

The
Economist

Schumpeter

Corporate burlesque

The case for stripping away the secrecy surrounding firms' finances

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DITA

VON

TEESE

may
seem an
unlikely
source
of



Brett Ryder

inspiration for corporate bosses. Described on her website as “the undisputed international queen of burlesque”, Ms Von Teese has made a career out of shedding haute-couture clothes in shows such as “Burlesque: Strip Strip Hooray!” Her signature act culminates with her posing in a giant Martini glass.

Chief executives can learn from Ms Von Teese. Schumpeter is not suggesting, of course, that they expose their less-than-buff bodies to the public gaze. But there is a case for shedding the veils that currently conceal a great deal of financial information.

Most bosses are shy about revealing their companies' vital statistics. Listed firms must follow strict rules, publishing quarterly results but otherwise being cagey, since no individual investor may receive

important information before the general public. Privately owned companies tend to be even more bashful. Bosses keep their numbers hidden from everyone but an elite coterie of managers. Their reasons for doing so range from a desire to keep their profits under wraps to a fear that disgruntled employees could hop to rivals with sensitive data.

However, a school of thought dubbed "open-book management" advocates sharing all or most of a firm's financial data with employees on a monthly, weekly or even daily basis. Widely promoted since the mid-1990s by the likes of Jack Stack, then the boss of Springfield Remanufacturing Corporation, a firm that refurbished diesel engines, and John Case, a management writer, open-book management doesn't just require bosses to shed their inhibitions when it comes to revealing numbers. It also involves teaching workers to read company accounts. Open-book managers devise scorecards and other tools that show staff how their individual efforts contribute to the bottom line. They also adopt profit-sharing schemes that let workers share some of the wealth they create. The aim is to persuade employees to behave like owners rather than drones.

The Great Game of Business, a training firm that provides advice on open-book techniques, estimates that at least 4,000 firms worldwide have embraced all or most of these ideas, while many others are flirting with them. One or two big companies, such as Southwest Airlines and Harley-Davidson, have dabbled with open-book management. Its most fervent adopters, however, are smaller private firms.

Since small firms are the most vulnerable during downturns, some observers expect to see books that were opened in good times slammed shut, as bosses try to stop workers from seeing just how bad things are. There is no scientific survey to determine whether this is true. But anecdotal evidence from the companies contacted for this column suggests that many have kept on sharing information during hard times. Some have given workers yet more data to chew on, for two reasons.

One is that transparency can calm jitters. For example, during the recent crisis King Arthur Flour, a Vermont-based flour company, drew up a contingency plan with four stages, the last of which involved layoffs. At each stage, the plan spelled out clearly what King Arthur had to do to get back on track if it missed its financial targets. By sharing this with workers, King Arthur curbed wild and ill-informed speculation

about the company's future. Jenkins Diesel, a truck dealer in Missouri, started giving staff more details about its financial health after it lost two of its four vehicle franchises when suppliers axed production. Although Jenkins had to make cuts, it was able to demonstrate to staff that it could weather the storm by expanding its service and spare-parts business.

Another reason to keep the numbers flowing is that they can inspire fresh thinking. Mr Stack, whose firm is now called SRC Holdings and employs 1,200 people in various businesses (of which The Great Game of Business is one), says one employee noticed the company had built up a big pile of cash that was earning a paltry rate of interest. The worker suggested that SRC should stockpile copper and other metals it was recovering from its refurbishment work, rather than selling them for cash straight away. If the global economy recovers, this stockpile could command a premium that would far outstrip the amount SRC is getting from banks. Mr Stack gave the proposal a green light.

Creative disrobing

This is the big promise of open-book management: that it lets workers see the bigger picture. Some enthusiasts want to take it further. For instance, Srijan, a small Indian software company, keeps a Google spreadsheet that employees can check to see what each of their colleagues, including Rahul Dewan, the firm's founder, is being paid. Dane Atkinson, the boss of SumAll, an American software start-up, wants to do even more. His firm has crafted a corporate "constitution" that lets employees get involved in all kinds of decision-making.

There are plenty of objections to all this. Corporate democracy might work at a tiny firm, but it would probably paralyse a big one. Transparency on pay could be horribly disruptive, especially at talent-heavy firms where output is hard to measure. At such firms, most staff typically believe that they perform better than average. Many would be furious to discover that a co-worker they deem less able is better paid. Mr Dewan insists that secrecy is pointless: people soon learn what other folk earn via an internal grapevine. Really? Schumpeter has no idea what Bagehot earns. Far too much, probably.

A company need not be radically transparent to succeed: Apple is as chatty as a clam. And open-book management will not work if workers do not trust the boss. But still, this is an experiment to watch. Creative disrobing has its attractions.

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