

IN BUSINESS

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Opening the Books

Treat your employees like owners, and watch the results flow in.

You just booked a \$50,000 event, and it's smiles all around the office. You're excited that you have a nice chunk of cash to fund the business for a few months, cover payroll, pay the rent and maybe do some marketing.

Your employees likely look at the exact same situation and think, "Wow, the owner just put fifty grand in his/her pocket. Must be nice to be rich."

Maybe it's an over-dramatization to assume that employees are that naïve when it comes to business expenses, but I can virtually guarantee this: your employees definitely think you make more money than you actually do.

And why wouldn't they? After all, they most likely know how much money is coming in, since they usually see the contracts and statements. However the business expenses are usually kept much more secret, even if unintentionally. When I opened my event firm more than 20 years ago, I was shocked to learn of all the expenses involved, as are most people when they open a business.

Open Book Management

What's the problem with this scenario? Well, for one thing, it's more likely to encourage your staff to go out on their own and compete with you if they think they can make a ton more money as a competitor than your employee. For another, they're less likely to watch company costs if they think you've got plenty of money to spare.

One solution to all this is to treat your employees like owners, and open the books to them. Open book management, while not new, took off after the publication of Jack Stack's book *The Great Game of Business* in 1994. In it, Stack tells of how he turned around Springfield Remanufacturing Corporation, a near-bankrupt division of International Harvester, by harnessing the inner entrepreneur in his employees through open book management.

As the name implies, the company opens up their books so everyone sees all the expenses (with the possible exception of salaries). Employees learn how much every little expense

eats into profit, from copy paper to toilet paper, and are given a piece of the action if they can help increase profits. They teach people how to read a profit and loss statement, and basically get them to think like owners.

"How Much Do We Spend on Toilet Paper?"

It's a fascinating read, but it doesn't have to be all or nothing in order to change employees' perceptions about your company's financials. After reading that book many years ago, I set up a version of the *Price is Right* in our conference room one day. I pulled the annual cost for various items during the prior year, and read them off one at a time. For each one, the employees had to guess how much we spent, and the person who came the closest won a prize for each round.

We went through everything from office supplies to health insurance, and in most cases they were surprised at how much we spent. I remember when they found out how much we spent on FedEx and messengers; a few of them were outraged and vowed to use regular mail instead.

I explained that the more we spent on expenses the less we had available for salaries and growth, and helping them make that connection alone was worth the trouble of creating that game.

Things to Watch Out For

If you want to try open book management, I highly recommend doing some advance research, such as reading Stack's book and others like it. Here are a few quick caveats they mention.

1. You must align incentives with profit goals. Employees need to be incentivized to help drive higher profit.
2. At first employees will be furiously looking to cut costs, which is great. However, in most cases businesses need increased revenues even more than cost-cutting. Make sure you help them understand that.
3. Not every person is cut out for this. Open book management comes with a higher level of responsibility than many employees want to have. Be prepared to let some people go if they don't get with the program.

Overall, the benefits of a more financially informed workforce far outweigh the risks. Try it out in some form, and you'll be amazed with the results. **es**