

# Embracing Open-Book Management to Fuel Employee Engagement and Corporate Sustainability



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## Introduction

**W**hen John Case and Jack Stack first introduced the concept of open-book management more than 30 years ago, the intent was to unleash the entrepreneur in every employee and to spur them—and their organizations—to better performance. Since then, countless organizations have opened their books and engaged their employees in understanding the critical numbers with positive results to their bottom lines. Although the original goals of open-book management were improved profitability and productivity, organizations have realized other benefits from the practice. These benefits include improved employee satisfaction, engagement, retention, motivation, innovation and corporate sustainability.

### Promise

This white paper:

- Examines open-book management and the benefits of applying its principles to improve employee satisfaction, engagement, retention, motivation, innovation and corporate sustainability.
- Explores how open-book management practices are well-suited to help achieve corporate sustainability goals.
- Outlines steps HR and talent management professionals can take to ensure the application of those practices in their own organizations.

## The Basics of Open-Book Management

**B**efore most people were focusing on corporate sustainability, Case and Stack were espousing the virtues of open communication to engage employees to achieve better overall business performance. In his book, *The Great Game of Business*, Stack describes open-book management as being “all about promoting clear, effective and open communication” to employees. By doing so, employees at all levels have a clearer understanding of their organizations’ purpose and goals, are more engaged in their organizations and perform better in their jobs.

### Organizations practicing open-book management:

- Explain clearly the organization's key measures of business success, allowing employees to make better-informed business decisions.
- Share financial information (such as income statements, balance sheets and other key metrics) with employees, and ensure they understand them and know how they relate to the organization's key measures of business success.
- Tell the stories behind the numbers to bring them alive and give them meaning.
- Teach employees how to follow the action and keep score. All employees track progress on critical numbers through regular meetings and scorecards. They are empowered to take action to improve performance as needed.
- Allow employees to share in the success of the organization through a profit-sharing program that is tied to key business metrics.
- Engage the ingenuity of all employees in solving key business challenges, such as how the organization can become more socially and environmentally sustainable.

"When you share the numbers and bring them alive, you turn them into tools people can use to help themselves as they go about their business every day. That's the key to open-book management." (Stack, 1992).

## Why Open-Book Management Works

**C**learly communicated and understood goals, a hallmark of open-book management, leads to improved profitability and encourages teamwork. This leads to increased job satisfaction and reduced turnover. Organizations practicing open-book management report that employees:

- Feel a stronger sense of ownership in the organization.
- Develop more trusting and collaborative relationships with their employers.

- Understand their organization's cost structure and make better informed suggestions for improvement.
- Understand the need for cost controls through the regular sharing of financial information and become more responsible in how they use their organizations' resources.
- Demonstrate innovative thinking because they feel more vested in their organizations' success (Henglein, 2009).
- See the big picture, allowing them to leave their silos and become team players. Giving employees a view of the big picture also makes them more engaged, helps them understand how their roles fit in the organization, and how they can make a difference.

All of these factors lead to an improved bottom line. A study conducted by the National Center for Employee Ownership (NCEO) found that organizations which follow open-book management principles experienced a 1-2 percent annual increase in sales growth above typical sales projections.

### Company Spotlight: CleanScapes

CleanScapes, a waste reduction, diversion and collection service headquartered in



Seattle, Washington, was recently named by Inc. Magazine as one of the top 5,000 fastest growing companies in the U.S. and the fourth fastest growing environmental firm. Leaders at CleanScapes credit much of their success (which includes \$50 million in revenue in 2009, low employee turnover and high levels of customer satisfaction) to their open-book management approach.

CleanScapes keeps close tabs on important metrics (called "CleanStats") and shares them with employees during weekly meetings. These metrics go beyond financial and include operational efficiencies, errors and kudos. "The metrics have been instrumental in helping the firm meet and beat its internal financial performance goals," reports HR Manager Bonnie Abbott. *(Continued...)*

Not surprisingly, these outcomes—a stronger sense of ownership, improved trust and collaboration, stronger teams, better informed and innovative suggestions, and an improved bottom line, to name a few—are also hallmarks of successful corporate sustainability initiatives that emphasize the triple bottom line of people, planet and profits. According to a 2011 McKinsey survey, successful corporate sustainability programs do a better job of attracting and retaining employees. Executives in organizations with successful sustainability efforts also report that their employees are far more knowledgeable about their organization’s operations than employees in other businesses, enabling them to devise efficiency improvements that lead to more sustainable operations.

### Company Spotlight: CleanScapes (...continued)

In addition to tracking and reporting on metrics, CleanScapes leaders hold daily morning huddles by department. The company also offer generous benefits and is known to promote from within. Drivers and managers meet for lunch once a month to offer feedback and suggestions on how to improve operations, which has resulted in organization-wide efficiency gains which include lower missed pick-ups, fewer accidents and reduced route hours.

(Source: Broughton, 2011)

## Open-Book Management Challenges

**T**he main concern most people raise when it comes to open-book management is whether it is wise to share compensation information to employees, the fear being that it could make them disgruntled if they perceive inequities in pay structures.

Open-book management proponents do not recommend sharing individual compensation information. Instead, they advise employers to combine salaries and benefits into a single line on budget statements so employees can see and monitor it. This will show employees how much compensation and benefits cost the organization without providing detailed information.

And while some might believe that open-book principles can generate resentment toward highly compensated employees, evidence shows the opposite occurs. Employees in open-book organizations better understand and therefore accept compensation structures more willingly. Some management experts like Ed Lawler, director of the University of Southern California’s Center for Effective Organizations,

believe that by keeping compensation plans secret or practicing “closed book management,” businesses tend to generate more distrust and resentment among employees.

Other concerns about open-book management practices include:

- The worry that disgruntled employees may misuse financial information (such as profit margins) or other proprietary information by sharing it with competitors.
- The concern that if the organization is successful, employees will want a larger piece of the profits and may become unmotivated if they don't receive it. Alternately, if the organization is struggling, workers will be concerned with job security and possibly jump ship, taking their knowledge and talents elsewhere.
- The belief that open-book management creates a conundrum for organizations by begging the questions: “Is it possible to be too transparent?” “If we open the books, will we give competitors too much information about our products and talent? Will it lead to the poaching of our products and top performers?”

There is no evidence to show that organizations following open-book management practices experience more misuses of proprietary information compared to other organizations. Jack Stack emphasizes the need for managers to actively “show employees how to use financial information as a tool to help the company,” to avoid the misusing of the information (Stack, 1992).

Leaders who follow open-book management practices acknowledge that attempts to hire away top performers are part and parcel of being a successful organization. If competitors aren't trying to poach an organization's best employees, then it could be time for HR and talent managers to take a good hard look at what their organizations are doing wrong. Some CEOs of open-book organizations even welcome the attempts to hire away their best employees, because it provides them an opportunity to communicate openly with them and to demonstrate why their organizations offer the best opportunities for career development.

And in terms of struggling organizations, many report that downsizing or implementing temporary salary reductions in difficult times was actually less of a challenge because employees understood why it was necessary. In fact, in a few instances, organizations reported that employees volunteered for layoffs—and were the first to return when the organization recovered.

## Overcoming the Challenges

**T**hese challenges can be addressed, and advocates believe the increased employee engagement, motivation and innovation are well worth the effort.

By entrusting employees with vital information about the organization's financial and operational health, business leaders send a message that they consider every worker to be a valued partner and stakeholder in their organizations. Research shows employees who believe they are trusted by their managers and CEOs can better see the big picture and tend to be more loyal and productive, or in other words, more engaged.

Employers sometimes find it difficult to determine what kind of financial information to share with employees. Open-book management proponents recommend keeping things focused and simple, with a goal to communicate a common understanding of the organization's most critical numbers and how employees can move those numbers in the right direction (GreatGame.com).

The critical numbers employers decide to share with employees will often be as unique as the organization but may include revenue growth (or loss), expenses, workforce growth (or reduction), and compensation and benefits.

For organizations striving to achieve sustainability goals, other critical numbers may be shared. At Burt's Bees, for example, critical sustainability goals include water and electrical use, community giving, and achievement toward their long-term goal of having each Burt's Bees location become a zero waste-to-landfill facility; a goal they achieved for three facilities in 2010.

The key to any successful open-book management system is to design it to fit an organization's particular business needs and corporate culture, according to JoAnne Berg from Monster.com. "Open-book management," Berg writes, "is...another set of tools in your toolkit that you can use to improve the success of your business." (Berg, n.d.).

# How Open-Book Management Can Drive Corporate Sustainability

Organizations are increasingly considering the “triple bottom line” — people, planet and profit—in their business dealings and in their measures of organizational success.

Not surprisingly, open-book management practices work well in organizations that engage in corporate sustainability practices. Open-book management can significantly contribute to achieving and maintaining corporate sustainability efforts by integrating social and environmental metrics into the traditional financial measures of business success. Open-book management practices also contribute to corporate sustainability efforts by empowering employees with knowledge of the critical numbers, enabling them to see where their innovative efforts can streamline operations, saving money and resulting in increased sustainability.

Nowhere is this more apparent than at Durham, N.C.-headquartered Burt’s Bees. A key goal of their sustainability initiative is to attain a 100 percent involvement rate from employees. Their paperless corporate sustainability report, which is publicly available on their website, is just one mode of communication used to reach that goal.

According to Yola Carlough, Burt’s Bee’s director of sustainability, “(W)e have other ways of keeping everyone engaged and aware, such as an environmental gazette that’s published monthly, quarterly all-company meetings which include important messaging, but generally are a lot of fun, movies that are relevant, documentaries, regularly scheduled lunch-and-learns on any topic. Often, our employees suggest what topics they would like to learn about. All of this is helpful and really well received—and along the way, they keep all of our teams informed.”

In 2010, Burt’s Bees launched its “Live the Greater Good” program, designed to achieve 100 percent employee engagement as a way to achieve its long-term sustainability goals. The program consists of four modules that all employees have to complete annually on wellness, world-class leadership, outreach and the environment. The programs are tied to the company’s culture and long-term corporate goals. In addition, the company offers a short-term incentive program. All associates are eligible for a bonus based on overall company performance. Like most companies, performance is based, in part, on sales or profits, but at Burt’s Bees, there is a sustainability component as well. The metrics may change annually based on what the

company is focusing on for the fiscal year, but all of them tie into their long-term goals. In 2009, sustainability goals included reducing water and electrical usage.

At New Belgium Brewing, CEO Kim Jordan notes that their company's open-book management style fosters employee engagement and innovation, which in turn improves the company's sustainability efforts. Engaging employees, she notes, allows all employees, from entry level to executive, to participate in the "business of doing business." For example, two New Belgium Brewing employees recently proposed eliminating 12-bottle pack dividers. By eliminating the dividers, the company saved \$280,000, 150 tons of paper and reduced machine downtime.

### Company Spotlight: New Belgium Brewing

At New Belgium Brewing, open-book management drives their high performance culture and sustainability efforts. Founded in 1991 by Jeff Lebesch, leaders at this Fort Collins, Colorado-based brewery believe that their company culture "is one of the most important and transferrable tools we've employed to drive sustainability." Sustainability efforts embraced by New Belgium Brewing include the formation of a sustainability management system with the earth as a central stakeholder, reduction of their carbon footprint, the use of "green" power (including wind and solar), and recycling of waste (New Belgium Brewing Company, 2008).



Their culture, which sets the stage for their highly engaged workforce, was established through strategic alignment, open-book management and employee ownership (43 percent of the company is owned by employees through an employee stock ownership plan [ESOP]). In addition to a share in the company's success, other open-book management practices include financial training and monthly staff meetings during which finances are reviewed and employees can ask questions and offer feedback.

"It all adds up," notes one employee. "When a co-worker is connected to the higher purpose of the company and educated on the financial outcomes of their actions, they are empowered to make decisions that benefit the business as a whole."

(Source: New Belgium website)

Open-book management practices help to improve the triple bottom line by giving employees the information they need to make informed decisions and the ability to act. These newly empowered employees are more invested in the long-term financial sustainability of the organization because they feel ownership in the organization's environmental, social and financial effects and are empowered to drive the top and bottom lines. Everyone shares the same mission and goals and can better collaborate to meet those goals.

## HR's Role in Open-Book Management and Corporate Sustainability

**H**R and talent management professionals can help propel an organization toward adopting open-book management and achieving corporate sustainability goals through some or all of the following practices.

### Get Executive Buy-In

Ultimately, achieving corporate sustainability through open-book management practices must be supported—financially and actively—by top management. In organizations where the books haven't been opened, HR can lead the way by educating senior leaders about how open-book management practices can have a positive effect on an organization's bottom line. In addition, HR can be a leader in demonstrating how these same practices have been applied in other organizations to achieve corporate sustainability goals. Furthermore, HR can encourage the development of cross-functional teams that focus on ways to improve corporate communications and foster teamwork.

HR also can lead by example by sharing key HR success metrics. This can include HR-related financial information such as the percentage of an organization's budget allocated to salaries and benefits. Time-to-hire, retention and turnover are other key metrics that HR can provide and share with the organization's stakeholders. For such information to be useful, employees must be able to grasp why those numbers are important to the organization as a whole and to their roles in particular—HR professional should be sure to tell the story behind those numbers.

## Communicate Organization-Wide to Foster Employee Buy-In to Corporate Sustainability

As Burt's Bees demonstrates, communication—a key open-book management practice—is essential to achieving corporate sustainability objectives. HR and talent management professionals can aid the communication of sustainability initiatives through regular newsletters, electronic bulletin boards, and regularly scheduled staff meetings.

HR can also take the lead in actively seeking out employees and asking for their ideas on how to do things better, quickly implementing the good ideas and giving credit to the people who made them. Burt's Bees, for example, uses two annual surveys to help solicit employee feedback and to assess how the organization's sustainability efforts are being put to use by employees in the workplace and in their homes. An annual cultural assessment survey takes the pulse of the organization in terms of change, the pace of change and management practices. It was through this survey that management realized that whenever the survey's culture scores went up, so did employee retention.

The organization's Green Day survey examines the green practices employees use every day and assesses if those practices have changed how employees live. For example, the survey asks employees if a process they learned at work affected how they did things at home. Do they recycle more? Do they use different light bulbs? This survey helps the company determine how sustainability practices introduced on the job trickle into the home and the community.

## Develop Compensation Systems that Motivate and Allow for Employee Innovation to Achieve Corporate Sustainability

HR and talent management professionals can be key players in the development and implementation of organizational profit-sharing plans that award employees not on just financial metrics achieved but on sustainability metrics as well, such as sharing with employees some of the money saved through achieving operational efficiencies.

## Be Selective in Hiring and Offer Financial Literacy Training

HR professionals can use HR tools such as selection for knowledge, skills, abilities and culture fit, and training to help create a workforce that has the skills and motivation to achieve the key objectives of the triple bottom line (Cohen et al, 2011). During the selection process, HR and talent managers can provide candidates with publicly available financial information and explain how this information is communicated to and used in improving the organization. Financial literacy training can help all employees better understand this information and can be an integral part of the onboarding process and provided to all employees on an ongoing basis.

## Create and Communicate Meaningful Metrics

Another key role for HR is to develop metrics that will demonstrate achievement toward triple bottom-line goals. It is then HR's responsibility to communicate those metrics to all employees and help staff members link those metrics to their roles in the organization. HR should be prepared to track and assess those metrics on a regular basis through departmental and organization-wide staff meetings.

## Conclusion

**T**he management philosophies of open-book management and sustainability are highly complementary. Open-book management practices empower employees by giving them information they need—such as critical sustainability metrics—to make informed decisions and to act. This in turn leads to improved profitability and a stronger organization—the foundation of any sustainable enterprise.

HR and talent management professionals who realize this and work to find ways to implement and integrate open-book management practices into their organizations will offer their employers a true competitive advantage through improved corporate sustainability policies.

# About UNC Executive Development

Our approach to program design and delivery draws upon the power of real-world, applicable experiences from our faculty and staff, integrated with the knowledge our client partners share about the challenges they face.

We call this approach [The Power of Experience](#). We combine traditional with experiential and unique learning. Through action learning and business simulation activities, we challenge participants to think, reflect and make decisions differently.

## Our Approach: The Partnership

Our team customizes each leadership program through a highly collaborative process that involves our clients, program directors, faculty and program managers. This integrated approach consistently drives strong outcomes.

## Our Approach: The Results

Our executive education programs are designed with results in mind. Below are a few examples of the results our client partners have achieved:

- Leadership refocused with new strategy and cohesive vision
- Strategic plans created for the global marketplace
- Supply chains streamlined
- Products redefined
- New markets targeted
- Cost-saving measures developed
- Silos leveled
- Teams aligned

Participants leave empowered to bring in new ideas, present different ways to grow business and tackle challenges. The result is stronger individuals leading stronger teams and organizations.

For over a decade, the [Center for Sustainable Enterprise](#) (CSE) at UNC Kenan-Flagler has provided students, executives and organizations with the tools necessary to innovate in sustainable enterprise, creating leaders for the world we envision using business to drive global social and environmental change.

The [SJF Institute](#) is an independent non-profit institute that works with positive impact businesses and sustainable entrepreneurs to facilitate their access to capital, promote employee engagement, and help build sustainable economies.

## Contact Us

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