

Open Book Management: Making it Work in the Real World

Written by

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About the Authors



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About the Authors



Tracy Cooper, CPA, CFE;

- ✓ Business owner,
- ✓ Fixer of messes,
- ✓ Loves projects and puzzles,
- ✓ Fascinated by all things technological,
- ✓ Excel master,
- ✓ QuickBooks whisperer,
- ✓ Pilot, chef, proud mama and spouse.

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Group Discussion #1

'Open Book' Management?

Have you heard of 'Open Book' management before?

- 1) Yes or no?
- 2) Where did you hear about it?
- 3) If you have not heard about it, what do you believe it *may* be?





Today's Topics

- Strategy
 - Open book management
- Ownership
- Measurement and performance
 - Linking strategy to performance
- Measuring financial and nonfinancial metrics
- Resources, benchmarking, and KPIs



Agenda

- Successfully managing performance and open book process



Open-Book Management





Jack Stack

- College
- Seminary
- Army
- Gambling
- College



<https://www.srcholdings.com/bio/jack-stack>



Jack Stack

- Mail room
- Promotions
- Fixer



- Springfield ReManufacturing, plant manager
- Turnaround begins



Jack Stack

- Crisis at IH



- Negotiations with lenders and IH

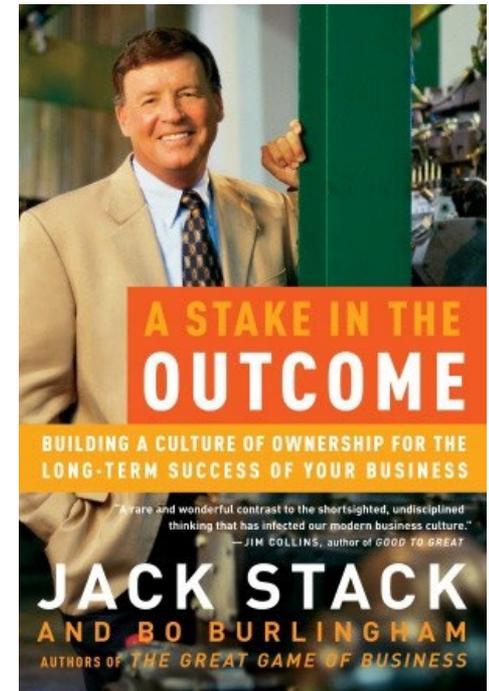
- Buyout (LBO)
 - Leverage 89 to 1





SRC, Inc. Experience

- International Harvester leveraged buyout - 1983
- High leverage!
- Taught hourly workers about finance and provided them information
- Huge success, benchmark of open-book management potential!
- See books by SRC CEO Jack Stack



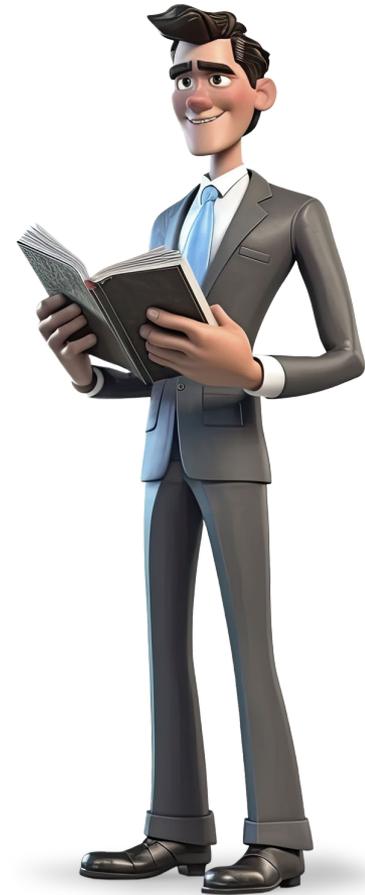


Group Discussion #2

Read About OPM?

Have you read about
'Open Book' management
before?

- a) No,
- b) Yes, read one of Jack Stack's books,
- c) Yes – read other books (describe ___?)
- d) I looked into it briefly before this presentation.





Polling Question #1

Would Open-Book Work for You?

Would open-book management be successful in your organization?

- a) Yes,
- b) Somewhat,
- c) No, or
- d) I'm not sure.





The Situation at International Harvester

- Crisis
- Culture
- Focus
- Cooperation
- Trust, honesty and integrity
- Communication
- Shared goals





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Group Discussion #3 Public CPA Firms?

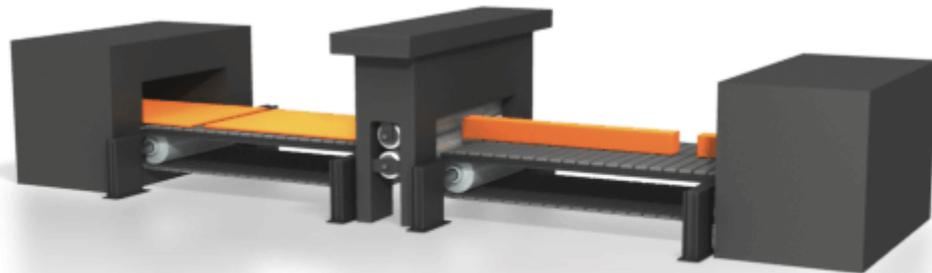
Why don't public CPA firms use 'Open Book' management?

- Explain?





Operations?





Chief Explainer?







Group Discussion #4

Chief Explainer or Teacher?

If your organization adopted 'Open Book', who would be the Chief Explainer?

- a) Me,
- b) Sadly me,
- c) CEO,
- d) COO,
- e) CFO, or
- f) Other (_____)?





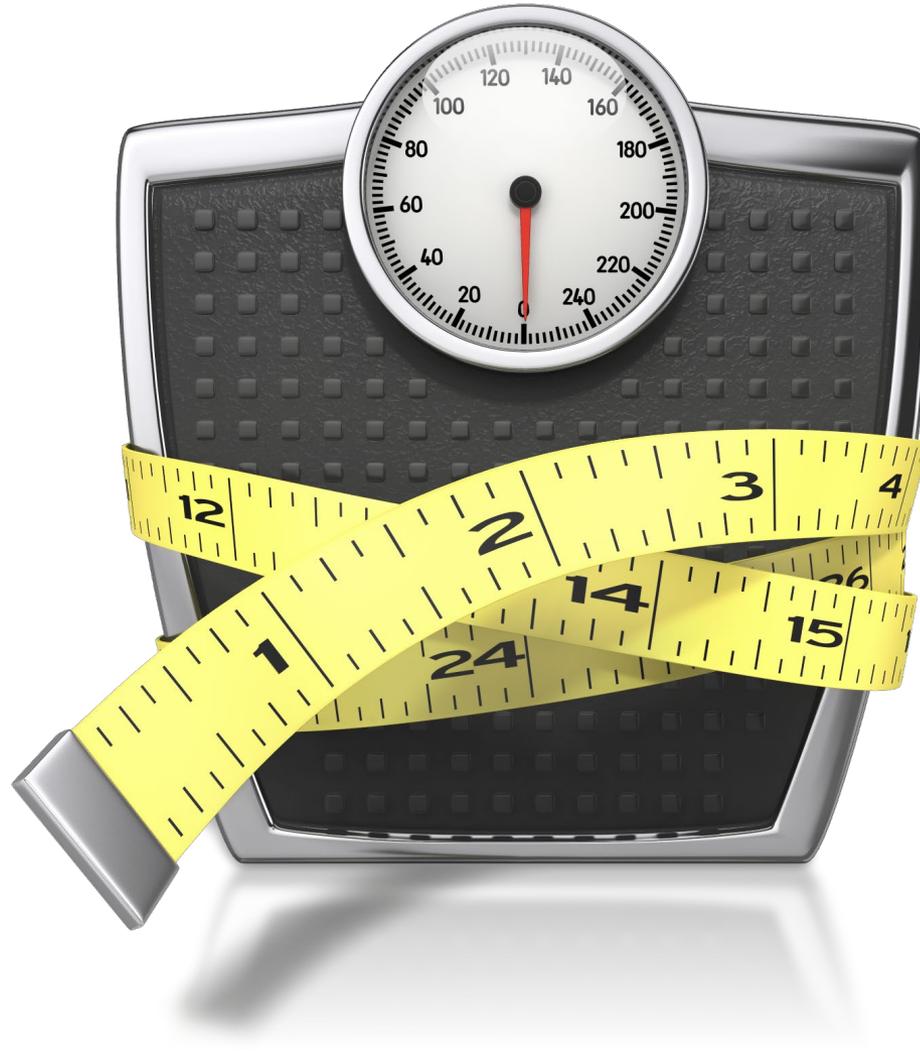
The Three Rules

- 1) Know and teach the rules
- 2) Follow the action and keep score
- 3) Provide a stake in the outcome





The Metrics?





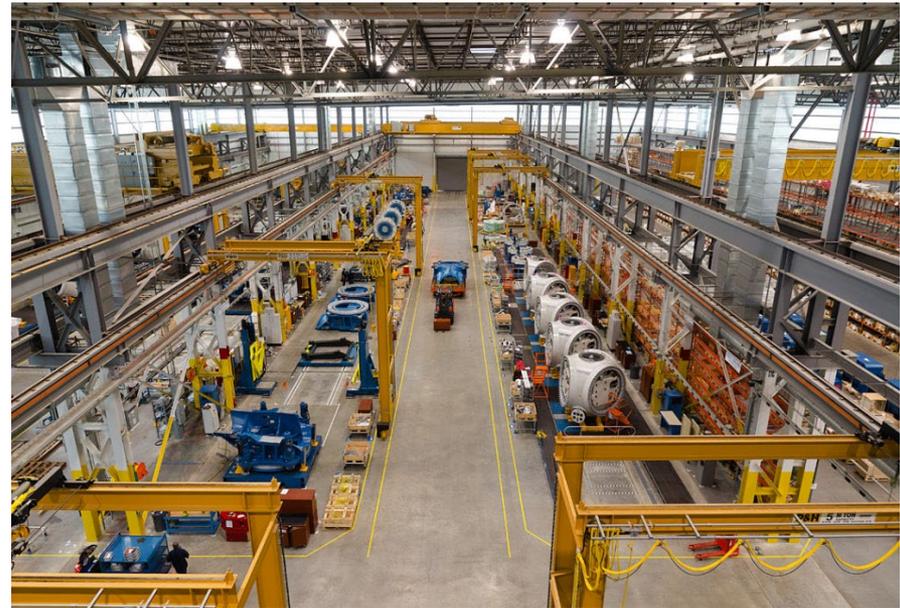
KPIs Needed?

- Capacity utilization
- Overall equipment efficiency
- Machine uptime
- Machine set up time
- Inventory turns
- Inventory accuracy
- Scrap
- Percentage defect
- Labor hours



Manufacturing KPIs

- Capacity utilization
- Overall equipment efficiency
- Machine uptime
- Machine set up time
- Inventory turns
- Inventory accuracy
- Scrap
- Percentage defect
- Labor hours



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Healthcare KPIs

Operations

- Average patient wait time
- Bed occupancy rate
- Average hospital stay
- Staff-to-patient ratio

Finance

- Average treatment charge
- Permanent employee wages
- Billed versus collected



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Insurance KPIs

- Quote rate
- Quota rate
- Contract rate
- Number of referrals
- Bind rate
- Percentage pending
- Sales growth rate
- New policies per agent
- Retention rate
- Policies in-force per agent
- Average cost per claim
- Claim frequency
- Components of claim cost
- Average time to settle a claim
- Client satisfaction
- Problem resolution rate
- Calls handled in 24 hours
- Underwriting cycle time
- Claims ratio



Group Discussion #5

Chief Explainer or Teacher?

If your organization adopted 'Open Book', who would be the Chief Explainer?

- a) Me,
- b) Sadly me,
- c) CEO,
- d) COO,
- e) CFO, or
- f) Other (_____)?





Other Metrics to Consider

- HR, e.g.:
 - Cost per hire
 - Time to hire
- Delivery
- Efficiency
- Safety
- Pricing
- Growth
- Quality
- Utilization
- Capacity
- Ratio of profitable services to unprofitable services



EBIDTA vs. Operating Cash Flow?

EBIDTA

Pre-tax earnings
+ Interest expense
+ Depreciation
+ Taxes
+ Amortization

Operating cash flow

a) Direct method
NI +/- BS changes
b) Indirect method
actual cash change



Nonprofit KPIs

Fundraising

- Gifts secured
- Donation growth
- Average gift size
- Average gift size growth
- Pledge fulfillment percentage
- Fundraising return on investment
- Cost per dollar raised
- Online gift percentage
- Percentage of contribution matches through corporate philanthropy



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Marketing KPIs

- Cost per lead
- Conversion rate(s)
- Net Promoter Score (NPS)
- Segmentation



Stalcop - Thornton, Indiana



STALCOP
METAL FORMING

A Division of MultiTech Industries

Source = <https://stalcop.com/>



Group Discussion #6

Best and Worst Metrics?

- 1) What are your favorite or most meaningful metrics?
- 2) On a scale of 1 to 10, do you use metrics too little or too much? (1 = too little, 5 = just right, and 10 = too much)?
- 3) What other metrics do you use in real life?



Two Questions?

Effective dashboards answer:

- 1) What happened?
 - Why?
- 2) What are we going to do next?





Group Discussion #7

Dashboards?

- 1) Does everyone in your organization have a dashboard?
- 2) Does everyone in your organization understand their dashboard?
- 3) Does every dashboard in your organization answer the two (2) questions on the previous slide?



Case Discussion #8 (Optional) Chatham Family Practice

- 1) What kinds of information would you present?
- 2) How would you structure the bonus program?





Case Discussion #8 (Optional)

Chatham Family Practice

- 1) Explaining a Balance Sheet is critical to a doctor
- 2) How would you structure the bonus program?
 - a) Being able to measure performance by measuring work done, operational eff., and patient satisfaction
 - b) What about the best way to deliver a bonus structure?



Open Book Management

- Self-control is the best control of all
- Supervisors need information to manage
- Employees need to understand how their jobs matter
- Open-book management is a powerful profit improvement tool



Open Book Management (cont.)

- Successful programs involve:
 - Training to understand financial information
 - Access to all relevant financial information
 - Responsibility for the numbers under a manager's control
 - Motivation through a financial stake in how the company preforms



Will It Work?

- Open-book is **not** for every organization
- Requires management trust and employee trust
- Trust is built though:
 - Truthfulness
 - Transparency
 - Candor
 - Reliability





Group Discussion #9 Metrics Selection?

Who are metrics selected in your organization?

- 1) Handed down from 'above', no lower-level involvement,
- 2) Small groups decide,
- 3) Large groups decide in a participative manner,
- 4) Other please explain (_____).



Polling Question #2

Continuing Education?

Your preference for continuing education is;

- a) Live, in-person, on-site,
- b) Live and virtual,
- c) Virtual recorded,
- d) Virtual recorded on-demand,
- e) Recorded podcast,
- f) Other?





Recommendations

- ✓ Meet and understand your customers called owners and employees
 - Customization
 - Follow up with your customers regularly
- ✓ Dashboards and metrics are an iterative process
 - Multiple trials and experiments
- ✓ Tailored to;
 - Each individual, culture, market, team, etc.
 - The need(s)



Recommendations

(cont.)

- ✓ Keep the dashboard current as the strategic plan changes
- ✓ Effective dashboards demand regular maintenance
- ✓ Teach and teach!
- ✓ Be patient
- ✓ Ensure the culture will embrace OBM





Recommendations

(cont.)

- ✓ Use targets and goals to track progress
- ✓ “What would help the organization perform better?”
- ✓ Mutual trust



Thank You!

Please share your thoughts and comments.

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You can also connect with us on LinkedIn, or call us at 704-942-0413



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