

The Power of Open-Book Management

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Releasing the  
True Potential of People's  
Minds, Hearts, and Hands

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and
Jill Carpenter
with
M. Patricia Kane

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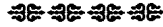
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We hope this book will contribute to the lasting and loving union of ideas pioneered by Frederick Taylor and Mother Jones, two early 20th-century figures from the world of work, whose spirits live on. Frederick Taylor was the father of scientific management, the practice that relegated the worker to carrying out management orders and being subjected to time-and-motion studies. Mother Jones was a labor organizer, feared and loathed by industrialists for her radical views of employee rights. May the precision and utopia Taylor sought, and the fairness and decency Mother Jones fought for, find expression in an open-book world.

Foreword



After years of working with the partners at Capital Connection, I am deeply impressed with them as professionals and as human beings. We met while I was teaching innovation management and intrapreneurship to one of their clients. I am indebted to them for figuring out ways to present and use intrapreneuring without triggering the corporate immune system. Now they have used that same talent to spread one of the most liberating management tools of our times, open-book management.

In the decade ahead, open-book management may have as large an effect on how we do business as quality did in the decades just past. The wide acceptance of quality techniques spelled the end of the old bureaucratic systems of management which are the legacy of the seventeenth century. Quality empowered ordinary employees to cross the boundaries of the organization in search of the root causes of variation. This was a giant step away from bureaucracy toward systems based on the lateral coordination between peers. Lateral communication is the key to higher organizational intelligence.

But today, while essential, total quality is more the price of admission to today's highly competitive markets than a reliable source of competitive advantage. You need quality plus some of the next generation management tools. Open-book management is one of the most powerful and perhaps the most accessible of the next generation transformation tools.

Open-book management involves everyone in the language of the business, the language of finance. It gives every employee the

training, the language, and the up-to-date information to make good decisions in their day-to-day work. Without widespread sharing of information with employees, organizations are flying blind.

There have always been some advantages to openness with employees and there will always be some advantages to secrecy. The balance between the two is changing. The advantages of openness are rapidly increasing while the advantages of secrecy are in many cases decreasing.

The advantages of openness are growing because the challenges organizations face are becoming much more complex. To respond to these new challenges, companies must digest huge volumes of new information and use it in creative ways before their competitors do.

Markets are segmenting into smaller and more demanding customer groups. Technologies change fast and are more complex. As we approach the limits of natural systems, the careless practices of the past become unacceptable, and the new practices require more ecological intelligence and care.

Companies today must be intelligent at both the global level of how it all fits together and the local level of how to satisfy a specific customer in a specific culture right now. This can only be achieved by using all the intelligence of the organization effectively. But the intelligence of an organization is widely distributed, one brain per person. Organizations can match the challenges of the day by finding ways to empower and align all the talents in the organization to solve problems and serve customers. It's hard to see how that could happen unless the employees know what is going on.

Open-book management is flourishing now because we are going through a change as profound as the change from the feudal empires of the agricultural era to the market-mediated societies of the industrial era. As the challenges humanity faces grow more complex, the form by which we organize societies and corporations changes. Nations hit the wall of complexity hundreds of years ago and those that advanced did so by abandoning the

primitive forms for bringing order, namely systems based on a chain of command. Nations were able to create a more detailed and intelligent order by using self-organizing systems, such as the market economy and the peer judgment system in the science community.

The evolution of advanced societies toward market freedom and democracy illustrates a paradoxical principle that is just now emerging from the science of complexity and chaos: The greater complexity and chaos of the challenges, the more *freedom* is needed to create enough order to make an adequate response. In self-organizing systems, we create more order by finding ways to make freedom work. Good information widely distributed is one of the most basic tools for making freedom work.

When the more complex demands of the industrial revolution challenged nations in the seventeenth and eighteenth centuries, those nations flourished that abandoned the constrictions of feudalism and liberated their people. They used new mechanisms for bringing order without the domination of the many by a few feudal lords. Similarly, as companies hit the complexity of the information age and the global economy, those companies that are finding more effective ways to liberate the intrapreneurial spirit of their employees from the bonds of bureaucracy are flourishing.

As we enter the third millennium, a vast transfer of learning is taking place. We are taking what we have learned about how to organize whole nations and applying bits and pieces of it to managing companies, not-for-profits and government agencies. The basic sources of order in the intelligent organizations that are emerging are choice and community. Open-book management serves both.

We cannot trust empowered employees to make good choices unless they are also well-informed. Educating employees on the basic figures of the business through the interactive process of the "intensive huddle system" gives employees a context that guides their imaginations and their intrapreneurial initiative in constructive directions. Empowering without first distributing

knowledge doesn't produce good results. Thus empowerment without open-book management simply confirms all the old beliefs that reinforce hierarchy and ponderous systems of control.

Similarly, open-book management is a powerful tool for creating the spirit of community. Shared knowledge of the numbers *creates a shared game, a common environment in which everyone's score rises and falls together*. Inequality, not only of rank, but also of knowledge and understanding, will corrode community. Sharing the basic business information is a giant step toward greater equality. Sharing the numbers with everyone promotes full membership in the organizational community.

The evolution of systems capable of dealing with the challenges of the information age is only partially complete. The boring and routine tasks that once constituted the work of the average employee are vanishing as machines take over repetitious work. What is left for humans is increasingly work requiring a bit of imagination, caring, creativity, communication skills, or intelligence, and often a fair measure of all four. To be effective in the information age, we need to use the best thinking of all employees. But "garbage in, garbage out" applies to people as well as to computers. People's ability (and desire) to use their intelligence for the benefit of the organization is determined by the degree to which they are given good information.

I am willing to bet that once quality systems are in place, the next big step toward liberating the intelligence and capacity of organizations will prove to be open-book management. As explained by Schuster, Carpenter, and Kane, it seems so obvious it is hard to understand why everyone is not already doing it. Open-book management can transform organizations and give them a major advantage over any organization stuck in old ways of thinking, like keeping employees in the dark.

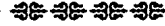
In *The Power of Open-Book Management*, Schuster, Carpenter, and Kane give a detailed explanation of how to make open-book management work. First, it shows how to sell open-book management to executives, managers, and individual contributors. Then comes the best part: The book explains the basic princi-

ples of open-book management and then shows that there are many ways to implement those principles through examples of companies that have done so in different ways.

Schuster, Carpenter, and Kane take on the tough issues, such as reward systems, with the wisdom of those who have learned from their mistakes as well as their victories. With each topic, they alert readers to the most common ways to fail and how to avoid them, as well as providing examples that illustrate a variety of ways to succeed. With the wisdom of both good and bad experiences, they show how to make open-book management work in any organization.

GIFFORD PINCHOT

Preface



If you can measure that of which you speak and express it in numbers, you know something about your subject; but if you cannot measure it, your knowledge is of a very meager and unsatisfactory kind.

— Lord Kelvin

The academics, teamed with consultants on the developmental side of the business theory field, tend to write the books that are conceptually sound and descriptive. They live by the ringing truth in the old phrase: “There is nothing more practical than a good theory.”

The business press shies away from theory and instead provides examples and some how-to’s. It both inspires and provides advice for the small-business growth sector, demonstrating the learning experiments on the fast-moving fringe, and informs and teaches about developments in big companies in the major industries.

Both groups provide an invaluable service and influenced this book.

The purpose of this book is to incorporate sound theory, lots of practical how-to’s, examples, and some inspiration, so that readers can both learn and expand their knowledge of open-book management and have enough detail to take some action. Theory without how-to’s is impractical; how-to’s without theory may work some of the time, but are often not replicable in settings when unexpected interference pops up that requires new applications of theory.

Our Background

We gathered the ideas and examples for this book by observing and working with companies that wanted to become better businesses through authentic employee participation, which involved making financial tools usable by all employees. We started our company Capital Connections, Inc., in 1990, after gaining extensive career experience in large and small companies, and in our own consulting and training practices.

Inc. magazine, a publication that focuses on small business, had captured our attention by writing articles about what became known as open-book management. Our early assessment was that while this set of practices may have started on the fringe, and was especially embodied in the Springfield Remanufacturing Company (a company 160 miles from our homes in Kansas City, Missouri), the practices would not *stay* on the fringe. *Inc.* had indeed been doing its job reporting on the worthwhile experiments in the growth sector. Open-book management had something fundamental to offer.

We got hooked on the promise and the practice of open-book management. We haven't been the same since we started to work with it, and this book is one result of the past six years' effort.

Fads and Fundamentals

Our strong belief is that open-book management is a sound, practical and results-enhancing way to run a business. When used well, it benefits all the participants in the business and narrows some of the age-old gaps between functions and levels, management and employees that have plagued business since its inception.

It is the best combination of management practices that we have seen. While fads come and go, we have evidence that this set of practices, under whatever name, is rock solid and points in new, sustainable directions.

If you have been involved in the organization improvement scene the past few decades, as we have, nothing much surprises you anymore. Although there have been inspiring breakthroughs in pockets of companies and not-for-profits and government everywhere, many of us are more than a little jaded by a marketplace of approaches that have produced hundreds of buzzwords and techniques, promising too much and delivering too little. Even the real gains brought by total quality and team-based systems tend to get little consideration because incompetent efforts have left a bad taste. There are many who salivated on delicious gourmet promises of empowerment, customer satisfaction, and profits but ended up with peanut butter and jelly on plain white bread.

The predictable stages for senior management teams who test new systems—becoming aware of the new method, getting interested and gaining knowledge, trying it out, having difficulty getting past “the low-hanging fruit,” then getting tired and disillusioned—will occur for some with open-book management. Many will have interest, some will take action, and some of those experimenters will work to make the essence of it happen. We say it many times in this book: Competent, concerned, and deeply committed leaders are a key requirement to bring the power of open-book management into full bloom.

Some, sadly, will misuse the concepts or manipulate them to their own ends. They will publish company income statements, polish up the budgets, spread them around a little more to management, and claim to their customers, on the eighth green, that their company “has absorbed the principles of open-book management into our quality processes and we now have all our employees financially aware. Let’s tee up.”

But the real open-book movement will flourish and survive past these shallow applications. Why? Because it is sustainable and empowering; it can move a company and its people closer to their potential. The Malcolm Baldrige Award now includes business and financial performance in its criteria, indicating the shift toward open-book management concerns.

Those who embrace open-book management have a generosity of spirit and spread the word to help each other, in part because open-book management is not just about generating profits, cash, and wealth but also about distributing it for the good of society. Finally, as competition increases, managers will have no choice but to generate a workforce that is itself a sustainable competitive advantage, a team of business-smart entrepreneurs.

How to Read This Book

You can read this book your way, as stimulating evening reading at home, or with your team, a chapter a time, at weekly staff meetings. We receive continual questions of the “we want to go open-book, how do we get started?” variety. These questions, along with the consulting and training we’ve been doing, greatly influenced how we put together this book. Here is what you can expect.

Section I, “Open-Book Management: What Is It,” which includes Chapters 1 through 5, describes open-book management and how it works. We have emphasized why it is needed, what systems and practices are at work with open-book companies, and what problems it addresses. We outline the main model for open-book systems, starting in Chapter 2, and end with a call to leadership, in Chapter 5 to set the tone for open-book management in your enterprise.

In Section II, “Open-Book Management: Getting It Started,” Chapters 6 through 10 provide a detailed how-to-implement process. These chapters contain the best of what is currently known for a company or division that wants to start, but may not know where to begin, using the language of business and accounting in its day-to-day work.

Chapter 11 is for middle managers who want to move ahead with open-book management *without* having a companywide initiative. Middle managers will make best use of Chapter 11 if they

first read the other chapters in Section II; they have lots of ideas and how-to's that are applicable.

Section III, "Keeping It Going," offers ideas on how to sustain open-book management for the long haul, allowing the company to reach high levels of employee business know-how. It addresses the all-important issues of planning in Chapter 12, information-sharing and decision-making in Chapter 13, and motivation in Chapter 14. We have observed companies that have gotten the initial early gains from open-book management, and then report a slowdown or lag time. While that is natural, Section III describes the disciplines that change a company culture permanently, that make open-book management a way to do business day in and day out.

Not for the Faint of Heart

Open-book management, like any worthwhile endeavor, is a challenge to do well. It requires real persistence, lots of business skill, and leadership to make it happen. It absolutely stimulates learning and a higher level of thinking for participants who use ever-changing data, focus on a goal, and exercise individual and team judgment.

With open-book management, some of our human frailties have to take a back seat—less blaming of others, less self-promotion at the expense of others, less glossing over the truth, less resentment and unproductive competition. It calls forth a commitment to do your best for yourself and the good of the team and enterprise. It takes honesty, risk-taking, open admission of mistakes, a love of feedback—good and bad—and a bent toward lifelong learning. Companies with open-book management do not rest on past laurels.

For all these reasons, this form of management is not for everybody, especially those who liked the old days of entitlement and are still looking for a free lunch, even if it's just a grilled cheese sandwich.

A Favor to Ask

While we are grateful to be offering this book, we also feel somewhat eager and anxious. For while we have researched, studied, applied, listened, rethought, and relearned, there is still so much more to learn, to test, and to discover. After several years of study and work, we can now appreciate the many nuances in open-book management practices that we couldn't hear or see at first. This is where the anxious comes in: We are anxious to learn more.

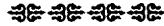
So we are going to ask you for a favor.

As you apply the methods and principles suggested in this book, call or write us and let us know what you learned at Capital Connections, Inc., 801 W. 47th Street, #411, Kansas City, Missouri 64112, (816) 561-6622, (800) 883-4263, or E-Mail: 72163.1711 @Compuserve.com. This is an evolving field and a work-in-progress. We want to know what you and other pioneers are doing to cut new pathways that others have yet to try.

JOHN SCHUSTER
JILL CARPENTER
PATRICIA KANE

September 1995

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There are many people to thank for the ideas, experiences, and examples that make up this book.

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