

## Open Book Management: What is it?

by Ken Anderson, P.E.-C.L.S.

Recently our engineering firm, Anderson & Associates, Inc., was cited in "Open Book Management, the Coming Business Revolution". This is a recent book by John Case, the editor of Inc. Magazine. Case says that our firm practices this style of management. Let me describe what we do. It may be of some benefit to you.

Ours is a civil, environmental and transportation engineering consulting firm. Like many of you, we are subject to the cyclic nature of the design and construction business. When the economy is good we do well (relatively speaking) and when it is down we suffer. Trying to explain this cycle to all employees of our firm is difficult. Being a professional services firm we have highly educated and motivated people but business is not part of their formal education. Most have not been through the "school of hard knocks."

In addition, engineers and other technical people tend to be skeptics. They (we) need to be shown, not told. "Prove it" is a normal response. Well, this is the perfect situation for application of "open book management." Opening the books completely is the most basic form of "proving it."

"Open them completely?" you ask. Yes, open them completely. To illustrate this point, I once held three cards to my chest and told an audience that I had three aces and asked if they believed me. Not many said they did. I laid down two aces face up and asked if they believed me now. No additional people said they did. The point is that if you hold back key information you will not get the full benefit of "open book management."

A key piece of information that employers want to hold back is personal compensation. In our business this is a major part of our cost structure, so holding this back or showing it as a lump sum as some firms do defeats the purpose of "open book management." We make it easy for employees to get to the financial information. We simply put all financial information on our computer network. Theoretically one can track where every penny

goes in the company. I say theoretically since not many of us understand how to go through the entire process, but at least employees know that it is available. Having it on the network means anyone can call up what they want without going through the intimidating process of asking for it from "accounting." How many are interested? I'm not sure, but at least they know that it is not secret information. We do have continuing classes on what the information means because we want them to understand.

How about critical information getting into the hands of the competition? This was a major concern, but when we analyzed this fear we came to the conclusion that the competition could not do much with the information. In fact, this fear reminds me of the recent episode in the comic strip "Funky Winkerbean." The opposing coaches got their hands on the Westview Scapegoat's playbook and injured themselves laughing. There have been years in which if that had happened with our financial information we may have gotten a sympathy card from our competition.

Don't you get a lot of unhappy employees when they discover that their pay rate is lower than their co-workers, you ask. Well, if you think that employees don't find out where they stand you are fooling yourself. Some firms even make disclosing salaries a "dischargeable" event, but I think they still find out. Some firms do not disclose pay rates when developing project budgets. This seems to make budgeting and managing a lot harder than it should be. It seems to indicate a lack of trust of employees which is not warranted. If it is warranted, perhaps the firm should be looking for new employees.

Opening up pay rates to everyone's eyes does make one think long and hard about making special pay deals that are not equitable. We use a single multiplier throughout the company, so we tie the employee's pay rate directly to what we charge the client. Our theory is that if we can look the client in the eye and charge the employee's pay rate times the

multiplier, then we have an outside market force helping determine the employee's rate. We bring classical economist Adam Smith's "invisible hand" into the otherwise subjective determination of individual pay rates. Our pay system is simplified, since, as an employee owned firm, we decided to put everyone on an hourly pay system rather than having two separate classes of employees.

How has "open book management" helped us? It has certainly decreased the level of fear in the company. People are dealing with actual numbers on a continuous basis rather than having information being released in batch form and interpreted by someone in management or accounting. Employees are able to focus on work, without worrying, as they begin to understand the business cycles.

Understanding of the entire business has improved. Employees begin to see the need for constant marketing, which is one of the most difficult concepts to put across. As they become part of the process, designers become more tolerant of the support staff, and vice versa.

We operate in teams, as many consulting firms do. We expect each team to operate like a smaller copy of the entire company. With support from the administration, marketing, and accounting groups, each team is expected to recruit their people, to market and acquire their projects, to negotiate their contracts and to do the work. We also expect them to see that bills are prepared and paid. Understanding the business through open book management helps the team understand how all of these functions are essential.

All of these things just make sense to my engineering-educated mind. Give employees the facts and let them draw their own conclusions seems to be perfectly logical. I'm continually surprised that people as astute as John Case think this an innovative concept. ##

(Editor's Note: S. Kendall Anderson is president of Anderson & Associates, an employee-owned consulting firm headquartered in Blacksburg. He has been in the forefront of implementing employee-related practices in the consulting engineering field.)