

# Opening the Books

By Pamela Mills-Senn



# Showing Financial Data to Employees Can Improve Performance and Attitudes—But Be Careful.

Opening up your books, showing employees the true costs of doing business, can motivate those who work for you to become more productive and less wasteful while also giving them better insights into how their efforts contribute to the bottom line. However, this strategy is not without its concerns, which, if not fully appreciated, can cause the effort to backfire miserably.

But before we delve into reasons not to open the books, we should take a look at some good reasons why contractors may want to consider adopting an open-book approach, whether a partial or full disclosure.

Mario Guertin, owner of Painting In Partnership, an open-shop, primarily residential repaint business in Palatine, IL, describes himself as a “big believer” in doing at least a measure of this, although he doesn’t just hand over the company financials. Instead, he gives his employees the information they’re most anxious about: how much work is ahead, how the company is doing, and whether raises are in their future.

“I want them to know I understand their concerns by answering these questions,” he says. “And also, when people are left in the dark, they make stuff up, and it’s never flattering.”

Guertin, who has been in business 18 years and has five employees, gives monthly updates on the man-hour backlog, and on his marketing/PR efforts—not just on what he does, but also on how much he spends.

“They never grumble about the amount because I show them what I do,” Guertin explains. “They are seeing the direct results of this effort and they understand the value and commitment we’re making to keep them busy.”

He also gives them information about the performance of the company as a whole, about lead flows, man-hours sold, targets hit or missed, the challenges and successes of implementing his plans, and overall profitability. (When it comes to the latter, he provides percentages, not actual figures.)

The benefits have been more fully-involved employees and additional income, he says.

“When I share information about lead flow, it gives me the opportunity to ask them to be more diligent about team add-ons,” Guertin explains. “I ask for their engagement and they respond, generating more than \$20,000 in add-on work for the last couple of years. I also have asked them to be more diligent about referrals, and they’ve responded to that.”

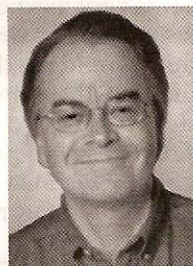
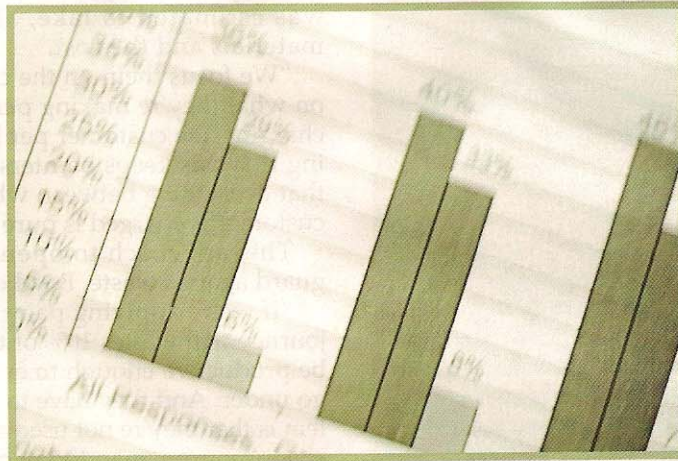
Dan Coughlin, president of The Coughlin Company, Inc., a St. Louis-based management consulting firm, isn’t surprised at the results of Guertin’s semi-open book policy.

“You will create a much more collaborative environment where employees’ in-

sights on how to improve the business results and add more value to customers will be based on a working reality of the financial impact of those decisions,” Coughlin explains. “They will see what these efforts really cost, and they will be better in tune with the true risk/reward involved.”

Giving employees a greater insight into the true financial situation of the business will also help ward off charges that the company is wasting money or is behaving in miserly ways towards employees when it could be more generous, says Drew Stevens, president of Getting to the Finish Line, a consulting company also in St. Louis.

He sees this happen all the time—employees feeling like there would be more money to go around if,



Mario Guertin



Dan Coughlin



Drew Stevens



Misjudging the maturity level of your employees, or being unclear about your motivations and desired outcomes, are just some of the mistakes contractors can make when attempting to incorporate more financial transparency into their business. Here are some others.

- **Incompatible corporate culture.** "If the leadership style of the top executives in the company is a directive, top-down, do what you're told approach, then opening the books is a terrible idea," says Coughlin. "You're essentially creating hope in the minds of employees by becoming more transparent and then crushing that hope when their ideas are not being listened to."

The management/executive team must be on board and supportive of ideas and honest communication about the financials, he says. Don't solicit ideas if there is no intention to act on them. (In most cases, opening the books is essentially inviting some level of input from employees, especially if you are focusing on improving productivity, cost-cutting, etc., Coughlin explains.) Listen to employees, let them know which ideas are going to be acted on and which are not (and why), and then implement as promised. Immediately communicate any changes from your original commitment to employees.

- **Lack of trust.** Trust must be established between management and staff before making this move, says Coughlin. "If there is, then opening the books can lead to more powerful insights into how to grow the business," he says. "If not, then don't open the books. Don't do this as an attempt to improve trust between employees and executives when no trust exists. It will create a mess."

- **Not all the expenses are business-related.** "You need to ensure from an ethical prospective that all expenses are related to the business itself," says Stevens. "You should have and be able to show, separate receipts for your own expenses."

- **Controls are absent or insufficient.** If a business isn't willing to put the necessary controls and safeguards in place, such as non-disclosure agreements, then they shouldn't open the books, says Stevens.

- **Insufficient preparation.** "The process is best interwoven into a strategic planning process," says Blair. "In preparation, employees can be given financial information that will later be assistive in their work of developing the plan. As more understanding is gained by the employees, more information and explanation can be provided."

for example, the owner wasn't spending so much money on marketing. This is an especially common problem for small businesses, Stevens adds.

That's an attitude that his company's approach to financial transparency helps avoid, says David Boyd, CEO of Vulcan Painters, Inc., a unionized industrial painting company based in Birmingham. Founded in the early 1950s, the company employs anywhere from 100 to 200 people, depending on the season.

What and how much the company shares depends on the employee's position, says Boyd.

"Our rule of thumb is that we want to give every employee all the information necessary for success in his [or] her job," he explains. "We try to assess the job they're going to be doing and decide what information is necessary and then give them incentives to meet these goals."

For example, an apprentice might need to know how many doors she's required to sand per day; a journeyman would be provided the hours a task was estimated to take, along with the amount of materials and the cost.

"We focus them on the company expenses, not just on what they're making per hour and on what we are charging the customer per hour," Boyd says, explaining that this keeps painters from mistakenly thinking that everything between what they earn and what the customer is charged is pure profit.

This approach to opening the books also helps guard against waste, Boyd explains.

"If we're applying paint at \$300 a gallon and if the journeyman wastes 10% of this, there is no way he will be productive enough to even meet budget, much less go under. And they have to understand this. One problem is that they're not used to materials being so expensive. A journeyman today came up in an environment where paint was very inexpensive," he says.

A supervisor who has several journeymen and foremen under him would need information about company profitability, Boyd continues. The higher up the employee ladder workers go, the more transparent the company's financials become, he adds.

"This is a real core value for our company," he says. "It would be difficult for us not to share information."

#### Along with the Rewards—Risk

But opening the company financials to employees is not a risk-free proposition, and there's no guarantee your objectives will be realized. For one thing, says Billie G. Blair, Ph.D., president and CEO of Leading and Learning, Inc., a Los Angeles-based management consulting firm, employees may not believe you.

"[They] often have the tendency to see what they want to see—that is, no matter what private company documents are shown, there can be the 'phenomenon of disbelief'—in other words, 'believing what I believe and knowing what I know' regardless of the facts that are presented," Blair says.



Billie Blair

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Coughlin agrees. "Some employees simply won't trust the numbers, and will accuse owners or top executives of making way more than they're letting on." In this case, trust will be weakened rather than enhanced, an outcome that ill-serves the business owner.

Then there's the chance the information will travel beyond the company confines—not unlikely in this day of blogging, YouTube, and MySpace, says Stevens, who strongly advises open-book companies, or those considering this move, to have employees sign a non-disclosure agreement, and make it grounds for termination if they violate it.

Financial disclosure to outsiders is Boyd's biggest concern.

"Sharing really goes off into dangerous territory," he says. "Once you start sharing information, especially in writing, you have to understand that you could lose employees, and that the employee is going to take that information with him/her and they could share it—although we do have all employees sign a non-disclosure agreement when they are hired. And during the exit interview, we bring this up again." (Coughlin advises that it's safer to share information verbally to reduce the risk of outside disclosure.)

Bob Swanson, president of Swanson & Youngdale, Inc., a unionized 61-year-old commercial and industrial painting company located in Minneapolis is also aware of how information travels. Nevertheless, he feels this has given his 300 employees (at peak) a better understanding of the role they play in helping the company make money.

Like the other contractors interviewed, Swanson matches the information to the employee's position. For example, all non-field staff are Employee Stock Ownership Plan (ESOP) participants and

are consequently updated on the company's performance at quarterly financial meetings. It's not completely open-book, but they do know if the company is hitting its targets, says Swanson.

"With field employees, we go project-by-project, for example, how many labor hours are allocated to that project, and we'll kind of go through why we need to hit that target," he explains. "Our foremen will sometimes know the dollar figures but we don't share the same kind of P&L information as we do with our ESOP staff."

However, annually, Swanson will share with field people the real costs associated with the employees, the real overhead on an hourly basis, and the costs of the tools and materials they are accountable for. And he sends his foremen and lead people through STP (Supervisor Training Program).

This training course, put on by the LMCI—the Labor Management Cooperation Initiative, a joint effort between the Finishing Contractor's Association and the International Union of Painters and Allied Trades—educates participants about the costs of doing business and how they can affect cost savings on the job. At this point, Swanson has put 50 employees through the program, he says.

Another potential reason not to open the books is if the company is not performing well, says Kim Hahn, an Orlando-based business expert in (among other areas) strategic planning, sales management and budgeting/forecasting.

"In this case, opening the books could drive fear and [could drive] employees away to other companies," Hahn says. "If [the company is] in dire straits, you may not want to open the books for the first time unless you can show employees how they can change their behavior and how this can translate to positive change."

"The information has to be presented in a positive manner, where employees feel they can influence the outcome," she continues. " (See the sidebar for mistakes to avoid.)"

And business owners may not be entirely comfortable with the exposure an open-book position brings, says Stevens.

"The owner almost becomes a public entity, where employees get to scrutinize and question where the money is going, and why the owners are paying so much to this supplier or that one," he says. "It's really the equivalent of a private company going public."

### To Open or Not to Open

You shouldn't automatically assume becoming more financially transparent is the right (or the wrong) move for your business. Instead, before rushing to accept or discard the notion, business owners should consider a variety of factors. Your employee population plays a huge role in this decision, say these consultants. What should you look at?

- The financial sophistication of your workforce. With little experience in finances or budgets, you could overwhelm and confuse them with information they don't understand, says Roberta Chinsky Matuson, principal of Human Resource Solutions, an HR consulting firm based in Northampton, MA. This should guide what you make public and how you present it, as well as whether or not you'll need to do any prep work beforehand, such as basic accounting information, says Blair.

- The age of your workforce. Are they primarily younger workers, like Gen-Xers or Next-Gens? If so, Stevens cautions against an open-book approach. These workers are so inexperienced when it comes to what constitutes reasonable salary allotments and expenses that they may not have the maturity level to appreciate and understand where the money is going, he explains.

- The honesty of your workforce. Can you trust them not to disclose? Are there non-disclosure agreements in place? Is your workforce contented, grumbling, or almost on the hoof? And is the necessary level of trust present, asks Matuson. If not, employees could see opening the books as just another ploy to manipulate them.

Blair says business owners contemplating this decision must ask themselves why they want to do this, what is the perceived need? They should also consider the what, how serious the need is. And then,



David Boyd



they should get clear on the advantages of becoming more transparent—when the advantages will be realized, where the greatest gains will be, and how they will implement an open-book policy.

"A company should be very clear on why transparency is to be attempted—for example, whether there have been questions by a small number of employees or by most employees will figure strongly into this determination," Blair says.

"Knowing who has been asking for this information and having an understanding of why there have been questions will assist a company in determining how serious is the need to move towards transparency and will guide the 'what' of the actions that are to be undertaken," she explains.

Wanting to give staff a sense of ownership over profits and loss is another reason business owners open up financially, says Stevens. For example, making employees more aware of actual business costs can improve the negotiating and bidding of those responsible for bringing in work, he says, letting them know the real wiggle room.

Business owners also have to figure out just how much information they want to share, says Matuson.

"You have to assess the impact of full or partial disclosure," she says. "What if you only show the positive and then down the road you lay people off? Then you are sending mixed messages and raising trust issues."

And owners should consider how disclosure could affect their personal decisions, Matuson continues.

"If you want employees to be more mindful of what they are spending, then as an owner, leave your BMW at home," she says. "Most employees resent counting paper clips when the boss is riding around in a new vehicle."

### The Art of Sharing

"There are several ways to communicate the information," says Stevens. "Quarterly and semi-annually are typically enough to support the decision. However, if market volatility and regional issues impact your business, more frequent updates might be required."

He also advises telling employees why the company is opening the books to help them understand the need and objectives.

The most effective way to present this information is visually, such as pie charts, PowerPoint presentations, or some other descriptive format, says Blair. Avoid putting anything in writing that employees could take away with them.

Swanson advises contractors not to cherry-pick what they share.

"You have to be consistent and deliver both the good and the bad news—you have to divulge both," he says. "I think a lot of times contractors have a tendency not to divulge the good news because they are concerned about requests for raises, etc. But you have to be credible. And you have to be clear on what you are trying to accomplish."

Guertin agrees that honesty is essential to a successful open-book strategy.

"You have to be honest and sincere and convey your concerns about your employees and about growing the business," he says. "There is a trust factor that comes from this. If I tell them we're not doing so good they trust that. If I tell them we are doing good, they trust that and they trust what this means."

But again, this doesn't mean you should just throw any and all information at employees. While you don't want to misrepresent company performance or present unbalanced information, you don't want to demoralize your workforce or instill a feeling of helplessness in them, says Hahn. And the information has to be appropriate for the position, she adds.

"You only want to give them opportunities they can affect," she explains. "Let's say your problem is that you are undercapitalized. There is no point in sharing this with lower-level employees. Instead, bring them in on how to cut material and/or inventory expenses, for example. And then inform them in a general way on how the company is doing."

She suggests that companies new to this effort send out a simple survey to let employees know they're considering this move and to get their feedback about what

kind of information is important to them rather than acting on assumption. This will serve to prime employees for the event, increase their buy-in and understanding, and give the company a better idea of what to reveal.

And take it slowly, suggests Stevens.

"You can't throw your business completely out of whack by trying to become more transparent," he says. "Just select one area of the business to focus on, such as customer acquisition for example, the money spent trying to attract new customers and the money these new customers bring in."

"Ask if there are ways to make the process of attracting customers more effective and profitable," he continues. "Stick with one item and meet monthly. You want to get better at having open conversations and also making progress on that subject. Then evaluate at the end of three months. Are the conversations productive? Are people responding well or are they getting greedy? Are they comfortable talking about financials or is this generating arguments?"

Coughlin also supports taking an incremental approach.

"Take baby steps," he advises. "Little by little, explain to the employees the different areas of the business and focus on improving these in a collaborative manner."

And if you are going to open your books, do so consistently and not just when it's convenient for you, says Boyd.

"This [opening the books] will serve the contractor well when business is bad; it can help employees step up to the plate," he says. "But you also need to use it when business is good. When it turns around, you have to make sure that you reward your employees and incentivize them." *mc*

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