

Best Practices

By Garrett Sullivan

A Counter-Intuitive Idea: Open Your Books

Why showing the numbers moves your team from “me” to “us”

The next time you go to the jobsite, ask your employees how much they think the company makes. You will hear profits between 10% and 50%. Don't believe me? I challenge you to try it. With this false perception, your employees are unmotivated to prevent waste because they believe you're already making significant profits. Think of the NFL lockout. This probably could have been avoided had the owners been willing to show the books to their players.

Wouldn't you rather turn waste into profit? Imagine having an army of eyes and ears on the jobsite searching for ways to save you money. That's exactly what happens when your employees understand what's at stake when the company loses money. When you bring them to the table, they'll help you plug profit leaks and identify new sources of revenue.

Open book management moves your employees from a sense of entitlement to a sense of personal empowerment. Employees identify cost savings and/or new revenue sources with an agreed-upon 90-day plan to achieve them. Owners then share that new profit with employees. The simplest formula for dividing up the new pot of money is to give 1/3 for employees, 1/3 for the company and 1/3 for taxes.

Undertaking this process requires strong leadership and courage. You will need to open your books and share some – but not all – of your company's finances. At first blush, contractors typically reject open book management because they fear employees won't understand the numbers or may share them with competitors. These and other concerns can be mitigated with the right approach.

Educate: The first step is to teach your employees about the realities of business and finance. Associate your company's finance with your workers' personal finances and begin to regularly speak in financial terms to your non-finance and field employees. This teaches them how the score of the game is kept. When everyone understands how a dollar saved drops right to the bottom line (and their own paycheck), they will quickly see the wisdom of finding profit through savings vs. new work that only yields an average national profit of 1.5% - 3.5%.

Once you've taught your employees basic finance, start to forecast your numbers through the company's front windshield instead of looking at your results in the rear view mirror. If you create an employee-funded incentive plan, your results will grow that much faster.

Choose your Team: Set up a small, diverse group (about 7-8) of both office and field employees to monitor and record the numbers. Direct them to create Rapid Improvement Plans (RIPs), which are 90-day programs that result in new profit to be shared with all employees. You'll find that employees are more engaged and motivated when they work for a common goal and can share in the profit.

Always recognize the specific employee(s) who identify the profit leak or new revenue. List his or her name on the scoreboard (see below) and include an additional financial bonus, day off or gift card for generating the idea.

RIP Process:

- Select a profit leak or savings idea
- Determine the amount to be saved
- Identify the participants and action steps
- Divide the savings by three to slate the potential financial reward to be shared with employees

Keep Score: Create and prominently display the Forecasting Scoreboard. This lists your operational and financial Key Performing Indicators (KPIs), which have the greatest impact on your profit. Each person in the group should own two or three line items (see below) and become the expert on those metrics. They are responsible for updating the scoreboard on a monthly basis.

Financial KPIs

- Monthly invoice amount
- Revenue
- Cost of Goods Sold
- Gross Margin
- Office overhead
- Union benefits as a percentage of overhead
- Profit before taxes

Operational KPIs

- Number of bids per month
- Bid win ratio
- Projected revenue from wins
- Backlog
- Job cost +/- to budget
- Labor in bid estimate vs. actual jobsite labor man-hours to date

Just as outrigger canoe teams know the exact distance from Molokai to Oahu, as well as the wave heights and wind speeds, your employees need to know the specific metrics your company wants to achieve. In any game, you must always know the score. This is why companies that use open book management successfully create a culture of employees who think and act like owners.

To view a sample scoreboard and review a recent employee-generated Rapid Improvements Plan, go to www.SullivanHi.com.

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