

BUSINESS

Company Ledger an Open Book

By CYNDIA ZWAHLEN
SPECIAL TO THE TIMES

Michael Poma took a gamble when he opened his family business' books to employees after he was handed the reins of the Rialto company in 1992. But any fears that workers at Poma Distributing Co. might misuse the information faded as productivity soared, sales grew and the company diversified into new areas.

Open-book management, a practice that has spread slowly but steadily in the last decade to an estimated 3,000 private U.S. firms, helped Poma fight the complacency that had crept into the 25-year-old company he bought from his father.

"The only quarter we ever lost money was the very first quarter after I bought it. It was sort of devastating," said Poma, 41.

Since then, annual sales at the fuel distributor have grown to about \$110 million. The number of employees has more than tripled to 90. And the company has spun off one new venture—a petroleum trucking firm—and expanded its chain of automated

Does Sharing Key Financial Information With Workers Foster Trust or Treason?

FAMILY BUSINESS

service stations for commercial businesses.

The company's fortunes were helped in part by the end of the recession, Poma said. But he credits the ability to maximize profit directly with the decision to share key financial information with all employees, to teach them what the numbers mean and to give them incentives to improve the company's performance.

The idea of sharing financial information can be especially effective for a family-owned business, experts said. The trust and teamwork it can build can be im-

portant at family firms where there may be concerns about issues of fairness and preferential treatment for family members versus nonfamily members, said Karen Berman, founder of the Business Literacy Institute in West Los Angeles.

With open-book management, "you are getting out of the mind-set that 'We are just trying to make the family wealthier' into 'We are here so everybody can be successful,'" she said.

Credit for formalizing the open-book system goes to Jack

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Stack, president and chief executive of Springfield Remanufacturing Corp. As a young manager in the early 1980s, he was sent to Springfield, Mo., to revive what was then a nearly bankrupt division of International Harvester. He figured he had nothing to lose by sharing the company's finances with the employees.

Stack created a system he called the Great Game of Business to show the workers which numbers they could impact and why. Then through games and incentives, he gave them the motivation and the power to do so. And he shared the rewards.

More companies have become interested in the system in recent years as a way to boost productivity, profits and sales. According to a recent study by the National Center for Employee Ownership, annual sales at open-book management companies increased almost 2% faster than their competitors.

Still, to many owners of private businesses, the idea of sharing even basic financial information with the family, let alone nonfamily employees, is a dangerous one.

Critics worry that employees will demand more money, that unions could gain a foothold using the financial information as a weapon and that workers who jump ship might share the company's finances with a competitor.

"Pie in the sky" is how one family business owner characterized open-book management at a recent USC Family Business Program on the subject.

It does take a leap of faith, open-book practitioners say.

Here are some of their tips on how to make a safe landing:

● **Don't share all the numbers.** Poma, like many open-book proponents, does not share company salary information. And he limits the type of financial information he shares at his quarterly employee meetings.

"I think lots of people think you have this altar that has this book on it and people can step up and look at it any time," Poma said. "No, you show them the things that are important."

For most open-book managers, that means the numbers on the income statement because that is where employees can have the biggest impact. Fewer family businesses share the balance sheet, in part because it may reveal private financial moves and ownership decisions a family has made as part of estate or tax planning strategies.

But Poma talks about some areas of the balance sheet with his employees, such as taxation, to show that the bottom line number on the income statement does not end up in the family pockets.

And he advises business owners

Open-Book Policy

Here are a few sources of information about the open-book management system.

Books

- "The Great Game of Business," by Jack Stack and Bo Burlingham (Currency/Doubleday Paperback Edition, 1994)
- "Open-Book Management: The Coming Business Revolution," by John F. Case (HarperBusiness, 1996)
- "Maverick: The Success Story Behind the World's Most Unusual Workplace," by Ricardo Semler (Warner Books Paperback Reprint Edition, 1995)

Web Sites

- The Great Game of Business is also the name of a consulting company Jack Stack started to spread the open-book management philosophy. Visit www.greatgame.com.
- The National Center for Employee Ownership in Oakland offers information and workshops on profit-sharing. www.nceo.org or telephone (510) 208-1300.
- The Business Literacy Institute is a consulting company in West Los Angeles that specializes in financial training for managers and employees that is a key element of the open-book system. Visit www.business-literacy.com.

—CYNDIA ZWAHLEN

Los Angeles Times

to avoid the mistake he made early on when he used pie charts and bar graphs, rather than actual numbers, to show employees how the company's finances worked.

Grant Dunning, president and chief executive of the OTC Group, a second-generation family business in Irvine, agreed. He said he just confused his employees when he started by trying to equate company sales to a \$1 bill and expenses to pennies that came out of it. Use the real numbers from the actual income statement, he advised.

● **Do share the profit.** Employees should have a stake in the company's success, beyond receiving a paycheck, proponents said. Bonuses and other incentives, including equity at some companies, reward employees for meeting objectives.

● **Play the game right.** That means learn the rules, teach employees the rules, set goals and then keep score. Before it can teach employees financial literacy, management itself often has to learn the ins and outs of the financial statements. And there has to be a consensus at the top that open-book management is worth the effort, supporters said. Unless the company is tiny, one person alone can't implement such a major change, said Dunning. He said he made the mistake of acting alone in his first efforts to bring the open-book philosophy to his company.

Once management is up to speed and on board, it's time to teach the troops. At Poma Distributing, employees have to attend at least two-thirds of the monthly training workshops to qualify for bonuses. Poma and his chief financial officer use game show-style contests to

keep employee interest high and to make learning business basics fun. Even then, he recommends covering the basics at each meeting: Most people need repetition to clearly understand new concepts, and new employees can't be left behind, he said.

It's also crucial to identify key measurements for employees or employee groups. That may be the cost of goods sold, accounts receivable turnover rates or the amount of revenue generated per hour. Without this score keeping, employees have a difficult time knowing how or whether their actions affect the bottom line.

● **Be realistic.** Not everyone will want to play. "You can't cram it down their throats," Poma said.

Dunning estimated that 20% of his employees are highly motivated to learn more about the business and offer suggestions for improvement. Another 20% could probably care less, he said. And the middle 60% participate in the program's mandatory requirements but don't go much beyond that.

Open-book management is not a quick fix. And it takes an investment of company time and money. But for many family-owned businesses, the potential rewards are worth the effort.

A last bit of advice from Poma: "Do some soul-searching upfront and ask yourself, 'Can I handle this?' Because once you start, it's so powerful that it's not going to be real easy to stop."

Does your family business face or has it solved a challenge? Please write to us at Family Business, Business Section, Los Angeles Times, 202 W. 1st St., Los Angeles, CA 90012. Or send an e-mail to: cyndia.zwahlen@latimes.com.