? CEOs and small-business owners can decide to share the financials, set up a new bonus plan, and do everything else involved in creating an open-book company. But what if you're a manager running a department or business unit in a large corporation? You may not have the authority to decide who can see key numbers. You may not even see them yourself. You can't suddenly revamp the compensation system or ask employees to assume responsibilities not in the union contract. Changes like these take time and resources, not to mention a lot of support from the powers that be.

But that doesn't mean that the ideas behind open-book management can't be useful to you and your organization. Indeed, you can apply some key open-book principles even in the most conventional of companies. And you may find that applying them boosts people's performance notably, even compared to results organizations may get when they go whole hog.

How can you apply these principles in a not-so-open organization? The secret is to extract the basic ideas, get people started in ways that won't threaten anybody—and then, ever so gently, push the edges of the envelope.

Supplying information in context

Most companies these days provide employees with reams of data. Customer-service reps know how long the average caller is on hold. Machine operators see charts showing size variations and defect rates. Walk into nearly any plant or office and you'll find scoreboards and tally sheets of many sorts, including electronic ones. The employees of Sony Display Device San Diego, for example, can

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HARVARD Management Update

60 Harvard Way, Boston, MA 02163

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check output numbers, inventory discrepancies, and other figures on the company's intranet.

Simply posting numbers in this manner is sometimes a step toward higher performance. People gauge themselves against the standard (or against yesterday's performance) and want to do better. Still, it doesn't take long for this particular game to get old. If you don't know what the numbers mean or why they matter, it's hard to stay too excited about improving them.

Open-book companies don't just put numbers up on the wall; they show why the numbers matter by linking them to the big picture. Say a unit's financial goal is to boost earnings by 10 percent in the course of a year. The plan calls for increasing shipments eight percent, maintaining gross margins, and reducing SG&A expense. That plan, in turn, provides every department and work area with a variety of critical numbers—numbers that matter if the unit is to achieve its goal. Suddenly weekly shipment levels take on a new meaning. So do seemingly trivial numbers like postage or telephone expense. People watch them all, because they're working together toward the same objective.

Organizations can do something of this sort even without open books. For example, what is your department's or unit's key operating goal? To produce or sell a certain quantity? To serve a specific number of customers while holding expenses at budget? These are significant goals, and it's not hard for people to understand why they might be important. A scoresheet tallying progress toward big goals will generate more interest than a scoresheet that only tallies progress toward smaller objectives. What's more, the big goal provides the context that gives the smaller objectives meaning.

Getting into a huddle

How to cultivate this way of thinking? An approach pioneered by Springfield ReManufacturing Corp. and other

open-book companies is huddling. The sports-minded term derives from SRC's moniker for its open-book system, *The Great Game of Business*. In SRC's series of huddles, every department in the organization works off an annual plan or budget. Departments get together weekly or biweekly to review their performance against plan goals. A representative from the department takes those numbers to a plant-wide or company-wide meeting, where the numbers for that level are assembled. Then the consolidated numbers are distributed back to departments and work areas so people can see how the whole business unit is doing.

SRC's numbers are mainly financial. But informing employees so they understand the key levers and areas that will help bring a company to goal can be accomplished even if the financial books aren't open. How many customers were served? How far off budget are we on expenses? How do shipments compare with plan? If your superiors are worried about sharing numbers, you can substitute percentages for dollar figures. But do include numbers from the whole company or business unit, not just one department.

The continuous feedback has two salutary effects. One is that it reminds people week in and week out that they are part of a whole—and that what matters is the performance of that whole, not just of their own team. More important, it forces people to manage their numbers. Units that are off plan know that they're letting down the rest of the organization, so they begin trying to anticipate problems before they arise. They're empowered—not simply to manage their own work area, but to do what the company needs them to do.

Giving people a stake in success

An open-book bonus system is a powerful incentive program. It provides substantial rewards to people who better their performance, and it allows employees to track their progress

toward the bonus over the course of the year. You may not be able to set up such a bonus system right away. Still, managers can use a variety of tools and techniques to tie a unit's performance to compensation:

- Large companies usually have some sort of employee stock-ownership plan: an employee stock-option plan, or a stock-purchase plan coupled to a 401(k). Any company's share value depends partly on the performance of each business unit. Employees know that. They can be encouraged to become shareholders, and they can be reminded of their interest in the long-term health of the company.
- Many companies also have profit-sharing programs. These programs may have nothing to do with the performance of your business unit or department, but people understand that high performance ultimately contributes to the payout from profit-sharing plans. People also know that better-performing units tend to get rewarded more than underperforming units over time.
- Pride is a form of compensation, and people often take it as seriously as money. How does your operation stack up against others in the company? Others in the industry? Open-book companies challenge people to be the best, and show on the scoreboard how they stack up against their competitors, internal or external.
- Small rewards are sometimes as meaningful as big ones. Did the office hit its customer-service target? Were the plant's monthly shipments 10 percent over plan? At some companies, managers buy pizza for everybody when plan goals are exceeded. Others hold a drawing for two tickets to a show. Some companies pay spot bonuses of \$25 per person.

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Open-Book Management...

Pushing the envelope

When first introduced to the idea of open-book management, many companies object, often out of self-protectiveness. "We can't release financial data because we're publicly traded" is the most common response. In fact, however, a lot of open-book companies are public, including PSS. And companies can share business-unit and department performance numbers while restricting access to consolidated financial data. Some organizations flinch at the thought that the union might take advantage to press for more money. This is a pragmatic concern, but the principles of open-book management lend themselves to approaching the union to explore the idea of cooperating to design pay-for-performance compensation plans.

The most serious concern—"Our competitors will learn our numbers"—demonstrates the extent to which man-

aging with open books is a balancing act. There is always key data that companies must protect. But open-book companies find they can share much more information with employees than they once thought safe. And again, they are dedicated to the idea that employees can't work effectively in the dark. Organizations that have implemented open-book management find that such objections evaporate when the results are in. Often, in fact, open-book management spreads through a company like a wave at a baseball game: First there is the single department or unit, then others follow.

To try open-book techniques in your own company, start with some of the ideas offered here, and then get a go-ahead to share a little more information. The more open your company, the better performance you're likely to see. And there is nothing like improved performance to quell people's fears of the unknown. ■

If you want to learn more ...

The Great Game of Business by Jack Stack with Bo Burlingham (1994 ed., Doubleday, 252 pp., \$15.00, Tel. 800-223-6834 or 212-354-6500)

"Open-Book Management: Bulletin" (monthly newsletter edited by John Case, Tel. 617-499-2990, Web Site: <http://www.openbookmanagement.com>)

Open-Book Management: The Coming Business Revolution by John Case (1995, HarperBusiness, 199 pp., \$14.00, Tel. 800-242-7737 or 212-207-7000)

"Opening the Books" by John Case (*Harvard Business Review*, March-April 1997, Tel. 800-988-0886 or 617-496-1449)

The Power of Open-Book Management by John P. Schuster, Jill Carpenter, with M. Patricia Kane (1996, John Wiley & Sons, 288 pp., \$24.95, Tel. 800-CALL-WILEY or 212-850-6000)

■ Reprint # U9712A

web sites for managers

Focus on Work/Family Balance

American workers are struggling to balance work with raising children, caring for elderly parents, and other family concerns. Companies continue to develop programs to help. Here are some sites, selected by electronic products specialist Ken Liss, that point the way toward solutions:

Work & Family Center (Wall Street Journal Interactive Edition)

<http://interactive.wsj.com/edition/current/articles/WorkFamilyCenter.htm>

The Wall Street Journal runs a weekly column on work and family; columns dating back to April 1996 are available in the *Journal's* online edition. They cover the topic from both an employee and employer perspective, outlining specific issues and reporting on the ways individuals and organizations handle them. Free access to The Work & Family Center site is included in a subscription to *The Wall Street Journal* Interactive Edition. (Subscriptions to the Interactive Edition cost \$29 a year for subscribers to the *Journal's* print edition, and \$49 for non-subscribers.)

The Dependent Care Connection

<http://www.dcclifecare.com>

The Dependent Care Connection (DCC), a work/family consulting firm, hopes to sell you its services, but you'll find valuable resources on this well-organized site without spending a cent. Highlights include a library of position papers and research from DCC and other organizations; online directories of work/life consultants, publications, and other resources; and a step-by-step guide to evaluating and selecting a provider of corporate work/life support programs.

Update on Web Sites:

The October 1997 issue of *Harvard Management Update* told readers about The Benchmarking Exchange. The price for membership is \$195 for a year's membership, and the site's new address is www.benchmarking.org (though the site is also still available at the URL listed in October).