**The Benefits of Financial Transparency**

*Adopting open-book management can open your business to increased profitability*

1. **Introduction: The Business Case for Increased Transparency**

If you could increase your company’s profitability just by telling your employees something, would you do it? Most small business owners would answer that question with a resounding yes—and yet many hesitate when they learn that this is a real-life strategy, not a hypothetical. The strategy, which was introduced three decades ago by Jack Stark and John Case, is called open-book management. Its implementation has demonstrated that you actually can spark a rise in profitability just by telling your employees something—that something being how the company is performing, as shown in its income statement, balance sheet, and productivity data.

Since 1986, the National Center for Employee Ownership has tracked the impact of open-book management in a series of research studies (the next one is now being planned). Based on the results of these studies over time, the organization found that companies that give employees access to this information “experienced a one to two percent annual increase in sales growth over what would normally have been expected.”

And its positive impact is not limited to financial performance, as noted in *Embracing Open-Book Management to Fuel Employee Engagement and Corporate Sustainability*, a white paper published in 2012 by the Kenan-Flagler Business School at The University of North Carolina. “Although the original goals of open-book management were improved profitability and productivity, organizations have realized other benefits from the practice,” note co-authors Anne Claire Broughton, senior director of the SJF Institute, and Jessica Thomas, managing director of the school’s Center for Sustainable Enterprise. “These benefits include improved employee satisfaction, engagement, retention, motivation, innovation, and corporate sustainability.”

The authors explain that open-book management promotes greater trust, collaboration, and teamwork; fosters a sense of employee ownership and increased feelings of connection to the company’s success; and empowers employees to make better-informed decisions and take more responsibility for using the company’s resources. “All of these factors,” they conclude, “lead to an improved bottom line.”

2. **A Culture of Confidence and Competence**

Like any initiative that causes a change in the company’s culture, open-book management involves some challenges. However, this is an area in which small businesses enjoy an advantage over larger corporations at which the release of non-public information can be problematic or subject to regulatory requirements. With small staffs and few layers of bureaucracy separating the owner and staff, these companies operate at a more intimate level that encourages increased information sharing. And the owner’s personal relationship with each employee creates more
opportunities to speak one-on-one with staff members about why this culture change is important and how it is intended to support the company’s performance targets.

“Most employees are genuinely concerned about the business that they’re in. They all want to work toward the positive,” says Steven Hanson, president of the National Society of Accountants and a partner in Piehl, Hanson, Beckman, P.A. Open-book management provides them with information that can help them to understand the company’s strengths, the areas in which its performance needs improvement, and the ways in which they can contribute directly to its success.

In a small-staff environment, where every employee’s impact on the company is magnified, the strategy can help them to zero in on the areas in which their contributions can carry the most weight. That can boost productivity and profitability significantly at a company where employees’ focus may have taken a back seat to the habit of jumping in to do whatever needs to be done.

Information-sharing can also help to allay fears about the company’s future and the risks of downsizing in a difficult or volatile economy. This is especially true when the owner follows best practice and includes a financial literacy component in the program’s rollout. This ensures that employees understand the information they’re shown and have confidence in their ability to use it effectively and productively.

“Usually the employees know if there’s a financial problem,” Hanson notes. “They’ve got an idea that something’s going wrong, and if we need to alleviate some of those fears, that certainly can help.” In those cases, open-book management can put rumors to rest before they circulate and further compromise the company’s position. It gives the owner a means of telling employees where the company stands, how it plans to move forward, and what they can do to support those plans. For very small businesses, where employee turnover is especially disruptive, this approach can help owners to retain the staff members they need to keep the business operating smoothly.

3. Managing Information and Expectations

Despite all these advantages, the strategy represents a significant shift in thinking that some business owners are hesitant to navigate. That’s particularly true at very small companies, where the owner’s personal and business finances are intertwined and the thought of taking an open-book approach can feel personally invasive. Moreover, these owners usually think of themselves as the driving force behind the idea that launched the company and the drivers of its success. The company is their baby, and they may have difficulty sharing responsibility for its growth to the extent that open-book management requires.

For those who are apprehensive about over-sharing information, one option is to move toward open-book management in stages, starting with the information that would be helpful to convey. That information could be chosen to put the spotlight on increasing sales, reducing expenses, or comparing efficiency rates across departments, divisions, or regions of the company.
In any case, it’s not necessary to provide a full-scale breakdown of every line item in the budget. Individual salaries are a case in point. “Open-book management proponents do not recommend sharing individual compensation information,” Broughton and Thomas write. “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.”

Whatever you decide to share, make sure to present the information in a way that guides employees toward changes in behaviors or action. “Sales is an easy one to talk about,” Hanson says, “but there might be costs that are getting out of hand. At businesses that we’ve dealt with, some of the results have been that the employees have helped control some of those costs or helped increase those sales when they know that’s the target.”

“If we want to grow as an organization, as a company, we need specific targets,” says Joshua Dubrow, who chairs the small business outreach committee, New York State Society of CPAs and is a senior manager at Nussbaum Yates Berg Klein & Wolpow. “We need to be able to measure our growth, if we’re taking this team approach.” The end result of open-book management should be that employees are better informed not only about the company’s financial performance, but also about their individual and team roles in improving productivity, efficiency, and profitability.

4. Opening the Books—and the Lines of Communication

Effective implementation of this strategy also involves sharing the results that the team achieves after receiving this information. The goal of open-book management is not just to reinforce the owner’s expectations of staff members. As implementation of the strategy strengthens employees’ sense of investment in the company and desire to contribute, the owner should be open to—and even invite—their feedback. Make sure to impress upon your employees that in addition to opening its books, the company is opening its doors to their insights and input.

It may also be productive when launching the strategy to re-evaluate the incentives you use to motivate employees to meet performance targets. “It’s not always money,” Dubrow notes. “It’s not always a one-size-fits-all type thing.” As the company is already undergoing a culture change by sharing financial data, the transformation may be enhanced by effecting corollary changes in employee incentive and recognition programs. Dubrow recommends soliciting input on this point as a means of realizing further benefits of open-book management.

5. Creating a Fully Engaged Workforce

To optimize the value of their contributions, you’ll have to prepare your employees to use the information you’re sharing. Remember that some members of your staff will have no experience reviewing this kind of performance data. For that reason, experts recommend that you integrate some financial literacy training into your introduction to open-book management. Help them to develop the skills necessary to learn to read and derive key messages from the information you release. You might even consider using individual successes to create internal case studies that
provide other employees with guidance on how they could make the best use of their increased access to the company’s performance data.

The end result, when all these pieces of the puzzle come together, is an evolution from a group of people who work for a business owner to a team whose members strive for peak performance individually and collectively. Members of that team will have a better understanding of the company’s performance metrics, the meaning behind the numbers, and their impact on those benchmarks. They’ll be more conscious of their role in spurring revenue growth or controlling expenses and better equipped to act on that knowledge. And the company will find its productivity and profitability in the hands of a fully engaged workforce. Stark and Case put it this way on their Open-Book Management website: “Companies that experience the real power behind open-book management go far beyond simply ‘opening the books,’ by building a business of business people.”

Disclaimer: Since the details of your situation are unique, you should always seek the services of a qualified CPA, tax advisor, and/or other financial professional.