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Employee ownership pays off

Guest Opinion

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Management gurus talk about employee ownership and empowerment as though these were part of some academic discipline. In reality, the concepts couldn't be more practical.

Business is about implementation. But implementation is hard work. It requires wisdom, discipline, courage, an eye for detail and persistence. It also requires open communication and a sense of trust among employees – things that confound many good managers and strong companies.

This is where employee ownership and empowerment come into play.

I run a publishing company that has been in business for more than 35 years. I came to the company first as a technical writer and editor, then as the company's editorial director – a solid middle management position.

When I became president of the company in 1990, I had never seen one of its financial statements. In a matter of weeks, I had to take control of a wide range of management issues, with little relevant experience and no formal business education.

An entrepreneur who starts a company often has such an instinctive feeling about the business that she feels she can guess what sales will be and spends money accordingly. I wasn't the founder of my company, and this wasn't the case for me. It didn't occur to me to call the CPA or look at the financials.

My company had the good fortune to be so profitable and cash rich in its formative years that there'd been little need to project or monitor sales or expenses, cash or profit. The downside of this: very little had in fact been done to monitor performance. It was hard to tell how well we were doing at any given time – or would do in the future.

To know what to do when I came into the office each morning, I had to understand how the business was doing on a constantly updated basis. Equally important, I had to make sure the other employees knew how the business was doing so that their work would be on target for meeting very clear objectives we were developing.

As my thinking about how to run a business evolved, the worksheets and benchmarks I used grew simpler. They started out maddeningly complex, filled with all sorts of numbers and concepts; but, the longer I used them, the more basic and more understandable they became.

In business, simplicity is the primary virtue. It became the most important component of everything I did. The myriad questions and problems I faced every day meant everything I looked at had to be put in its most readily understandable form. This was the only way I could make decisions quickly and effectively – and get on to the next issue.

Because my company is employee owned, it seemed important to me that I share all financial information with all employees. I've heard all the arguments against open financials – the most compelling being that competitors can use this information against you.

But I took employee-ownership seriously and expected everyone at the company to help run it. I couldn't expect my employees to do something I couldn't do myself – namely, run a business successfully without performance measurements.

Like many entrepreneurs, the founder of the company did not believe in opening up the financials to the employees – even after he'd sold 40 percent of the company to an Employee Stock Ownership Plan (ESOP). We received monthly sales reports, of course. And there was a bonus program for managers, related to profits. Sales had been interesting to me, mostly as a means of tracking how many books we sold. I'd always taken pride in my work, but selling it had seemed like some sort of magic to me. I hadn't thought I could affect the outcome in any immediate way.

Even if a manager can't reconcile herself or himself to full disclosure, employees should at least have access to and education about the parts of the financials and other documents that will help them make intelligent decisions.

The power you harness by doing this is remarkable. Of all the memories I have of making my company a more efficient operation, the one I value most came a few years after I started circulating financials.

At a rather ordinary operations meeting, a front-line employee (who's paycheck is among the lowest third of the staff) made the well-thought-out suggestion that we should reduce inventory, since this would increase our cash position going into a critical few months of the fiscal year.

Consultants can talk for billable hour after billable hour about inventory accountancy. This guy had figured out for himself that tight inventory was the best use of capital for our purposes. His comprehension of this principle, true in any business, meant that my openness with the numbers had paid off.

The important point for me: when I had been an employee – a more highly paid, supposedly better-informed one – I would have never stopped to think about how inventory would mean more cash in the bank. Since I didn't understand the financial end of the business, it was hard for me to see the way my job connected to the rest of the company. Like many other employees, I did not have an appreciation of what it takes to run a company.

When I became president, this lack of appreciation served me well – for a short time. Since I'd never considered the demands running a company makes, I never doubted I could do it.

The first thing I did was to ask our accounting department for a list of ven-