

# Open-Book Management Goes Beyond The Bottom Line

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## **Abstract**

Sharing critical business information with employees is important to ensure that there is an alignment of thinking between the company and those who carry out the day-to-day tasks that effectively turn visions into reality. Much has been written about corporate strategies, visions, missions and transforming organizational culture through providing clear messages and actions to the workforce. Critics of these modern management techniques say that the bottom line is what really matters and that stockholder returns are the proof of a well managed company. We cannot argue with this logic but feel that just looking at the bottom line is a too-simple measure of a complex system and we are not sure how sharing information translates to bottom line data.

This thesis encompasses sharing business data and its power to affect behaviors in the organization's culture, employee decision-making, trust between employer and employee, and impact to the bottom line data. This thesis will attempt to answer questions such as: why implement Open-Book Management, how does sharing information impact an organization's culture, how do implementation processes occur within these varied businesses, how does a business determine what information should be shared, and is there an impact to the bottom line.

Thesis Supervisor: Janice A. Klein  
Title: Senior Lecturer

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## Chapter 1

### Introduction and Elements of Open-Book Management

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#### A. Introduction

Much has been written about corporate strategy, visions, missions, and transforming organizational culture through providing strategic alignment and sending clear messages that result in appropriate actions by the workforce. Sharing current financial and business information with employees is important to ensure the alignment of thinking between business goals and the workers' actions. Employees exert influence on the success or failure of businesses by carrying out the day-to-day tasks that could ultimately turn visions into realities. If this is the desired outcome, employees need to be educated on the linkages between their jobs and their effect on the company's profitability. Critics of these modern management techniques say that the bottom line is what really matters and that stockholder returns are the proof of

a well-managed company. We cannot argue with this logic but feel that just looking at the bottom line is a too-simple measure of a complex system.

This thesis is the joint product of two Sloan Fellows both with over 23 years of experience in corporate America. The decision to write a joint thesis was based on the education and job experiences of the writers who have strong backgrounds in a single discipline. Colleen Charles has worked in finance at General Motors for over 23 years, and Angela Negrón has worked in manufacturing at Pratt & Whitney for over 24 years.

This thesis considers the effects of sharing financial and business data and its power on organizational culture, employee empowerment, decision-making, trust between employer and employee, and impact to the bottom line data through our case studies. We will also address what information is currently being shared.

The thesis research was done through extensive literary research in addition to business interviews conducted at two companies. The first four chapters provide a general overview of Open-Book Management (OBM). We give the reader some of the logic about why companies would consider implementing OBM, as well as looking at the types of businesses that would do so. Interviews were conducted at General Motor's Saturn Corporation and at Springfield Remanufacturing Corporation. They are discussed in the Case Studies section of this thesis. The case studies describe the two companies interviewed in terms of their size, the type of business they are in, the products they produce, and how they are utilizing OBM. The intent of the case studies is

to analyze different companies that have implemented OBM and share with readers how and why they decided to implement the process and some of the results they have achieved from their implementation of OBM. The conclusions provide the reader with our observations and identify useful implementation recommendations.

## **B. What is Open-Book Management?**

The term “Open-Book Management” (OBM) was coined by Jack Stack who wrote the book “The Great Game of Business.” He refers to OBM as follows: “The Great Game of Business is all about promoting clear, effective and open communication in a company” (Stack, 1992). His focus is on financial data, having employees view themselves as “business partners,” and sharing the company’s profitability. A review of the two-day seminar, “The Great Game of Business,” and Stack’s company, Springfield Remanufacturing Corporation, can be found in Chapter 4 of this thesis.

According to John Case, Open-Book Management “is a way of running a company that gets everyone focused on helping the business make money. Nothing more, nothing less” (Case, 1995). Charles Proudfit says, “OBM is a system in which a company fully shares its financial status with its employees, who then become active participants in a coordinated effort to optimize future financial performance” (Proudfit, 1997). Stack’s definition and system for implementation puts primary emphasis on understanding financial

information through education and training, and rewarding participants who attain the goals they committed to. Stack also gives employees the opportunity to be creative in spinning off new businesses if they meet required financial thresholds and the management team would like to be an independent entity. Stack requires that each business develop contingency plans that could be taken off the shelf to offset economic or cyclical business downturns. His goal is to allow employees to participate in creating their own job security by taking responsibility for the part of the financial decisions that they can influence. The employees are trained to understand the relationship of their job relative to the business and to read balance sheets and income statements. Employees are compensated with a competitive wage and benefits package and have the potential to earn additional bonus compensation if “critical numbers” are met.

Case’s definition is concise and simple but does not address many issues that occur in organizations when the books are opened to the management, employees, unions and other stakeholders in the business. Case (1995) explains the transformation that takes place when businesses delegate decision-making and eliminate the Taylorist system of job division which tends to over-simplify and under-utilize people. Taylor’s theories may have been acceptable prior to businesses instituting participative involvement programs and attempting to gain flexibility through its workers. It would seem contradictory to ask for employee ideas because you believe they have something to offer and then severely limit the scope of their jobs to repetitive tasks.



Proudfit is correct in describing OBM as a system requiring the active participation and coordination of employees at all levels of responsibility within an organization. In our opinion, the most comprehensive book written about OBM to date is by Thomas McCoy (1996), who takes a more holistic view of OBM.

It is possible to create a work environment in which each employee can make an impact on the company's profitability. Such an approach has been taken by a few leading edge companies with dramatically successful results. Their success stems from creating a partnership with all employees. This partnership is developed through the application of a combination of proven and innovative human resources initiatives that are based on trust and sharing and free from the concept of exploitation (p. 2).

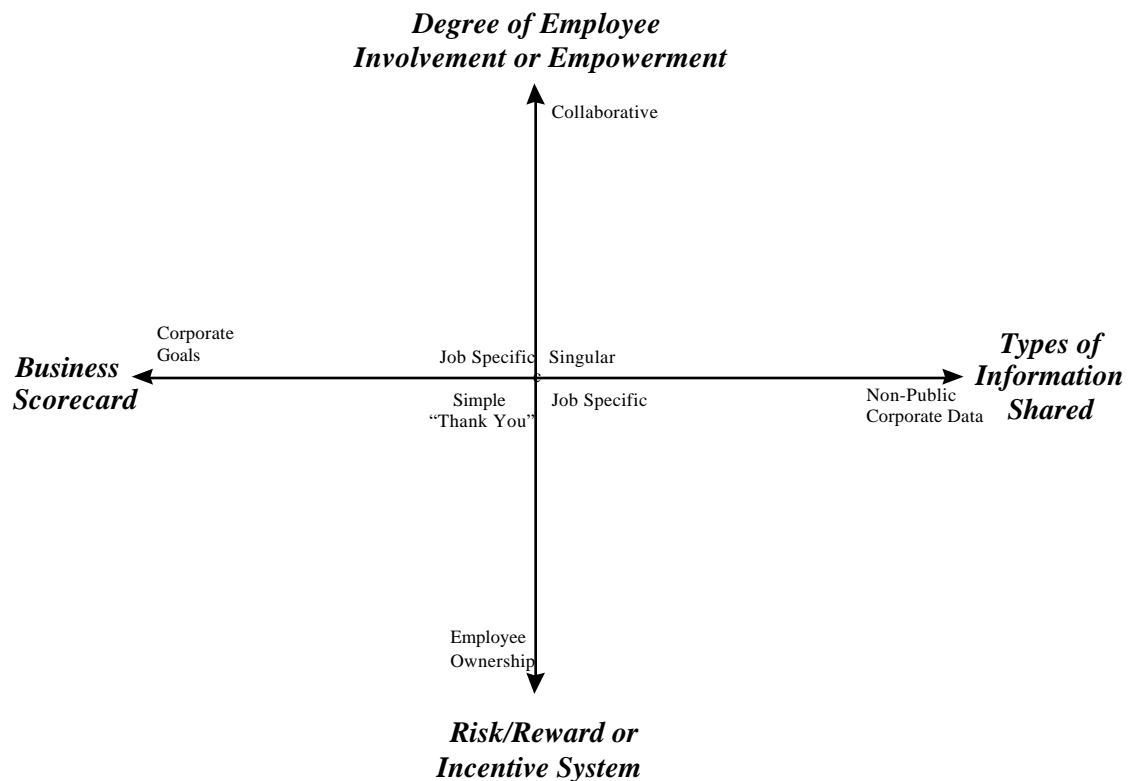
It is our belief that OBM goes beyond affecting the bottom line of a business and supports building trust, teamwork, and the quality of employee decisions.

### **C. Researchers' Definition of Open-Book Management**

OBM is a communications continuum arranged along four dimensions as illustrated in Figure 1:

- degree of employee involvement or empowerment
- types of information shared
- risk/reward or incentive system
- business scorecard

**Figure 1**



The upper vertical axis describes the degree of employee involvement (empowerment) in various decisions that are made throughout organizations. This can range from individual decision-making to a collaborative or team-based effort.

The horizontal axis to the right represents the type of information required to be shared to effectively make quality, informed decisions. This can range from information specifically related to one's job to corporate data that has not been publicly disclosed.

The horizontal axis to the left identifies achievement of critical measurement items, such as business goals and objectives. This business

scorecard assesses the attainment of previously specified goals that can range from individual job-specific to corporate objectives.

The lower vertical axis in Figure 1 represents the incentive system which can include both pay at risk and a profit sharing payment.

In theory, the more information that companies share will allow employees to become increasingly involved in the business and make better decisions. However, when a risk and reward system is added over and above the base salary that is tied to business goals, it injects an incentive system that will motivate employees to act as entrepreneurs of the company.

Business information, generally shared to enhance organizational performance, may be financial data or other types of information that supports optimizing business decisions. When aligned with specific goals that the organization has determined to be critical to ongoing company success, the focus of this information sharing will improve performance and ultimately translate to profitability.

How open a business is can be determined by its position along the continuum relative to the horizontal axis to the right. All employees or suppliers make decisions relative to the function of their jobs which may affect a business in different ways. The quality of these decisions will be directly affected by the amount of long-term and short-term business understanding to which employees have been exposed.

Senior executives are responsible for setting the strategic direction of the organization and they require the appropriate levels of information from the

board of directors. The first-line supervision, as well as employees, may also require the same or associated data to support the organization's goals. Each decision has an effect on the various components of the business with the cumulative effect on profits for the stakeholders. OBM supports strategic planning and the understanding of competitive business influences. It is not a substitute for either.

OBM is the sharing of information required by employees to make sound business decisions that are right for the ensured success of the on going concern through meeting agreed-upon financial goals. "On going concern" refers to a business and its future, and for our purposes is a manufacturing business unit or plant.

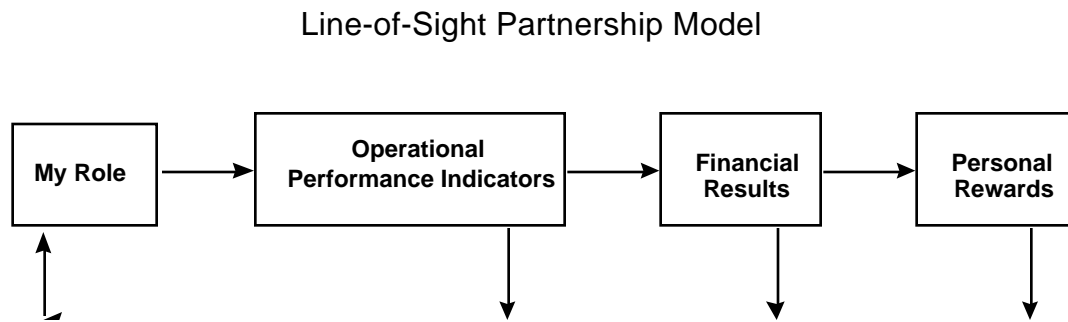
The implication is that having the right information for the level of one's job responsibility allows employees to influence the portion of the business within their control. They should clearly see how they can influence a goal that when rolled up to the company level will effect the profitability of the company. Establishing the linkage between the individual task and company goals should give employees a sense that they can affect the business--thus the "business partner" concept.

Thomas McCoy (1996) refers to "line-of sight" as "the ability to understand how actions contribute to the outcome. It is the ability to see the connection between personal performance and results. Line-of-sight is really a misnomer. When an individual understands how actions contribute to the

outcome, they are able to affect the outcome by adjusting their actions” (p. 146).

McCoy further states that “line-of-sight is created through a combination of information sharing and education. How long the line-of-sight extends is a function of the type and amount of information that is shared and how well this information is understood, as illustrated in Figure 2” (pp. 146-147).

**Figure 2**



In order to develop a line-of-sight, management should provide a clear vision of where the business is going and explain business decisions to reinforce the openness of the environment and to build trust.

Education and training are required for information analysis, whether the analysis is hours of work in comparison to competitors or the conversion of hours to dollars. This enables the employee to apply the learning to see the effect they can have on an established goal. Allowing employees to use the

knowledge they have gained to affect an established goal strengthens their commitment to the process and helps provide a sense of ownership.

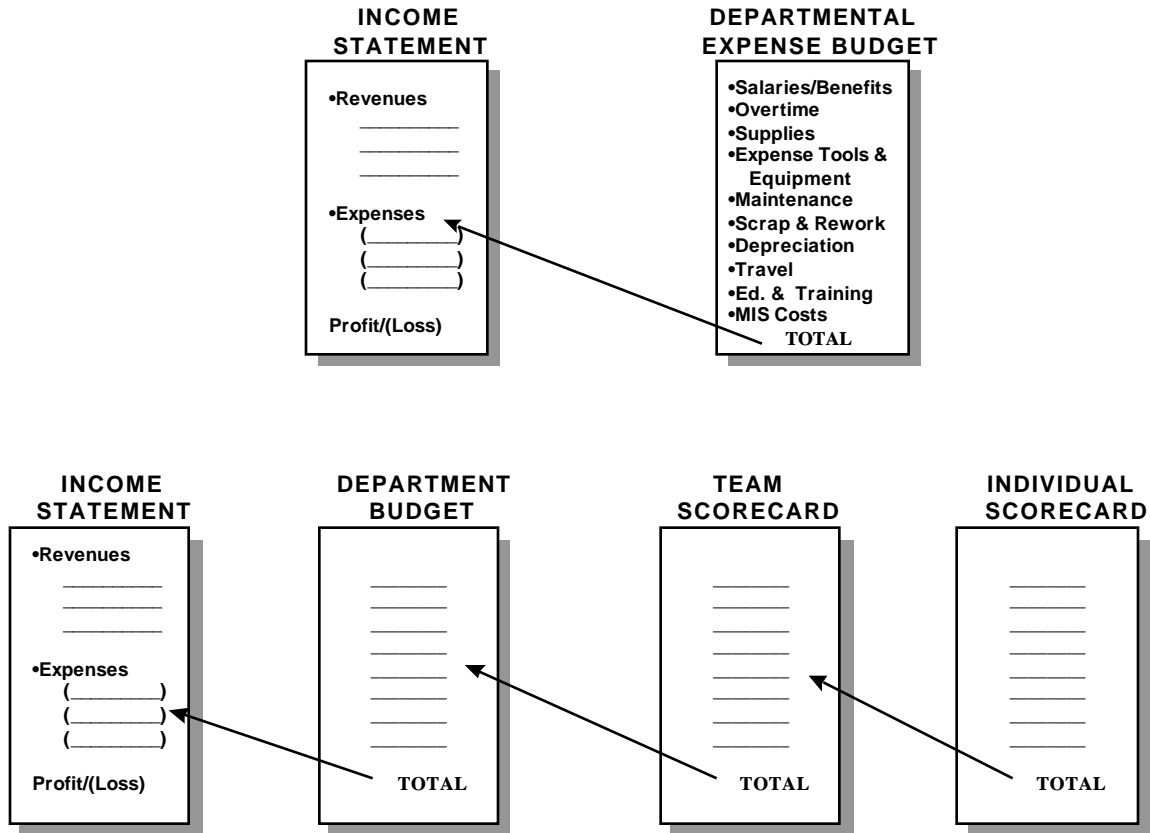
Linkages to competitive positioning and strong sustainable financial growth are part of the incentives for employee participation. Employees must connect their participation with a linkage to team or business rewards and an influence on job security through the on-going concern.

Schuster and Carpenter (1996) state

Animating the numbers makes open-book management much more than just teaching everyone financial terms and concepts by having them take “Financial Management for Nonfinancial Managers” classes. It is learning about their business and how to be an integral part of adding value to those financials. It means providing everyone in the company with a “line of sight” from what they do at their desk or workstation to the financial statements. Business literacy creates a connection between daily activity and the financial statement scorecard (see Figure 3) (pp.54-55).

**Figure 3**

## Line-of-Sight



In reviewing articles about sharing data with employees there seems to be two lines of thinking. The first is sharing results data and the impact to the employees based on feedback after the results are determined. In this case, the information, although current, may be seen as historical, and therefore opportunities for adjusting performance relative to the goal may be looked at as *passé*.

The other line of thinking is related to employee influence on the results based on the level of participation in the business with continuous feedback which allows for adjustments between forecast and plan. We think both are

important parts of a whole, but in the first instance the employee is a recipient of the news and in the latter the employee participates in the story.

The role of the supplier cannot be ignored when opening up the books. A supplier's role is very similar to the role of the employee and should be considered when evaluating implementation with regard to sharing of information, education, and rewarding. If the supplier is truly a partner based on a long-term relationship, then exchanging business data and mutually benefiting from each other's knowledge and expertise should support OBM concepts.

#### **D. Elements of Open-Book Management**

OBM is composed of various elements.

- A plan for implementation is required.
- Understanding the culture, as it relates to trust and the workforce and also management receptivity is critical for a successful implementation process.
- The business objectives for implementation, as well as what information to share, should be understood and based on a strategic plan with aligned business goals.
- Determining the boundaries of decision-making at all levels will eliminate setting up false expectations of the process. If employees are led to believe they will have an input on all decisions and this is not the company's intent, employees need to know this up front or management risks losing credibility.



- Developing the “critical numbers” or establishing goals that are within the control of employees is an essential component of OBM. It determines where employee emphasis is focused in managing tasks and decisions, and is the metric for improvement.
- Feedback to employees about their performance relative to the critical numbers will allow mid-course correction if necessary. The linkage between a business unit’s metrics and the company’s metrics must be made.
- Every employee should understand their ability to impact and control the success or failure of the business. This could be a reduction in defects per million or an understanding of the dollars associated with scrap of a particular piece of hardware that when rolled up to a higher level equates to profits and potential job security.
- As information is shared, it is imperative to provide education and training to enable workers to utilize their newly gained knowledge. Education about OBM and benchmark data about the industry are appropriate starting points for workforce exposure. This leads to empowering the workforce and should result in higher quality decision-making and increased participation in the business.
- Developing a reward system that supports employees who take on increased risk and responsibility relating to business performance is an important element in the open-book process. This implies that if the business does well, employees share in the good times; however, the inverse may also occur. An example of just such an occurrence is discussed in Chapter 4, section F.

## Chapter 2

### Business Reasons for, Applications of, and Resistance to Open-Book Management

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One question that is asked when looking at implementing yet another touted business improvement is, Why implement OBM? McCoy (1996) provides the following response:

Unless a company makes a sustainable profit over time, that is, takes in more revenue than it pays out for costs and expenses, it will not be able to stay in business. In order to contribute to this effort, they need to be educated in how their company makes a profit. This means they should understand how sales generate revenues and how the company's costs and expenses reduce them (p. 127).

We asked the two businesses we visited during our case study interviews why they implemented OBM. We also solicited feedback from companies attending "The Great Game of Business" seminar given at Springfield Remanufacturing as to why they were considering implementing OBM. The answers varied from, "we need to become more competitive" to "it just makes good business sense."

We questioned whether a significant event needed to take place that would put pressure on businesses to share what was traditionally considered

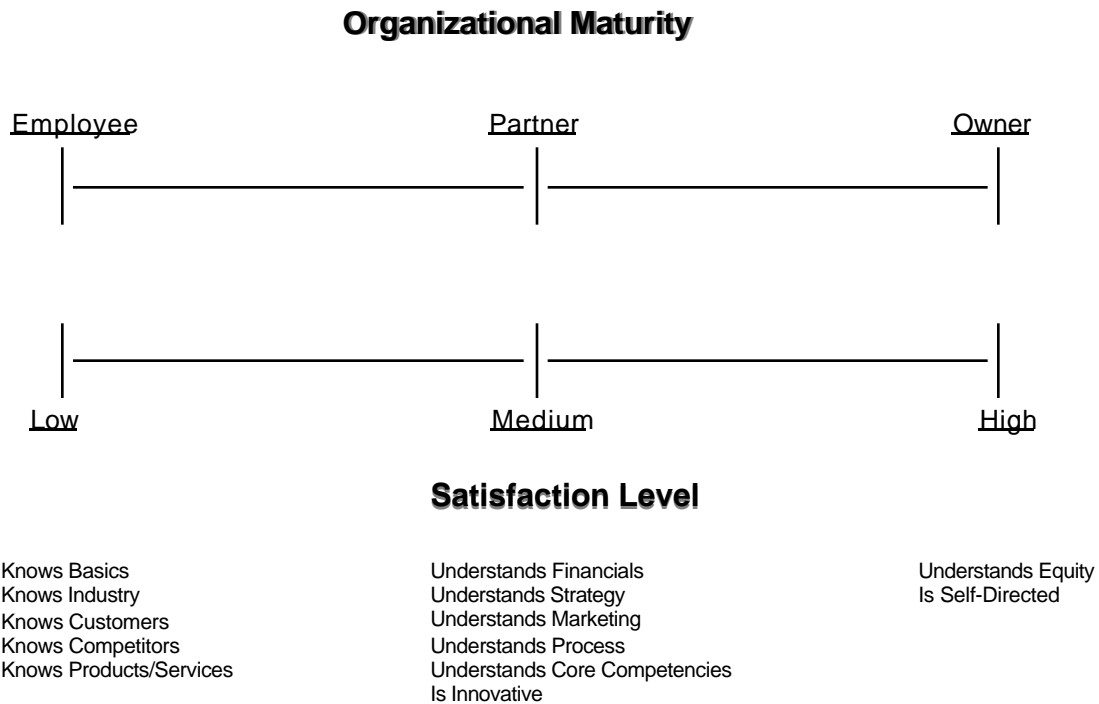
private or sensitive data and there didn't seem to be any one answer. McCoy's thoughts on why business should implement OBM relate to declining prosperity and wages in America:

On a national scale, the challenge is to restore and expand middle-class prosperity. From a business perspective, the challenge is to successfully compete and grow in both manufacturing and service industries. From an individual employee's perspective, the short-term challenge is survival: to keep a job and maintain a cash flow that is adequate to support a lifestyle (p. 8).

Being an owner of a business changes one's attitude toward the responsibility to shareholders and employees. If all employees had the opportunity to act and think as a business owners, the traditional relationships of employer/employee might change and the behaviors in attaining goals become much more aligned.

McCoy discusses "how companies that are basing their sustainable competitive advantage on their human resources find themselves developing an open organization. In doing so, they find themselves moving along a relationship continuum with their employees. Figure 4 illustrates this point" (pp. 50-51).

Figure 4



McCoy describes the model as follows:

At one end of the continuum is the traditional relationship of employer and employee. In this relationship, employees implement the directions given them by management. They have a basic understanding of the company's products and who buys them. They may know who the company's competitors are.

This relationship evolves as the open environment process is implemented. Employees become more like partners. Involvement on all levels is nurtured by using processes that enable and empower all employees. In addition, employees are provided access to education that relates to the general business. They become knowledgeable of the industry, the competition, and the company's market strategy. They are familiar with the internal processes and develop a better understanding about the various sources of revenues costs, and their relationship to net income.

The result is employees with enhanced levels of understanding, responsibility, and authority. Decisions are no longer made at the top and employees have a greater voice in the day-to-day operations of the business. They also

share in the rewards of their effort through gainsharing, profit sharing, or some other form of variable compensation (p. 50).

### **A. Pressures For Change**

All businesses face both internal and external pressures to change.

The internal pressures may come from changes in management or a groundswell from employees who become dissatisfied with being treated like “mushrooms,” although they maybe expected to do more than the tasks they were hired to do but require more information.

During the early 1990s in the United States, the economy experienced a downward trend and many companies faced reductions in their workforces and flattening of their organizations. Businesses attempted or sometimes were forced to improve efficiency.

Single-function positions were no longer the norm and multi-disciplined personnel were highly valued. Increasing productivity in many cases required absorption of additional tasks that were new to individuals because they had been done by someone else in the organization.

The availability of new high-powered networked personal computers and more sophisticated financial systems created internal pressures for businesses to share more data with an immediacy that had never existed before.

Labor unions continue to be an internal source of pressure that necessitates sharing of information. Labor unions will be discussed later in this chapter.

The external pressures on business have come from the need to become more competitive as a result of changing market conditions related to internal inefficiencies and the opening of global markets. One business' impetus to implement OBM came about when they had a change in their Chief Executive Officer after they had lost their US market position to offshore competitors.

When Jack Stack opened up his company's books, it was for survival of the business. He needed to get his workforce to focus on reducing Springfield Remanufacturing's debt ratio which was 89:1 in 1983.

Most companies who implement OBM do so for similar reasons. There are also a number of businesses that are profitable and visionary and view the implementation of OBM as a way to enhance their profitability and strengthen their market position through aligning the focus of their employees through the lens of critical numbers.

Supplier relationships also create pressure in different ways. For example, when analyzing a make versus buy proposal in an OBM environment, identification of a business' core competencies versus the suppliers' gives the latitude to openly share information as opposed to competing for the business.

Sharing supplier information with the employees helps give them additional business information to become more informed and thus more innovative in their decision-making. Sharing information with suppliers allows them to operate in a more efficient manner that enables them to meet commitments.

Can OBM be implemented in a traditional non-team-based environment? The answer is not obvious, because at some point focusing on a common set of goals fosters collaboration among employees. Isn't that teaming?

OBM supports team-based environments by providing a common focus or goal for which all team members are rewarded if the goals are met. Allowing teams or business units to determine what their financial objectives will be relative to overall company financial objectives provides the alignment of resources required to make a business successful. Again, linking the understanding of how to connect the enterprise with company objectives is imperative to achieving desired outcomes.

People cannot be expected to meet the goals if they do not have the information they need. Further, if employees have the information and do not understand how to use it, they might as well not have the information.

The types of businesses that are applying OBM vary. Jack Stack questioned whether "The Great Game of Business," would work in retail businesses, Fortune 500 companies, or companies with multiple locations, etc. "I can point to companies that are actually practicing open-book

management in all kinds of businesses, with all kinds of workforces-from travel agencies to toy manufacturers, from one guy making slides to giant multinational corporations, from unionized factories to airlines to hospitals to chains of grocery stores” (Stack, 1992, pp. xv-xvi).

OBM has been implemented in both manufacturing and service businesses of varying sizes. In larger companies, a department or business unit may have established financial goals that support the company’s financial goals, and the company itself may not be implementing OBM.

There does not seem to be any apparent particular industry or business type that is applying OBM. We have reviewed applications at both a commercial unionized and a commercial non-unionized business.

OBM applications vary from company to company and in some cases vary within the same company. Some of the variation in applying OBM in businesses is related to securing competitive data. Companies tend to open their books to varying degrees. The future competitive strategies may or may not be shared.

Ricardo Semler owns a manufacturing company in Brazil called Semco, which some people believe practices unusual employment and management practices. Semler believes in his employees; they are true partners in the business and are considered integral parts of the company. They are involved in decision-making, setting their own salaries, have full knowledge of the business (the books are open for review and auditing by the union), and may attend any meeting within the company.



Empowered participation gives people control of their work, profit sharing gives them incentive to do it better, and open information systems inform them of what works and what does not work.

These values allow Semco to govern itself and be successful. One could argue that Semco is at the far extreme of the OBM continuum. However, Semco's overall sales and profits have remained intact while other companies in Brazil have gone bankrupt. The more experienced a company becomes in opening its books, and the more education employees receive, the more information tends to flow.

## **B. Labor Unions and OBM**

“Workers in a unionized company may obtain considerable information about the company even if the employer does not provide such information voluntarily.” (Kleiner and Bouillon, 1988)

The National Labor Relations Act requires employers to disclose financial information to avoid a plea of poverty during the negotiation process. In non-union companies, employees may have little knowledge about the financial health of a company.

There are advantages to providing workers with financial information which affect employee moral and their understanding of business decisions. “Greater information sharing may align workers’ interests with the interests of shareholders and cause workers to increase their work effort, resulting in

greater shareholder wealth” (Kleiner and Bouillon, 1988). “The more complete sharing of financial data by management can make the typical collective bargaining process more effective for all parties involved” (Tudor, 1996).

Attaining information through public sources is common in labor negotiations. Information on the economy in general is available through a number of sources such as the *Survey of Current Business* or the *Federal Reserve Bulletin*. *The Economic Indicators* is published monthly by the President’s Council of Economic Advisors and provides information on key economic variables.

Industry information is published through a variety of federal and business publications. In the manufacturing sector, the *Quarterly Financial Report for Manufacturing Corporations* is published by the Federal Trade Commission, and gives gross numbers on companies within a manufacturing industry. Newspapers such as *The Wall Street Journal* and various trade papers also provide information on economic factors within industry.

Management is also fearful that unions will demand more if they are given too much information. In fact, the reality is that the more unions understand about the financial position of a company, the more rational the negotiation process will be. Many companies that have implemented OBM argue that the sharing of financial numbers in fact increases their credibility and trust, instead of exaggerating or stretching information in an attempt to support their position.

Therefore, it is important to give employees the information needed to make decisions for which they will be held accountable, including attainment of identified financial goals. This is another step in today's rapidly changing business environment, which places emphasis on a flatter, more efficient organization structure and changing employee roles within a company.

“An open environment implies access to information, to skill development, to social interaction, to authority, and to rewards of success. An open environment results in an understanding that change is normal and it cultivates the attitude of accountability” (McCoy, 1996, p. 8).

### **C. Resistance to OBM**

Fears about and resistance to sharing information is often associated with OBM. Information is seen as power in the traditional organizational structure, and opening up the books changes the paradigm from individual positional power to organizational team-based power.

Figure 5 illustrates how the power of information changes when an organization changes from a traditional to a more team-based or OBM organization.

**Figure 5**

<b>Power of Information</b>	
<b>Traditional Organization</b>	<b>OBM Organization</b>
Vertical communication	Open, ongoing communication
Competing arm's-length suppliers	Fewer, more trusted suppliers
Function-based work groups	Cross-functional teams
Hierarchical management structure	Flatter management structure
Management decisions	Team-based decisions
Rank-based authority	Expertise-based authority
Cost oriented	Customer focused, cost conscious
Union/company segregation	Union/company partnership
Self interest	Enterprise interest
Information shared on need to know	Sharing information with all employees

In the traditional organization, financial information may or may not be shared with middle-management and if it is, in most cases it stops there. Managers are reluctant to relinquish their authority and employees rarely think of themselves as business people. That is the accepted way that traditional organizations operate.

Having information is associated with the prestige of one's job; there may be a fear of loss of prestige at higher levels of management when lower level employees become privy to information that was once considered private.

In addition, many employees feel it is not part of their individual job responsibility and therefore may be initially reluctant to participate. "There appears, therefore, to be a clear correlation between the prestige of positions

within organizations and the extent to which they offer access to information, persons, and instrumentalities” (p. 350).

Cost information tends to be shared more openly as it relates to budget management, but profitability targets and margins are held very close to the vest. Training and educating employees on the confidentiality of data and ensuring that they understand the linkage to their job security has been effective with Saturn’s 9,000-plus team members (see Chapter 5, Saturn Corporation Case Study).

Management often focuses on the fear of competitors receiving information that will disadvantage their company and their personal loss of power within the organization.

To the extent that a person is dependent on another, he is potentially subject to the other person’s power. Within organizations one makes others dependent upon him by controlling access to information, persons, and instrumentalities. The most effective way for lower participants to achieve power is to obtain, maintain, and control access to persons, information and instrumentalities. To the extent that this can be accomplished lower participants make higher-ranking participants dependent upon them. Thus, dependence together with the manipulation of the dependency relationship is key to the power of lower participants (Mechanic, 1962, pp. 352, 356).

In reality, with the information available to stockholders, Internet users, and the vast financial systems that exist today, it is believed there is little information that competitors could not reasonably estimate.

Employees may be reluctant to take on this additional responsibility. Some may feel they do not have sufficient knowledge and may initially oppose the process or refuse to become involved; thus, training becomes an

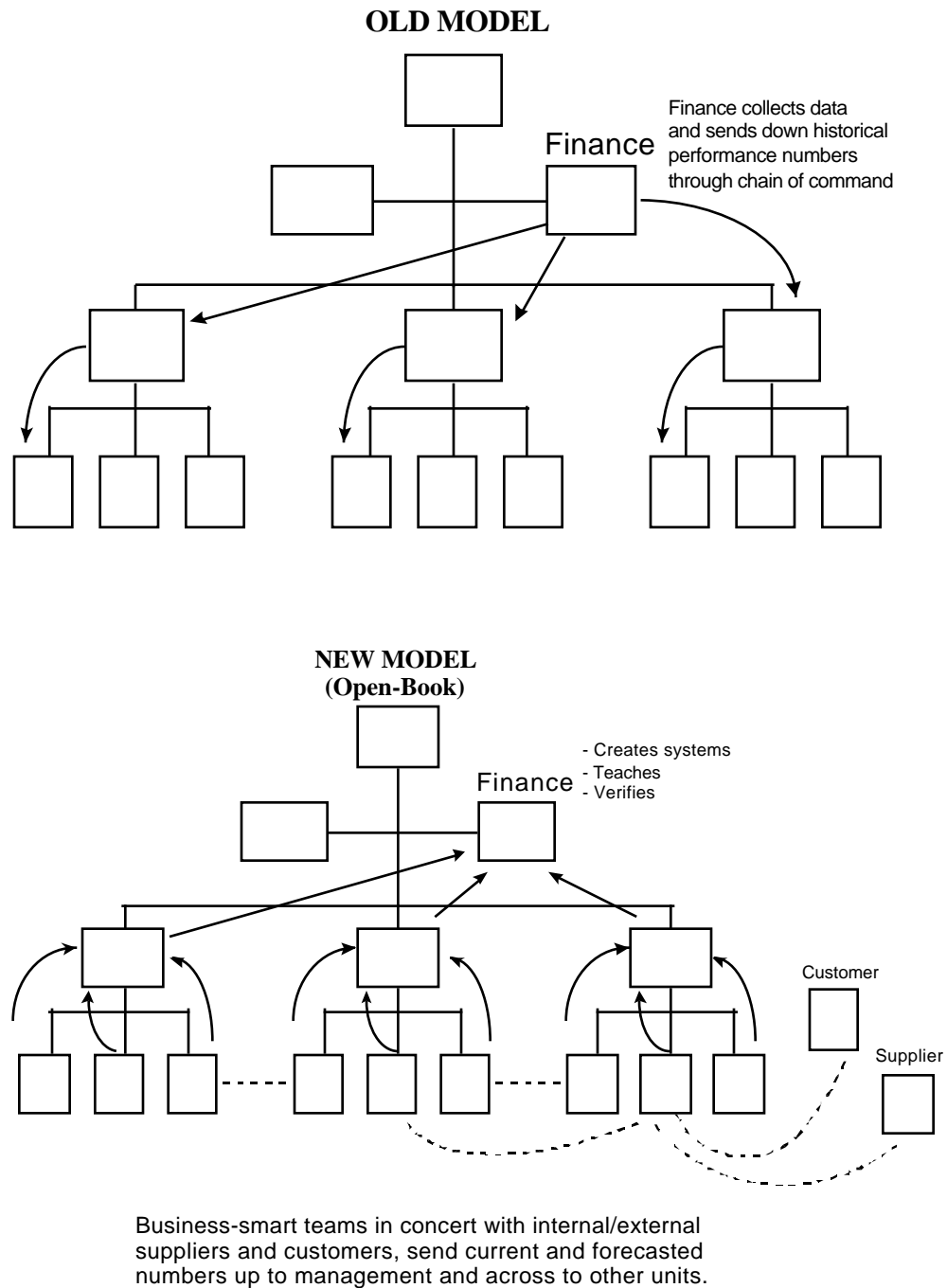
important element to build employee self-esteem and confidence. Others may perceive this as another management scheme to shift greater responsibility to lower levels without additional compensation. Many employees are content just doing the job they were hired for--nothing more and nothing less. They believe this might detract from their primary function and they are content to leave the decision-making responsibility to management.

Finally, resistance in the Finance Department may also be an issue when trying to implement OBM. Typically, finance skills are seen as specialized and requiring higher education. Educating and training lower level or non-finance employees to read balance sheets and income statement takes away some of the mystique associated with Finance's role and might be viewed as diminishing their prestige and/or role within the organization.

However, as organizations migrate to more team-based structures, OBM is an additional tool to ensure a successful transition. Schuster et al. discuss the practice of bottom-up forecasting:

That's the essence of open-book management's paradigm shift and this is the communication breakthrough that business-literate companies pursue: The employees must know enough about the business and its finances, and their part in both, to manage their own activities. Finance will still verify the numbers historically, but employees will manage them futuristically (see Figure 6) (pp. 54-59).

Figure 6



Understanding the readiness of management and the workforce to accept the responsibility associated with OBM is more important than determining the appropriateness for a particular type of business. OBM experts argue that it works, but it is planned implementation, to a large extent,

that is the determining factor of success or failure. Commitment, communication, education, and training in the process are critical factors to ensure a successful implementation.



## Chapter 3

### Impact on Decision-Making, Trust, and Empowerment

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“The Office of the American Workplace recently reported on a detailed study of over six thousand work groups in thirty-four firms. The study found that attributes of an open organization, such as an emphasis on workplace cooperation and involvement of employees in decision-making were positively correlated with future profitability” (Denison, 1990, p. 65).

People make decisions about personal finances, pay household bills for utilities, food, mortgages, etc., and in the long term save for retirement. They make daily decisions based on their understanding of the impact to their lifestyle relative to their wages and the amount of risk they are willing to take. Why, then, do we not give our employees the information they need to make conscious decisions about their purchases especially when they are using the company’s money?

“The information available in an open environment enables all employees to calculate which of their actions will improve profits and which will not” (McCoy, 1996, p. 12). It is interesting that employees are allowed to

procure materials, design, manufacture and assemble products, but if the average worker is asked what his/her contribution is to the total cost of the product, they would not have an answer.

Would employees make better choices if they understood the relationship of cost to competitiveness and job security? There is no doubt that they would. Most businesses talk about reducing costs and implement cost reduction programs, but don't share the total picture of cost roll-up to a balance sheet or income statement of the company.

In business decision-making, though, it becomes essential that we consciously strive to base our decisions on objective criteria, removing ourselves from irrationality. Call it the scientific method if you wish. This means that logic must enter into our decision-making. By and large, logic provides a capacity for distinguishing truth from error when facts or factual data are established. It is the science of proof. Competitive business decision-making requires this logical approach (O'Dell, 1991, p. 64).

Trust is a significant component of OBM. OBM is mutually beneficial for both company and employees. McCoy says it well:

From a management perspective, success in the new economy starts when the company develops the capability to compete: to grow in profit, revenue, and market share, and to identify and seize opportunities to diversify.

From the employee's perspective, success starts with job availability and income growth. Stated in this way, it is obvious the two perspectives are mutually supportive. They are focused on a single objective that provides multiple outcomes and addresses multiple needs. Herein lies the answer.

The key to successful competition is to understand the strengths that exist in mutually supportive perspectives and to leverage this understanding as a key business strategy (p. 10).

Let's examine what the potential benefits are if we inform and educate workers about their contribution to the cost or value they can add to the business. Let's also assume the workforce culture accepts the idea of OBM.

In a personal relationship if we share private information with another, what is the reaction? Are we demonstrating that a certain level of trust exists between us? What assumptions or feelings might there be? Maybe we just needed someone to talk to? Does this sharing imply a different relationship than before? What about the next time we see each other? Will we share private information again? Does this provide an opportunity to become more open, or even offer some advice based on personal experience?

Trust is earned; it is not automatically assumed by virtue of an employee/employer contract. Trust is a key component of OBM. The level of trust within the company increases when information is out in the open. When employees understand operating budgets and want a raise, they can see if the money is available to fund the raise. They learn what it costs to operate a business and what the stockholders expect for returns if they are to continue to invest. It becomes no different than managing their personal finances.

When the information is held close to the vest and employees are operating in the dark, they guess or make up information and it becomes real. Rumors abound and trust is negatively impacted. "The data from several surveys indicate that most employees tend to think that their company is more profitable than it really is" (McCoy, 1996, p. 134).

In a discussion at the “Great Game of Business” Seminar with someone who was in the process of implementing OBM, he talked about the first meeting he had with some of his employees. He explained that he shared the company’s financial information with the employees and the response was not quite what he expected. The employees were sure he had two sets of books. He tried to assure them that he did not, and it was only after a long period of time and working with the employees by allowing them to dig into the information that he was able to convince them that they had all the information that was available.

Patience with the process is an imperative. Building trust is what occurs when the books are open. It does not happen overnight. As trust builds and informed decision-making occurs, an empowered workforce develops.

A key element in the successful implementation of OBM is understanding the boundaries of the decision-making process. Empowering the workforce and pushing decision-making down is a natural outgrowth of flattening work organizations. Letting workers know that they are expected to make decisions within certain boundaries may sound like control, but by listening to those in businesses that are opening up their books it is better to establish the ground rules up front than to set up false expectations.

How are these boundaries established without demotivating employees? One way is to consider setting financial operating limits or outlining a system for any questionable decisions.

Monitoring performance of the business on a weekly basis is a method to stay in touch with changes in business. In the “Great Game of Business” Seminar, local department financial meetings called pre-meetings are held weekly, in preparation for the combined business meeting, to roll all the company’s financial data together. Forecasting the future based on what is known today is a major part of this meeting, and each week if changes occur, explanations are provided by those responsible for changing the numbers. As the various businesses of the company present their information, it becomes obvious that there is a healthy level of competition among the businesses and also teamwork. If one business is having difficulty meeting their goals, others will pitch in to lend a hand. It is the overall company goal that achieves the additional monetary incentives at year end.

Most companies close the books after the end of each month and operate blindly during the month in hope that at the end of the month they will achieve their operating targets.

A good analogy in our personal lives might be our checkbooks. Imagine if one did not keep a daily record of his/her checkbook balance, but instead waited until the end of the month when the bank statement arrives. Would the situation be different if the checkbook was monitored weekly? The ideal system is to be aware of the balance after each transaction takes place, whether it is deposits made or drafts written.

Why then would a company wait until the end of the month to discover key business information? Take the best information and use it continually to

forecast balances so no one gets blind-sided at month end. Assessing the numbers after the fact rather than anticipating them and making changes to monthly operating targets encourages flexibility, creativity and helps move the business where it needs to be at month end.

Many information systems within businesses were originally designed to operate on a monthly basis. However, as organizations migrate to more advanced computer systems that are integrated across functional levels, more information will be available on a “real-time” basis.

## Chapter 4

### Springfield Remanufacturing Corporation Case Study

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#### A. Background/History of Company

Springfield Remanufacturing Corporation (SRC), a rebuilder of engines and engine components, is located in Springfield, Missouri. It was a division of International Harvester, called Renew, until 1983 when it was purchased by Jack Stack who was the plant manager of the facility and 13 other executives (Davies, 1996). They paid \$9 million for the plant, with \$100,000 deposited as down payment. The company's debt-to equity ratio was 89:1. There were 119 employees working at SRC when the company was purchased. Stack recognized that any financial error in operating the business would cause the doors to close, so he decided that everyone had to know the company's financial pulse at every point. SRC increased its annual sales from \$16 million in 1984 to about \$118 million in 1996, and its stock price has

increased 200-fold. Since 1983 when he bought SRC and initiated OBM, SRC has become a holding company.

Stack has set a 15% yearly growth target for SRC, which will allow it to double in size every 5 years. He chose this target based on experience and his feeling that the business could not be managed well with growth that exceeded this target.

All of the companies within SRC are expected to grow at the 15% rate and this is clearly acknowledged in all their annual plan forecasts. Stack's overarching intent is to secure jobs. He feels the "Game" is about commitment inside the organization, and he expects that all employees will do everything they commit to.

Stack encourages employees to spin off businesses if they meet established financial thresholds. He also encourages employees to purchase the business from SRC if they so desire.

There are currently ten companies within SRC employing approximately 950 employees. The turnover rate is 18-19% within the first 90 days of employment. After one year, turnover drops to 1-3%. High turnover is attributed to lack of skilled workers and a very low unemployment rate in the Springfield, Missouri area. Stack readily admits that the OBM concept does not appeal to everyone. He openly states, "if you don't like the culture at SRC then you are free to leave."

### "Game" Concepts



“The Great Game,” is composed of three concepts:

1. know and teach the rules
2. follow the action and keep score
3. provide a stake in the outcome

Of key importance is that everyone supports the critical number.

The “critical number” is the measure of performance to goals. The critical numbers are typically comprised of one from the balance sheet and one from the income statement. “What is a critical number? It is the number that, at any given time, is going to have the biggest impact on what you are doing and where you want to go. It is the number that will focus the business, that can make, or break, your department or company. It is the number you have to achieve in order to succeed, or maybe even survive” (Seminar Workbook, p. 87). It is assumed that quality will be maintained at industry levels or there is no way the business could meet its numbers.

Stack understands the importance of forecasting economic cycles in the engine remanufacturing business and encourages each business to develop contingency plans to protect sales and profitability. This is also done to ensure job security during economic downturns which may effect the business.

As he explained during the seminar, when the economy is doing well people buy new cars, but in times of economic downturn people tend to hold on to their present vehicle and rebuilding the engine enables them to delay buying a new vehicle.

Another use of the contingency plan is to prepare for next year's growth. If the 15% growth target cannot be met with the current business, then consideration of alternative businesses in order to meet the target is acceptable.

All the companies within SRC have on-the-shelf contingency businesses that are reviewed on a regular basis. They also prepare five year plan forecasts which include contingencies and are updated annually.

Stack feels strongly that people need to understand the pieces of the puzzle, the local numbers, and be able to roll them up to the bottom line. He made the analogy of people watching a cricket game without understanding the game. His comments were "they will be confused, bored, and angry, similar to people inside a business who are not given the information they need to do their jobs. Teach the structure and responsibility to drive the boredom out of the repetitiveness."

## **B. Two-Day Seminar**

### Purpose

After reading the book "The Great Game of Business," we became interested to see if there was more information about how the "Game" was played. In the back of the book a telephone number is given to answer

questions about “The Great Game,” and to provide information on a two-day seminar offered in Springfield, Missouri.

After some negotiation, one of us enrolled in the next available session.<sup>1</sup>

The seminar cost was \$1,250 which included lodging, breakfast, lunch, and transportation to and from Springfield Remanufacturing Corporation (SRC) where the seminar is held. The two-day seminar was attended by 58 people from 32 companies representing companies from many industries and varying sizes. All were thinking about implementing OBM or had already begun the process, and they were there to continue the process of education about OBM. Both blue and white collar workers attended.

Jack Stack began the day’s presentations. He explained the origin of SRC and why he and the SRC investors decided to implement OBM. Stack spoke about his philosophy of “The Great Game of Business,” and the results that were achieved at SRC through its implementation. After Stack spoke, a series of speakers explained the mechanics of “The Great Game of Business,” starting with the four fundamental principles SRC lives by as listed below:

1. Train and educate
2. Provide the information
3. Keep a scorecard
4. Provide a stake in the outcome

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<sup>1</sup> Because of space constraints, only one of the authors was allowed to attend this seminar. However, for ease of reading, and because both authors have contributed to the overall research effort, we will continue to use the word “we” rather than “I”.

They then provided a detailed description of their implementation process and handouts that were currently being utilized at SRC.

### Analysis of Seminar

The participants asked many questions, which helped to increase the understanding of other participants who had varying knowledge of the “game.” By lunch time on the first day, it became obvious who was in the process of implementing OBM and who was trying to determine if OBM would be of value to their companies. Lunch and travel time to visit two of the SRC facilities provided participants with time to share experiences and ask each other questions.

The seminar also had two blue collar employees from one of the SRC businesses. This gave participants the opportunity to dig further into SRC employee feelings and attitudes about the “game.”

The impression we got from one employee we spoke with was that he was a zealot of the “game,” but he was realistic in his views and felt that not all employees were as interested in business acumen as he was. He said that most employees enjoyed working at SRC, getting business information and the education that was required to interpret it. He further stated that there are also those who come in and do their jobs as they would in any other company without taking note of the business. However, he thought these were few in

number and were accepted by the general workforce because they didn't hinder the "game."

We toured two businesses. Stack spoke of the competitive nature of his business and felt that the barriers to entry were low. We were somewhat surprised at what looked like a factory from the 1970s. Looks can be deceiving. The biggest difference we noted was the knowledge of the shop floor employees relative to their jobs. We were given a headset which allowed us to listen and asked questions of our tour guide. As we stopped in different areas of the shop, an employee was given a headset and questioned by the tour group. Employees answered most questions and were honest about not having all the answers. After the shop tour we sat through, the "huddle," a preparatory meeting for the following day's corporate meeting.

All of the two days are covered in Stack's book "The Great Game of Business," but attending the seminar provided additional insight into the actual operations of the "game". On the last day of the seminar participants actually played a simulated "game" and provided data for a corporate meeting which was recorded on an overhead computer screen.

Some of the comments in the audience from those who had implemented OBM expressed concern about the amount of time it took to gather and report the weekly information. Our observation is that a business needs to be broken into manageable size units and that with practice, the time required to gather and communicate information would be substantially reduced (as with most repetitive things that we do). The importance of weekly

communications during the initial implementation ensures that employees understand their role in the process and that they have the appropriate education to enable them to communicate in a common language.

By the close of the second day, participants should have gained a good sense of the elements of “The Great Game,” and whether their workforce is ready to accept the level of involvement required to make the “game” work for them. Participants walk away with a notebook containing worksheets and other data that can be used to begin the “game” in their facilities. This information can be customized for their particular business.

Many of us exchanged business cards so that we could continue the dialog about OBM when we returned home. Supplementary workbooks and additional consulting are available from SRC for a fee.

### **C. Internal Culture and Organizational Structure**

SRC’s culture is one of openness and sharing, but do not get the impression that it is a culture in perfect harmony. It is a hard-driving group of people, with each business set up as its own unit. The hierarchical structure appeared to be fairly traditional, and there is no union representation.

Information in SRC is not used as power by individuals, but is distributed as power for the business. Sharing information gives rise to a level of trust and commitment that is not typically seen in American manufacturing companies.

Everyone understands what is occurring in the business. When employees want a wage increase or a new piece of capital equipment, supervisors can explain the impact on the overall goal, and employees can accept and support the response. Employees are encouraged to question each other and management. If you don't have trust then you can't implement the "Great Game of Business."

We attended a preparatory session in one business and later sat through the corporate meeting. What came out in the preparatory session was that one business had excess workers and another needed workers, so a loan was arranged between the two businesses. This prompted a discussion about pay differentials between the two businesses and who should make up the discrepancy. The manager of the business loaning the employees said she would take care of the difference because it was not worth the effort to adjust the books. At the follow-on corporate meeting, her generosity and team spirit were recognized by the other business managers.

In another meeting at SRC, contributions to charities and recognition for those who participated in charitable events was regularly discussed. Community involvement is reinforced as part of the culture SRC wants its employees to demonstrate.

Inviting elementary school classes in to see how a business is run is common practice at SRC. They were instrumental in initiating a project to get other local businesses to open their doors to school children in an effort to teach children about business.

SRC is held in high esteem in the local Springfield community. They have developed links with various charities and the school system that are seen as part of the organization's culture and not just the effort of a few individuals. People in the area are drawn to the reputation and innovative style of running the business, so attracting qualified employees is not a problem for SRC.

#### **D. Communications Process**

Obviously, communication is fundamental to the success of "the Great Game." "People have to see the effects of what they do, or they won't care" (Stack, 1992). SRC utilizes a very structured approach to ensure that information flows into the bi-monthly corporate meeting and it also provides appropriate feedback to employees who are interested in knowing how their business is doing.

Pre-meetings are held at the business level in preparation for the bi-monthly corporate meeting. This meeting typically lasts one and a half hours and is intended to be fast paced, not boring.

At the corporate meeting each business fills in their numbers on a blank computerized income statement that is projected on a screen for all to see. Adjacent to the blank income statement is the weekly forecasted numbers. "The Great Game" is based on forecasting annual numbers and monitoring these numbers openly at a weekly or bi-monthly corporate meeting.



These interim projected numbers come directly from the people and not the computerized accounting system. Having the employees manually develop the numbers weekly keeps the focus on the importance of the numbers and the commitments people have made.

At the end of the month when the books close, the following month's projections are based on the system's output. Employees review their results weekly and have a chance to react, if necessary, before the end of the month. Forecasting and measuring against the forecast before the monthly books are closed, allows time to compensate for deviations (differences). Each line-item on the income statement identifies the person responsible for reporting and explaining, if required, that number. If there is a deviation of more than plus or minus 5%, the person representing that number can expect that he or she will be asked to explain the deviation.

While people are discussing other items, the chief financial officer prepares the cash flow statement using the numbers that employees have just given him. Cash flow is then reviewed to see if the business is hitting its balance sheet targets. "The cash flow statement shows us how much cash we have, how much we are generating, and where it is going--all of which will help determine whether or not we hit our balance-sheet targets" (Stack, 1992, p. 193).

At the end of the meeting the chief financial officer announces "the tally: our income (or losses) before taxes for the month, assuming these numbers

hold up. Then we move on to the other news” (Stack, 1992, p. 177).

Remember, no one gets paid a bonus if the critical numbers are not met.

Most employees are also interested in how the other businesses are faring against their goals. There is some competition among the businesses, but there was also the feeling of a desire to see everyone succeed.

Within thirty-six hours after the corporate meeting, the information has flowed through all the businesses. Stack has established processes for running the business that make expectations and methodology clear.

Whether Stack is in town or on the road, SRC doesn't miss a beat.

Customer survey information is gathered by an independent organization. SRC is interested in four basic areas: product, price, core policy and product support. This information is fed back to employees who use it to improve their business.

Customer input is critical for this industry which is relatively low tech and fiercely competitive. SRC has established strong partnerships with its customers and have been able to get the customer to support cash flow goals by not transferring customer inventories to SRC's books. In other words, the customer who will receive rebuilt material back from SRC keeps the inventory on its books even though it is located at one of the SRC businesses.

## **E. Training Process**

Each business is responsible for training its employees to read a balance sheet, an income statement, and understand cash flows. Training consists of formal classes in basic accounting. SRC has developed a workbook called "The YO-YO Factory," that shows how balance sheets, income statements and cash flow statements are derived in a business. All employees are taught the basic financial ratios, such as ROI and ROE, and they utilize EBITDA/ASSETS, (earning before interest, taxes, depreciation and amortization divided by assets) as a business measurement.

During the seminar, one speaker described the trials and tribulations associated with developing this workbook. They had originally developed a workbook that included a real work-related problem, but quickly discovered that students wanted to discuss the correctness of the processes in the workbook, not the financial implications of evaluating the processes. That is why "The YO-YO Factory," was developed. It has no bearing on any of the SRC businesses but exemplifies, from the shop floor perspective, the linkage between what an employee does and how his/her work with associated inventories, etc. is translated into dollars.

We had the opportunity to talk with several shop floor workers during a tour of two of the SRC businesses. We specifically asked questions related to what they were working on and the added value they were contributing. All employees readily told us how much their parts cost when it came into their

departments and what their labor was worth. They also knew what competitors were doing.

Benchmarking is a critical part of OBM. Knowing what the competition is doing so that the business can stay ahead is information that the workforce must know to keep innovating cost-saving ideas. Some suggestions for sources of data for benchmarking activities were given. They included Dun and Bradstreet Reports, financial databases on the Internet, and customers who wanted to get the most and pay the least.

As mentioned earlier, there was an employee from Megavolt, a spin-off business, in the two-day seminar class. Attending this class was viewed as recognition that their business was under control and they could allow employees to take advantage of some different sources of education.

#### **F. Incentive and Reward Systems**

A portion of employee compensation is tied to attaining the critical numbers that are determined by each business. Bonuses are determined by each business, with suggested bonus percentages made by Stack and his staff. The businesses that meet their goals are paid bonuses even if the corporation does not meet its overall objectives, or vice versa. Bonuses are a percentage of base pay.

The employee from Megavolt, LP told us they were on the verge of receiving their first bonus ever. They had been in business for several years

and had run into some unfortunate situations that impacted their profitability, including the need to relocate as the result of losing their lease.

Consequently, they had not received a bonus since opening their doors. This particular employee was very proud to be part of the Megavolt team and willingly accepted that because they had not met their critical numbers in previous years, they had not received any bonuses.

They do, however, have an ongoing bonus system for meeting environmental and other goals. This provides an opportunity for all employees to receive some recognition over and above their annual base salary, which is the market rate for the Springfield, Missouri area.

Part of the driving force of the bonus system is teamwork and commitment. The idea of having very specialized jobs is not applicable in this environment. Everyone does whatever he or she can to get the job done without jeopardizing quality or deliveries.

Establishing a “business partner” relationship with employee ownership was a driving force for Stack’s decision to open the books. SRC’s stock has split several times, thus allowing a lower stock purchase price which remains affordable to all employees. Stack believes that employees should not be just workers, but rather “business partners”, and this is one way he reinforces his commitment to this concept.

We had the opportunity to talk to several shop floor personnel and discovered some owned stock and others did not. One thing was certain, they

all knew about their colleagues who were millionaires because they got bought stock early in the game. "It's the America Dream."

### **G. Open-Book Management Analysis**

SRC is willing to share as much information as its employees would like to see. They have a structured approach to target setting and measuring performance against established goals. Their employees understand the linkage between their jobs and company performance and see this knowledge as a way to influence their job security by affecting the bottom line.

SRC is a privately held corporation with stock ownership dispersed throughout the company. It has a variety of ways to compensate its employees which allows alternate compensation for attaining additional goals if the business unit does not make its critical numbers.

SCR's implementation of OBM evolved through trial and error and is still evolving as the business environment and workforce change. They have a very structured approach to OBM that is part of the way they do business and is part of their culture. Their focus on financial data as the voice of the business is somewhat different from the other applications of OBM that we, as researchers, have witnessed.

Meeting the critical numbers becomes the underlying reason for people to work together in teams. A general business understanding of what the customers want and are willing to pay for places appropriate emphasis on

quality and competitive benchmarking. All of this is tied directly to job security and compensation for SRC's employees and the employees understand this relationship.

SRC appears to have a sustainable competitive advantage in a low-margin business.

## Chapter 5

### Saturn Corporation Case Study

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#### **A. Background/History of Company**

Saturn Corporation was formed as a wholly owned subsidiary of General Motors in January of 1985. Saturn began in 1982 as a project to innovatively design and manufacture small cars in the United States in order to successfully compete with foreign manufacturers. Saturn cars, which made their debut in the fall of 1990, are built in a 4.3 million square foot manufacturing and assembly complex located in Spring Hill, Tennessee. In August 1995, Saturn's one-millionth vehicle was produced at the Spring Hill manufacturing and assembly complex (Saturn Fact Book).

In 1982, the UAW and GM decided to pull in a group of people to determine a better way to do business and the feasibility of GM building a small car in North America that could effectively compete with the Japanese car makers. For two months they visited 49 GM plants and 60 benchmark companies all around the world. The group reported back that it could be done



if people would truly be open-minded and look at change as a way to do things differently. By the time they had finished, they had become an unprecedented alliance of GM and UAW people representing the collective knowledge of 55 GM plants and 41 UAW locals. They would become known as the “Group of 99.”

After being exposed to the Knowledge Center at the GM Technical Center, they broke into seven groups. Saturn was set up as a small car project and adopted a “clean-sheet” approach, vowing it would not be constrained by traditional thinking and industry practices (LeFauve and Hax, 1992).

Saturn is a melting pot of employees from all over the United States who wanted to do something different. The UAW-represented team members had to quit their jobs at General Motors and literally be hired as a new employee at Saturn. There is a lot of diversity at Saturn. During our two-day visit, we had the opportunity to talk to 25 team members who had come from different GM organizations from many different states. We were told by one member that there are team members from over 36 states.

Not only was the new vehicle concept a risk, but everyone’s employment was just as risky. It was a core group of people who were willing to set new standards—go the extra mile. They shared common traits and values, and always needed to be ready for change. Some Saturn team members were initially recruited with the question posed “Do you want to do something different?”

Keeping a customer focus is the driving force and preserves UAW jobs. Team members take personal pride in producing a quality product. Many team

members own or have owned a Saturn. We were told that about 90% of the vehicles in the parking lot are General Motors products, and over 50% are Saturns. Our personal observation noted many Saturns and other GM products and few competitor vehicles. This is a drastic difference from typical GM plants where competitor vehicles sometimes comprise almost 40% of the vehicles.

A represented team member of over 28 years GM service shared his thoughts with us: "This environment is like a breath of fresh air. Management has a different philosophy here and the team members feel that they do have ownership of the products and that people can control their own destiny." He hopes that this is the wave of the future.

A female represented team member was laid off from the Fairfax, Kansas plant and heard about the Saturn operation. She wanted to work for a company where she was able to express her ideas. At Saturn, team members are allowed to stop the line if there is a quality problem, versus the traditional GM environment of "ship it" and it will be repaired somewhere. In addition, she is able to learn more jobs, versus doing the same process week after week.

Saturn is often described as a revolution within the domestic automotive industry. As a result, Saturn is the focus of unprecedented attention by the community, government, media, customers and its own team members.

More and more, people simply want to know what Saturn is, what they are doing, how they do it, and where they are going. Saturn team members are often asked to tell their story. Newspaper reporters are told to go out on the

plant floor and talk to people. It amazes them of how open and committed the Saturn team members are.

Saturn's team members are truly their best and most credible spokespeople. It is from face-to-face interviews with various team members that this case study was prepared.

## **B. Internal Culture and Organizational Structure**

When Saturn was first created, a central belief--arrived at through joint thinking between General Motors and the UAW--was that consensus decision-making would be critical to the success of the company. They defined consensus decision-making as the act of empowering people at the grass-roots, decision-making level.

Additionally, management knew it would have to openly share information, including financial data. One high-level executive admitted that he was worried about the information getting out to the public. However, he felt strongly that there has to be trust and that trust has to be built. One way to do this is through common information sharing and the need for open communication.

Financial data at Saturn generally does not leak to the public. This is because they have continued to stress the importance to team members that if such information gets out, it would cause a competitive disadvantage for Saturn's 9,000 plus team members. These team members know the

profitability of a Saturn. This is unprecedented for many businesses, especially in the automobile industry.

One team member told us he believed the separate corporation really helped contribute to Saturn's success. This includes a separate union contract that had an effect on every new retailer agreement. Team members have few grievances compared to other GM plants, with one team member stating there is less than 2% of grievance activity seen in their traditional facilities. The unique labor agreement also includes a no-layoff provision.

Saturn gives the people who work there new hope and new interest in the manufacturing business. They are given a bigger role and more respect. Once this sense of self-initiative and self-direction is instilled, the team members sense that their voice will be heard and they can make a difference. Attitude helps make the difference.

One team member told us the story of an earlier customer satisfaction campaign that sent a strong message to both team members and customers that Saturn was truly committed to quality. The campaign was brought about because improperly mixed coolant had been put into approximately 1,800 Saturn vehicles, with over 1,100 of the cars already sold to customers. Saturn worked jointly with the coolant supplier and eventually bought back the cars from customers and replaced them with new cars. Saturn subsequently destroyed those vehicles because they felt the cars would not properly represent the quality they wanted associated with the Saturn name. This

decision made a significant impact on all team members, in addition to Saturn customers.

During the initial start-up, Saturn demonstrated its quality commitment to its stakeholders when approximately 800 cars were destroyed that did not meet quality specifications. Subsequently, the 1996 and 1997 startups were given accolades from General Motors due to their ability to significantly shorten model change over lead time.

The following five points summarize what one team felt about the difference at Saturn. They felt it is all centered around team dynamics and training:

- getting to know each other, bonding with your peers
- getting to know Saturn's philosophy and goals
- the interview process which took away the traditional way of showing favoritism
- assessments: measures teamwork and work orientation, analysis and judgment
- training has helped

#### Self-directed teams at Saturn

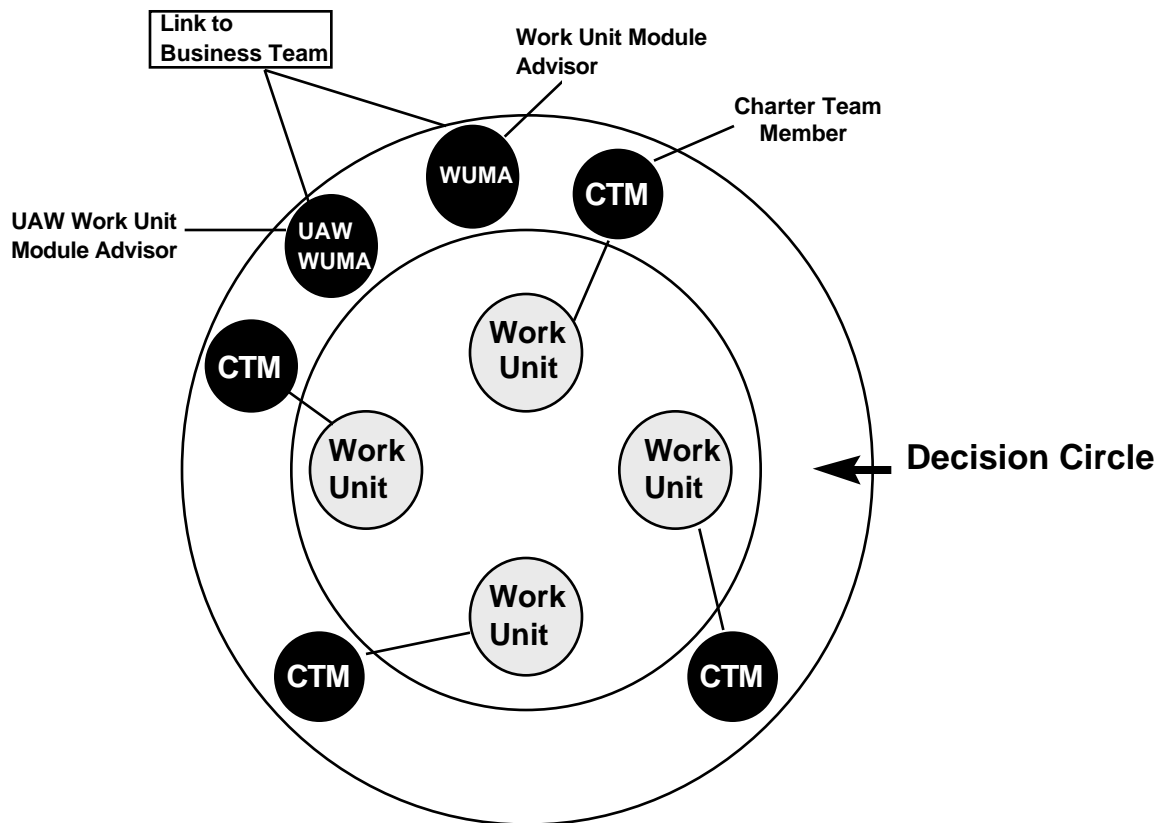
The cell of the organizational structure of Saturn is referred to as a *work unit*, a team of about fifteen people who makes decisions by consensus. The unit's ultimate objective is to become self-directed. Saturn's organizational structure is so dramatically different from the conventional, hierarchical organization that it cannot be represented on traditional, linear organizational charts. Instead, Saturn uses circles that nest into the overall structure of the organization (LeFauve and Hax, p. 12).

Starting at the work unit level, several work units whose tasks need to be coordinated are included into a *work unit module*. As shown in the conceptual model in Figure 7, Saturn invented a circle-based organizational structure so that the philosophy and values of the organization can easily flow between work units.

Decisions which affect only an individual work unit can be made by that unit. Other decisions which involve more than one work unit must be made within the decision circle and involve the charter team member of each work unit affected, the work unit module advisor (WUMA) and the UAW work unit module advisor (UAW WUMA). This organizational structure and decision process enables workers to participate in key decisions which affect them. The circles show that all Saturn members are equal.

Figure 7

Model of Typical Saturn Work Units



Resource: LeFauve and Hax, 1992

The WUMA and the UAW WUMA for the module also form part of a much larger decision circle called a *business unit*. Each business unit is overseen by the *Manufacturing Action Council (MAC)* whose decision circle makes decisions affecting the entire manufacturing operation. The MAC, along with the *Customer Action Council (CAC)* and *Technical Development Action Council*

(TDAC) is overseen by the *Strategic Action Council (SAC)*, which oversees the organization and sets strategic directions (LeFauve and Hax, 1992).

One team member wanted to make sure that we understood that everything is not friendly all the time. They do fight and argue. No decision is made unless all who participate can support the decision. Anyone who is used to having positional power would not survive at Saturn; successful people in GM understand the consensus decision-making process.

The work teams are called cost centers. Each team is responsible for tracking their budget to actual expenses. The budget is reviewed monthly and discussion centers around sharing information and controlling costs.

Many team members discussed a unique program at Saturn called *Helping Hands Work*. This is another creative concept where non-represented team members work on the factory floor during periods of worker shortages. This generally is during the summer vacation months and provides for a great team building process and further breaks down barriers between represented and non-represented team members. This side-by-side teamwork allows both sides to understand each other in addition to creating mutual respect. Represented team members are glad to have the extra help on the line and appreciate it.

### Suppliers

The spirit of partnership that characterizes all Saturn's activities is also reflected in the company's relationship with suppliers. The goal is to establish



a long-term partnership with only one supplier per input. The relationship is based on mutual trust, high-quality standards, just-in-time deliveries, and continuous improvement.

In determining where materials are sourced, Saturn engages members from various areas of the organization – manufacturing, engineering, finance, materials management, quality management, and UAW technicians – in a Product Development Team. The criteria for becoming a Saturn supplier are quite stringent. Suppliers are required to open their books, which in turn enables a complete partnership with Saturn. Saturn team members, including represented, are directly involved in make versus buy analyses and the ultimate sourcing decision. That information sharing allows the team members to know the competitive picture. If a supplier does not meet the required criteria, Saturn does not have to award the purchase contract. This includes bids from other GM locations, such as Delphi Automotive Systems.

Earlier on, Saturn had quality issues with suppliers. They worked with the suppliers on site to ensure that the quality of the suppliers' products met Saturn's rigid standards.

### Trust and Empowerment

The first thing an organization needs to do is demonstrate trust and begin sharing information that may never have been shared before. This is the beginning step in building trust in the organization.

All Saturn business processes and systems are designed around the values of trust and honesty. When people are hired, the selection team looks for these qualities. One team member said that you can grow trust by empowering people and openly sharing information. The team members we talked to felt that the more information management gave out built the continuum of trust that Saturn team members exhibit.

Many relationships are built over time. One executive we spoke with said he and his UAW counterpart had a meeting one month ago to talk about how they did not trust each other, in addition to other items. He felt that as a whole, the team concept was a great idea, however he indicated that some of the teams have and can become dysfunctional for a variety of reasons. For example, members of the team can transfer, which has the potential for leaving a new person who may be unfamiliar.

On page ten of the Saturn agreement, there is reference to a continuing evaluation of relations. Every level of management is paired with a represented team member. Saturn pairs represented and non-represented team members together in a “partner” arrangement. This ensures a team environment that requires continual open sharing of information to ensure a successful team. One pair of “partners” we talked to have been together for three years. They both agreed that they have built total trust with each other and have a strong positive relationship.

The team members feel they are able to do what they want. However, we were told that if people are empowered before goals are defined, it is a

disservice. Goals should be defined first or there will be catch-up for a long time.

Team members attend many meetings, whereas in the past this would have been for executives only. This way they are informed, involved, and interactive. Saturn does not necessarily focus on cost as their first priority, but rather thinks in terms of their financial success. Health and safety are the number one priority, followed by quality and production attainment. All of these have a significant impact on Saturn's cost structure.

We were told by one team member that there was a feeling that the trust may be breaking down due to pressures from outside the Saturn organization. Saturn reports to the Small Car Group which is part of the North American Operations (NAO) organization. NAO is one of GM's six business sectors. We were told that certain pressures are being felt from each of these three organizations, whereas in the past Saturn felt truly empowered to do what was best for Saturn. The Saturn local union is concerned that Saturn may be going back to the traditional management/union relationship. In addition, the local Saturn UAW union at times feels pressure from the International UAW with respect to the differences in the union contract, work culture, and environment.

Some team members felt that UAW elections and negotiations are tougher now because they have more information and more input into how the business is run, while others indicated there has been no drastic difference.

Many times we were told how unhappy the Saturn team members are when other UAW locals go on strike and cause parts shortages for their

vehicles. One team member told us that he felt that it was pitiful that GM and the UAW still have not learned to work together.

Sometimes pressures related to career advancement may cause pressure in the union/management relationship. There appeared to be some tension that led some to believe that management only wants to get promoted and the UAW members only want to get re-elected. Neither of these scenarios promotes what is best for the business.

One team member who had been with Saturn since 1987 felt that trust was high at first but he believed it is now starting to wane. He indicated there was some concern among non-represented team members who are following the UAW versus leading the UAW in decision-making.

We were told another story of how successful the 1996-1997 Saturn startup was. Subsequently, a group of Saturn team members were asked to go to Oklahoma City and train (help) the plant. They discussed that a high-level executive told the team that he was not committed to them being there. The team felt it was typical of the attitude among traditional GM management people who felt they could do it themselves versus learn from others. However, this group indicated that the International Operations is interested in learning from Saturn experiences.

## Decisions

Saturn's Organizing Principles states the following:

*“Decision-making will be based on consensus through a series of formal joint labor-management committees, or Decision Rings.*

*As a stakeholder in the operation of Saturn the UAW will participate in business decisions as a full Partner including site selection and construction, process and product design, choice of technologies, supplier selection, make-buy decisions, retail dealer selection, pricing, business planning, training, business systems development, budgeting, quality systems, productivity improvement, job design new product development, recruitment and hiring, maintenance, and engineering. Decision-making authority will be located at the level of the organization where the necessary knowledge resides, and where implementation takes place. Emphasis will be placed on the work unit.*

Through this concept, the team members feel empowered to become involved and higher level committees made up of both represented and non-represented team members will make the decision that is best for the company.

Some felt that the successful creation of the team concept was critical to Saturn’s success. They were a greenfield site and people wanted to be there and be part of this new organization. The Organizing Principles state:

*The Saturn organization will be based on groups which will attempt to identify and work collaboratively toward common goals.*

One team member told us that some teams are not developed enough to address their own problems and they still rely on the leader. However, it was felt through training, experience, and perseverance they would eventually be operating on their own.

Others felt the recruiting process was instrumental to their team's success. The Organizing Principles state:

*Saturn will have a jointly developed and administered recruitment and selection process, and work units will hire their own team members.*

*Seniority will not be the basis for selection, and the primary recruiting pool would consist of active and laid off GM/UAW employees.*

### Retailer Relationship

The people partnership embraces the retailers (Saturn's name for dealers), who are Saturn's direct contacts with the ultimate customers. The retail community came down and bought ice cream for team members to show their appreciation for the quality product they build and to celebrate the highly successful model changeover.

### C. Communications Process

Communication is an ongoing process at Saturn. New team members are introduced to Saturn's mission, values and philosophy at a mandatory six-

day orientation training. Saturn's Organizing Principles include the following statement:

*"Saturn will openly share all information, including financial data."*

This is accomplished in various ways throughout the company. It is a natural process that is built into Saturn's organizational structure and processes and is achieved on a daily basis.

Saturn communicates its corporate strategies and goals at quarterly state-of-the-business meetings. Items such as scrap costs, hours per car, and ergonomic issues are regularly discussed. The members in attendance are responsible for sharing this information with their team.

At monthly cost meetings in work unit areas, the cost center financial results are explained. Details might include, for example, the amount of shop glove expense or how much scrap was incurred that month. Each work unit has a cost point person who attends this meeting and who then shares the information with others in his/her work group.

A daily newsletter prepared by the Corporate Communications team and a weekly newsletter published by the UAW include a summary of Saturn's current performance to its key performance goals. Team members closely monitor this and help make critical decisions if goal attainment appears to be in jeopardy.

Information is shared with manufacturing leaders in a daily meeting. These leaders, in turn, share this information with their work groups. In general the following information is discussed:

- Safety—who got hurt, why, what is being done to prevent further occurrences?
- Cost—how are expenses tracked to budget, what changes do we need to implement?
- Quality—did we produce bad parts, why, how was it remedied?
- Daily production summary—did we meet the schedule? If not, what do we need to make up lost units, did we hold up any other areas?
- Morale—how are team members doing, any issues we need to be aware of? Note: If there are concerns within this area, others can be adversely affected.

Many team members told us that they felt communication was a critical key element to Saturn's success and they have a good process in place that promotes open two-way communication.

Another way that Saturn team members are informed is from information displayed on bulletin boards throughout the offices and plant area. During a tour of the plant we noted that a wide variety of information was displayed, ranging from quality to total expenses.

In one area we noted an extremely large Local 1853 sign with the Saturn logo in the upper left hand corner and the UAW logo in the upper right hand corner. The caption said: "Teamwork in the Leadership, Solidarity in the Ranks." A safety poster in a high noise area was a constant reminder to team members of the importance of safety protection equipment. It said: "This is your inner ear, this is your inner ear without plugs. Any questions?" One area of the plant had a large poster in the immediate work area that listed the Saturn



Operating Norms. In addition, it listed the consequences if the Norms are violated.

Below are other types of charts that were noted in different areas of the plant that were clearly and we believe proudly displayed for all to see. It became apparent that each work area was empowered to make decisions on displays of measurements and items of importance to that area. It was impressive to reflect on the variety of items that were being communicated to anyone who traveled through or around the work area.

- Mission/Philosophy
- attendance
- top 3 bottlenecks
- list of Saturn retailers
- sales reports
- yearly savings to date: people/productivity
- area with photographs of people who work there
- safety/housekeeping

Every team has its own team center. We noted one team center that displayed machinery and equipment expenses and overtime. These expenses were measured against the budget and different colors indicated the status of “exceeding the goal”, “showing improvement”, and “not meeting the goal”. We were told that these charts are in full view during daily meetings to keep the importance of these items continually in the forefront of team members’ thinking.

It was interesting to note that the charts displayed throughout Saturn do not have financial dollars on them, but rather relationships to budgets or goals. The reason for this is because of the many outside visitors who continuously come into the plant.

On our tour, we stopped and said hello to a represented team member working in his area. Our tour guide said, “they (referring to us) want to know how we’re doing.” The team member answered with no hesitation and a friendly smile, “we are doing great, aren’t we!”

A final impressive item worth noting was displayed outside the Engine Line area. It was a huge picture of an eagle hanging in clear sight of all. Its title was—American Pride: “We are built on dreams, preservation and commitment to excel.” This seemed to summarize the total Saturn environment – a company that is truly committed to excellence and built on American Pride.

## **D. Training Process**

### **Orientation**

In getting people job-ready, Saturn has perhaps the most extensive training program in the world. Initially, Saturn people spent from 250 to 750 hours in training. The purpose of this training was to start Saturn with a clean-sheet approach, giving people who had worked at GM and other plants for many years an opportunity to relearn the business. Since Saturn was a young,

upstart company staffed almost entirely by transferring GM employees, a lot of “untraining” needed to take place. This was intended to help remove any GM paradigms that seasoned GM employees may have had with regard to policies and procedures or the traditional “GM way” of doing business. The training extended from basic concepts to innovative processes. Each core course was designed to help people let go of traditional ways of thinking and embrace modern ones, like teamwork, self-direction, self-initiative, and greater responsibility. These set of core courses prepare the team member to live and thrive in the Saturn environment.

For new team members, training also starts immediately. Before they ever build a car, new team members spend the first week of their employment in a mandatory orientation program focused specifically on Saturn’s culture. They are introduced to decision-making, problem solving, and conflict resolution processes and other cultural aspects that help enrich their lives as Saturn team members.

One team member told us that in the traditional GM training, many plants had various types of training programs. A traditional GM plant would do upfront training, then stop, whereas at Saturn training is ongoing. The intent of Saturn’s commitment to training is to ensure that its team members have state-of-the-art skills to build world-class quality vehicles and retain their competitive advantage.

Information Security

We were told that the risks of competitive information leaking are minimal. They attribute this to the training that is given. All team members understand how information leaks can affect their job. Probably one of the most important and critical training classes for Saturn is the course "Information and Product Security = Job Security." Team members are taught that they are the most important asset of Saturn and just as steps have been taken to increase their protection at Saturn, they must protect another Saturn asset – its information. GM/Saturn leadership has established a primary objective to improve information security. Through a cooperative Saturn team member effort, they ensure that information is protected from unauthorized access, disclosure, modification, and/or destruction. This course is part of the Information and Product Security process designed to heighten team member awareness regarding the protection of Saturn information. Failure to protect this information could cause Saturn to suffer the loss of customer confidence, market share, competitive advantage, and ultimately jobs. Course completion is required for everyone at Saturn. At one class, the FBI and CIA talked to the SAC, Saturn's top decision-making ring. This had a big impact on the team members. It made them aware that with ownership comes responsibility. When information about Saturn is leaked to the public, the team members at Saturn are disappointed and frustrated.

## Financial

Each team is responsible for monitoring its costs and tracking its performance to budget. The Finance Team not only provides the teams with monthly performance reports, but also shows the teams how to use the data to make better decisions. For example, when another GM plant went on strike last year, Saturn was affected through a shortage of parts. At subsequent meetings, it became evident to Saturn team members that their reward pay was deficient due to not being able to meet the production goals for the quarter. Saturn manufacturing, in conjunction with other stakeholders such as Finance, proposed a plan to allow them to make up the 13,000 lost units by increasing throughput.

Saturn team members are innovative and to perform some of their job functions they need to be computer literate because of various integrated processes and systems. Saturn's electronic expense reporting and time reporting systems are examples of applications which have reduced unnecessary paper and waste.

The role of the Finance Team is not only to perform traditional financial functions, but also to serve as business consultants and trainers. Finance teaches a number of courses to the entire organization such as Budgeting Basics, Product and Information Security, Expense Report Approval, General Ledger basics, etc. There have also been special classes, such as YTT -- Yesterday, Today and Tomorrow, which focus on where Saturn has been and is going in the future. These classes generally include a two-hour financial module focusing on profitability and the need to manage costs.

## Annual Requirement

Ninety-two hours of training are required by each team member annually. Double credit is given to those who are willing to teach classes. Many of the leaders take this option because teaching is one of the key job elements of leadership. This incentive also helps those whose work schedules might make it difficult to be away for this required training. Additionally, it allows them to then become subject experts which enables ongoing communication of the subject material.

Five percent of each Saturn team members' pay is at risk due to this training requirement. Every team member has an Individual Training Plan (ITP) that identifies the type of people or technical skill training that each team member should try to acquire. Teams schedule members to be trained in both formal classes and on the job. On-the-job training is planned, documented and receives formal ITP credit.

Training at Saturn is a never-ending process. It is tedious and tiring, as stated by one team member, but it is gratifying when the light finally turns on within those being trained.

## **E. Incentive and Reward Systems**

Everyone we talked to felt the Saturn risk and reward system helps keep the commitment to excellence going. This was another important item that was incorporated into Saturn's Organizing Principles:

*Saturn's reward system will be designed to encourage everyone's efforts toward the common goals of quality, cost, timing and value to the customer.*

Most team members feel that the incentive and reward system is instrumental to the success of Saturn. However, one team member of 28 years GM service felt that they were paid well and felt that people were committed to excellence because they felt Saturn was truly their company. He said that the pride comes out and at times people almost act superhuman.

Twelve percent of a Saturn team member's base salary is at risk and is paid quarterly upon achievement of three goals: training, quality, and specific team effectiveness objectives. Five percent is at risk pending successful completion of the 92 hours of training per team member as previously discussed; five percent is at risk pending successful completion of quality objectives; and an additional two percent is at risk pending completion of specific team effectiveness objectives (new for 1997).

In addition to the above risk system, a reward or profit sharing amount is paid if certain additional criteria are met. This reward payout is made up of three components: production schedule, quality and financial performance. The production schedule and quality portion is paid quarterly upon successful

completion of specified objectives which are above and beyond the objectives measured for the risk payment. The Saturn financial performance element is paid annually, based on Saturn's performance to its budget and is calculated after the books are closed for the year. The 1996 pay out totaled \$10,000 per Saturn team member – the second year in a row that the maximum pay out was earned. This home run performance can be attributed to two world class product startups with minimal downtime. The 1997 reward amount has been increased to \$12,500, while the amount of pay at risk has increased from 10% to 12% from the addition of the team specific objectives of 2% discussed above.

The reward payout is the same for all team members regardless of their base salary. This reflects Saturn's philosophy that all team members should be rewarded equally for the company's success.

Many team members told us that Saturn's quality was definitely driven by the risk and reward system and that pride was an additional contributing factor.

Another team member said, "The money is a good motivator. In the short run, it is an expectation. People take ownership in the company, including those on the plant floor, especially when it is successful. However, how this will change in the bad times, we don't know." As it is now, everyone's "at risk" is the same.

Through focusing everyone on common goals, risk and reward compensation creates a "win-together" atmosphere. It pulls an already close



group even closer; every team member is propelled to care for the well-being of Saturn and there is no time spent pointing fingers.

#### **F. Open-Book Management Analysis**

The team members at Saturn were initially surprised at the amount of financial data that was shared with them. This allows them to feel like partners in the business and encourages fiscal responsibility. In the past when they received profit sharing checks from GM, they could not make a connection between their individual contribution and the profit sharing pay out. Now at Saturn, they know exactly what goals were accomplished to earn a reward pay out. They work toward the fulfillment of Saturn's goals, which in turn, benefits the team members financially. It makes them think of long-term goals. It feels good to be trusted and has a positive emotional impact on them, we were told by one represented team member.

In the old GM days, the systems did not allow the sharing of information. As the technology improved, more information became available but it was not necessarily shared on a regular basis. If any information was shared, however, there was no linkage between a department or plant's performance and the profit sharing pay out.

Now team members sit in on meetings and participate in budget preparation and monthly analysis reviews. By sharing financial information, team members have more respect for the contributions of the functional

support teams, such as Finance. Saturn team members would not want to go back to a traditional GM plant environment.

The team members we met feel that Saturn is a challenging company. Through their financial training, they understand the impact of their actions on the bottom line. However, it was stated that most do not understand the business analysis, especially when related to the impact of foreign exchange, such as the yen/dollar relationship. In any event, the risk and rewards help people understand business economics. They are particularly interested in Saturn's quality, production, and financial performance, and the resulting impact on their individual pocketbook.

It is felt that through the open sharing of the financial information team members do in fact trust the financial numbers that are shown to and discussed with them. It was mentioned that in the old traditional GM plant environment, employees would not have trusted the information even if management had shared financial numbers.

Another team member told us the story of a represented team member who reviewed their team's supplies costs and determined that there was a pricing error from the supplier. The supplier had changed the quantity of material being shipped, but forgot to adjust their invoices. Thanks to the diligent review by team members in the work areas directly affected, the error was adjusted retroactively by the supplier.

Another story was shared of how one cost center reviewed its telephone bill and discovered that one team member within their group had made \$21.00

of personal phone calls that were charged to their budget. The group agreed to reimburse the company from money within their coffee fund.

Another story was told of a different group that also monitored their telephone bill. They contacted the front office and asked them to send someone down to catch the person who was making long distance phone calls in their work area.

A group of team members discussed their reaction when they became aware of the cost of certain expenses that were being requisitioned as supplies on an ongoing basis. They literally stopped purchasing items such as Franklin planners, Cross pens and pencils, etc., because they felt the value received was not offsetting the purchase price.

Another team member told us that critical success factors were to build trust, involve the people, give them knowledge and information, and treat them like people. It is not “we and they,” but rather “us” that continues to make Saturn the successful company it is.

One team member who came from Oklahoma City told us that he felt the pay structure is the key to Saturn’s success. He further stated that he felt opening the books at traditional GM locations make the financial people nervous because it is not natural for businesses to open up their books. “The management here understands the process.”

A high level executive told us that if information is shared, the team members will help solve problems. He further stated that information sharing (including financial information) is the trust that is built. This was supported by

many stories that were shared with us by various team members. Two impressive stories worth noting are shared as follows:

1. The Injection Molding area was not meeting its financial objectives. No work was coming in, and a make versus buy analysis showed that this function could be done cheaper on the outside. However, through the honest and open sharing of information with the injection molding team, the team came up with recommendations to make the operation run more efficiently. It had incurred a loss in 1994, but through implementation of the team's recommendations, the operation achieved a profit in 1995 and again in 1996. In May, they will break ground and expand this once non-competitive operation.
2. Saturn has an interruptible power shutdown agreement with the local utility company. During one hot summer, the area power demands exceeded the supply and Saturn's power was cutoff during peak demand hours. The timing of the shutdown would cause a large vehicle production loss that would affect Saturn team members' reward pay. The represented team members recommended an alternative work plan that required odd shifting during the night hours and did not charge what would be defined as the traditional shift premiums and overtime. With this creative plan, minimal units were lost and the reward payment was maximized.

An additional benefit of the Open-Book Management process allows team members to be enthusiastic and have pride in their work and more so in

the product they build. One team member, originally from Kansas City, enthusiastically told us a story about when she was back in her home town and had to have an operation. When she was in the hospital, two nurses discovered she worked at Saturn and told her they each owned a Saturn. It was exciting to talk to them, and she indicated she felt like a celebrity. She subsequently was admitted to a VIP suite all by herself. To this day she feels the VIP treatment was a result of her being part of a winning organization that builds a high quality product and truly cares about the customer.

The most beneficial component of Open-Book Management we were told is the impact it has on the long-term success of the business. It is through a combination of information sharing and an effective reward program that many successes can be achieved. In addition, most people indicated that they believed trust cannot be achieved without sharing. People will go to great lengths to reduce costs because it affects their risk and reward incentive.

A high-level executive shared his feelings about this. He stated that some results can be obtained without a reward system; however, BIG results are obtained with a reward system. This, he felt, is the motivation. He further stated that there may be times when it is tempting to go back to the old ways, but OBM cannot be done overnight; it is a continually evolving process and the company must remain committed to the partnership.

It is through this unique partnership with the UAW that openness works and each side continually works together and is aware of what the other is doing. Future and current information that has not been made public is verbally

shared between senior management of Saturn and the UAW. This is the foundation upon which trust is built and the sharing of financial information strengthens this relationship.

The whole Saturn value system works together like a jigsaw puzzle and is consistently applied throughout the company. Each of Saturn's five values are identified as a puzzle piece as Figure 8 illustrates. These values commit Saturn to being one of the world's most successful car companies.

**Figure 8**

***Saturn Values***



We were told that no piece can be missing if they are to be successful. All the pieces work together to make the puzzle complete. "If you take one value out and expect the company to function, eventually the whole system would collapse."

Saturn team members from both sides felt that this is an evolutionary process and one the Saturn team members are proud of. This was apparent to us throughout our visit.

## Chapter 6

### Conclusions and Recommendations

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#### A. Conclusions

Many companies that we have read about and the two companies we visited attribute all or part of their success to OBM. However, one should question whether these companies might have been successful without OBM.

Many faced a business crisis which required them to change the way they conducted business. Others, such as Saturn, built this concept into their organizational structure, thereby allowing it to be interconnected into their other processes. Although they do not refer to it as OBM, it is an integral part of their management system.

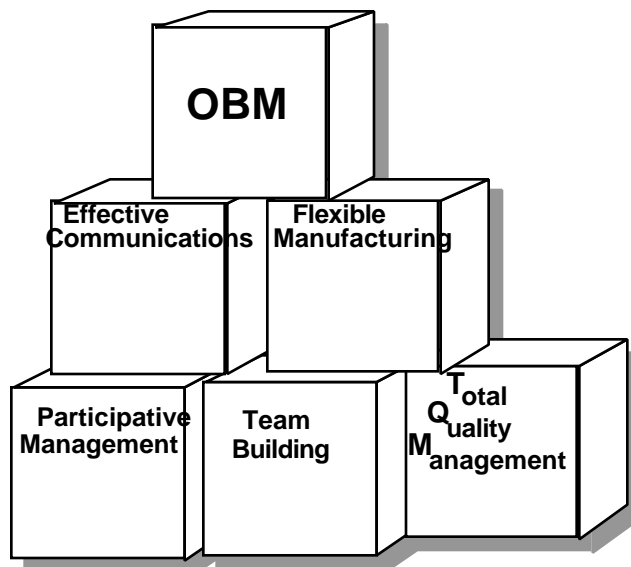
Another question is: What would it take to implement OBM in a more traditional environment?

When considering the evolution of most businesses over the past ten years, the concepts of employee involvement and teaming have transformed the way U.S. companies operate. There has been a series of steps in the

transformation process . We do not necessarily believe that these were deliberately planned as a strategy over time, but rather each program has built on the successes of prior programs due to rapidly changing business and work practices. However, when one reflects on the various programs that companies have implemented, in most cases they built upon new learning that was both internal and external to their company.

Figure 9 illustrates how each of programs are interconnected and each helps build and strengthen the concepts of the other. Employees are taught these additional tools and concepts to apply as applicable within their job responsibilities.

**Figure 9**





Although the specific names of these programs may vary from company to company, the philosophy of the concepts are very similar. All have common elements, such as:

- developing leadership
- pushing down decision-making (empowerment)
- increasing employee participation
- expanding communications, both horizontally and vertically
- developing teams
- improving customer/supplier relationships, both internal and external
- improving quality and reducing costs

For example, the biggest difference between OBM and a quality improvement program is the closer association with job security because of the linkage made between the employees' functional role and profitability. Both programs require sharing data and training to understand the implications of the data. For a quality program, many companies train personnel in statistical process control techniques and share data on defects per million.

OBM requires sharing financial data and training to interpret this data to affect improvements. Here again there seems to be a different view in traditionally operated companies about the risks of sharing financial data versus quality information.

OBM is a natural next step toward improved competitiveness. The order shown in Figure 9 is for illustrative purposes only, and not necessarily intended to imply a sequencing of implementation steps.

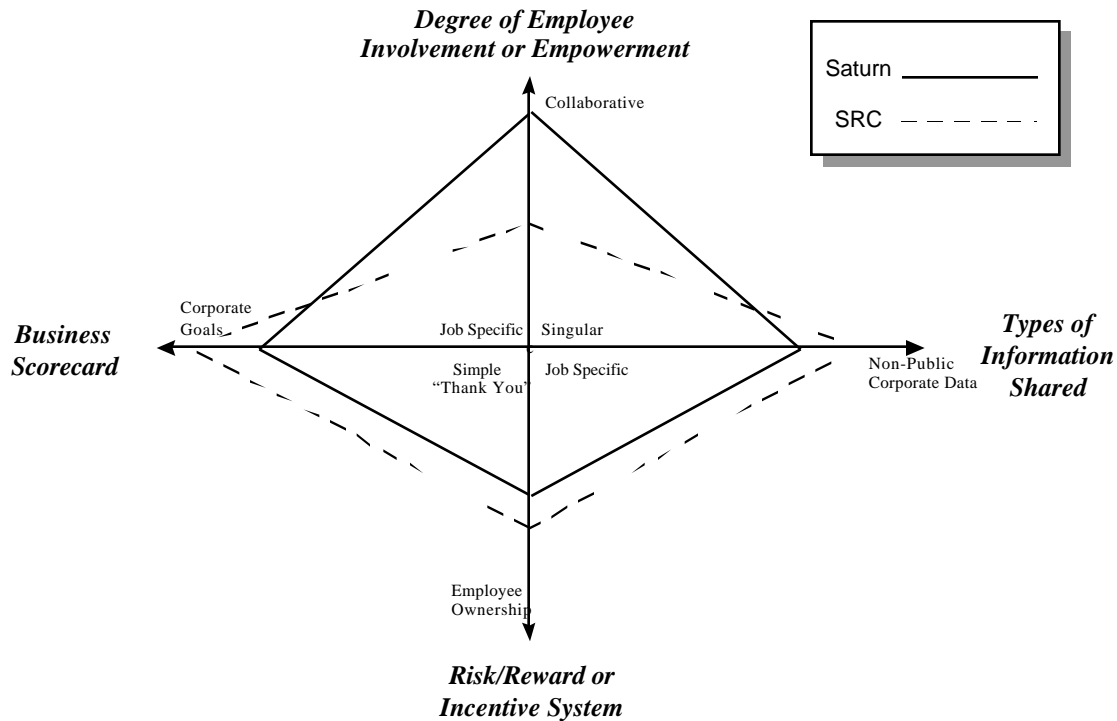
OBM relies heavily on communications with employees and takes an integrated systems approach to operating the business. Employees are given information and helped to define realistic goals based on this data. They are

held accountable for attaining the goals and are then rewarded through sharing profits associated with the attainment of the proposed objectives.

In Chapter 1, we discussed how OBM is a communications continuum arranged along four dimensions and how in theory, the more information that companies share allows employees to become increasingly involved in the business and make better decisions. Further, when a risk and reward system is added over and above their base salary and is tied to business goals, an incentive system is created that motivates employees to act as entrepreneurs of the company.

Figure 10 illustrates where we think SRC and Saturn fall within this model considering our overall analysis of their organizations, including how they are structured within a corporation. Companies will vary depending on different business variables and their degree of OBM implementation.

**Figure 10**



As noted earlier, when SRC began its business, its debt ratio was 89:1. They could not afford to make any financial mistakes. The future of the business depended on people being knowledgeable in many ways, and certainly financial knowledge was imperative. Reducing the debt was the only way SRC would survive.

This could have been handled in several ways. Management could have structured the business along traditional lines of command and control, or it could have opted (as they did) to share the responsibility of running the business with its employees. Is one better than the other? Are there circumstances that dictate when traditional financial methods are better than utilizing OBM? We found very little information that compared these two options and a minimum amount of criticism of OBM throughout the company.

Saturn's approach and reason for implementing OBM were different from that of SRC. Saturn, backed by General Motors, did not have the financial pressures of SRC; but it had the pressure of being watched by all of the American automobile manufacturers, as well as many U.S. companies. These companies were concerned, curious, and conscious of what had occurred in the auto industry as a result of the growth in small car market led by Japanese automakers. Saturn was a "greenfield" site with a charter that was structured to create a different kind of business that was collaborative in nature. Their top management was hand-selected and employees who had previously been employed at other General Motors facilities were hired through an extensive internal recruitment process. The lack of transference of OBM knowledge to other facilities within General Motors makes one question how feasible or difficult the implementation of OBM really is into existing traditional organizations.

However, is Saturn a success? As an individual entity, clearly it is. Can they sustain their uniqueness over the long run? We cannot answer this question, but do know it will not be easy, but then few things they've encountered have been.

## **B. Recommendations for Implementation**

If a business is considering implementation of OBM, the following process is recommended. Note that the current business environment may

dictate whether it is necessary to follow all of the recommended steps, and this process is written for the company that shares little information and would like to implement OBM.

If organized labor is involved, meet with the union to explain what OBM is, why the company is about to embark on the implementation of OBM, and what the benefits are seen to be for the company and the employees. Consider giving them a copy of this thesis as background.

Educating the union and an employee team (if not unionized) that will represent the employees' point of view is required when determining an OBM implementation plan and the content of training. Be sure to seek the feelings of the first-line supervisor and middle-management group who will be responsible for and perhaps potentially threatened by the implementation.

Obtain management support from all functions of the business, such as Finance and Human Resources. Receiving this support in the early stages of implementation helps to ensure a smooth transformation process, in addition to providing essential support going forward.

Implementation will require some zealots of the process. This also begins to address the trust issue, which is viewed as the single most critical issue to a successful implementation. If even a small segment of the workforce cannot be convinced of the value of OBM, moving into a large-scale implementation is not wise. The reaction from this pilot group should provide some indication of what can be expected from a larger-scale implementation.

If successful to this point, next determine an implementation plan. We recommend starting by sharing the big picture, which is the industry data.

Benchmark the company's competitors to determine where the company falls relative to its competition and share this information along with country or global economic trends. Sharing this kind of information with employees should provide the logic for the need to increase company profitability and potentially increase employee job security. This discussion should target the competitive advantage a company can gain through implementation of OBM.

As part of the implementation plan, the size of the business units, as well as financial accountability within the business units control, should be well thought out. If employees do not feel they have control over the numbers they are expected to meet, they will not want to participate and management will lose credibility.

Determining business unit goals and how they are tied to the company profit goal also needs to be addressed. These issues should be understood prior to planning for education and training.

Education and training should include a comprehensive picture of the total OBM implementation process. It should also include the financial data from the individual business unit development and how it is consolidated into the company's net income which determines the employees' risk and reward systems.

Training employees on how to review and interpret a balance sheet and income statement is critical to their understanding of how their contribution

influences attainment of the established goals. Forecast systems based on balance sheet and income statement information should be explained. It is important to let employees know they may be expected to react to the numbers with corrective actions if necessary. At a minimum, a short explanation of a corrective action plan will be required at the combined company meeting.

The basic compensation system should be revised to reflect risks and rewards associated with instituting OBM. Benchmarking the industry in terms of compensation should be presented as part of the initial big picture of competitive positioning for the future. At-risk pay should be clearly understood by each employee. To reinforce the concept of employee ownership of the business, a stock purchase plan should be adopted. An employee stock purchase plan is part of the compensation package; therefore, explaining the potential monetary growth relative to company profitability is an important incentive that will encourage desired behaviors.

Finally, overall communication and monitoring of the business unit and company performance should be defined. This should be a structured process that identifies line-item accountability for reporting on two levels. The first level of accountability should be for those in the business unit, and the second should be the reporting of data for the roll-up of information to the company level. A mechanism for feedback of this information to all employees needs to be established.

### **C. Impact to Bottom Line**

Does OBM really affect the bottom line? Our research suggests it does, although it is not clear how the affect of other programs can be separated from OBM. It is difficult to specifically quantify how an individual program that is interconnect within an organization can really influence a company's overall profitability.

Further, it is hard to determine how influence from one program overlaps another, some of which may be attributed to the overlap of common elements since they all interconnect with each other. Most are designed to work as complete systems, and are not discrete programs because of the common linkages to each other, as illustrated in Figure 9. Therefore, trying to isolate each program's effect, including OBM, on overall company profitability would certainly become a very arduous, if not impossible, task.

Then why haven't more companies implemented OBM? The sharing of financial data and the power associated with information play a large role in the openness of companies. Fear of information leaking to competitors affects company openness. It also paints a clear picture of the level of trust that exists between the company and its employees. Further, there is sometimes an issue of company culture which does not believe or recognize that employees have a need or desire to know about the financial picture of their company. And, as always, there are costs associated with implementing OBM, and the benefits directly attributable to OBM may be difficult to quantify.



There are many well-run companies that do not practice OBM, but there is no doubt in our minds that OBM can provide a competitive edge to any business choosing to implement it.

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