A Winning Culture Keeps Score

by John Case and Bill Fotsch | 11:00 AM December 23, 2013

People often think of corporate culture as “soft” because it involves squishy things like values and expectations. That’s true as far as it goes—but winning cultures have a hard, metrics-driven element as well. A culture that feels upbeat and positive but doesn’t contribute to profitable growth or beating the competition is destined for the dustbin.

In sports, everyone gets that and knows what winning looks like. It’s reflected in your score, plain and simple. Sure, you track other numbers—what you might think of as key performance indicators—such as on-base percentage. The Boston Red Sox, the 2013 world champs in baseball, are known for their sabermetrics. But nobody in the organization thinks those stats are more important than outscoring opponents.

In many businesses, however, people have no clue what winning would mean. *More profits? A higher stock price? How can I affect those? Maybe “winning” just means making my KPIs—or not getting laid off.* Employees can’t get excited about winning, because they never know whether they’re winning or not. They need a score to tell them.

That’s what they get when they work for companies that practice open-book management. The trick is to focus everyone’s attention on a single key number—the one number that, if improved by a significant margin, will leave the business healthier and stronger at the end of the year. If that number is headed in the right direction, you’re ahead. If you hit an agreed-on target, you win.

For a small company, the key number might be something as simple as net profit. More often, it’s an easily understood indicator that contributes directly to the bottom line, such as an engineering firm’s billable hours or a hotel’s occupancy rate.

Larger companies usually expect each unit or function to come up with its own key number. When jet fuel was going through the roof a few years ago, the pilots at Southwest Airlines identified fuel usage as a key number. They learned to monitor it closely, and they came up with ways to help lower it.

But if different units' KPIs aren't closely connected, they may come into conflict with one another. At one mining company Bill worked with, production crews were measured on tons produced while maintenance was measured on maintenance costs. Production naturally worked the equipment hard, leading to breakdowns. Maintenance crews were slow to make repairs, lowering their own costs but hurting production. Eventually the company took an open-book approach, changing everyone's key number to production profit, or production revenue (tons multiplied by price per ton) minus maintenance costs. Employees in these units not only found they could work together; they also got fired up about the improved financial performance they could generate.

What makes a number "key"?

You can't pick just any old metric and call it a key number. A good one meets three conditions:

1. **It's directly connected to the financials.** Improve the key number, and you get better financial results.
2. **It's not imposed from on high.** Open-book companies consult with managers, employee teams, and other stakeholders to develop their key numbers. They ask: What are the biggest challenges we're facing this year? The biggest opportunities? How can your unit best measure its contribution?
3. **It's for now—not forever.** Companies' situations change. Sometimes revenue growth is the top priority, other times profitability or cash flow. When a company makes progress on one objective, it may want to set its sights on another the following year.

Most open-book companies link progress on the key number to a bonus or some other incentive. Now everyone has a stake in winning—in making that number move. At Boardman Inc., a specialty manufacturer based in Oklahoma, managers and employees agreed that the key number was job margin dollars, meaning shipment revenue minus direct labor and direct materials. (Shop-floor employees in open-book companies learn to understand and use terms like that.) Managers and employees together set a target for improvement. When the company blew away the target in 2012, workers received a bonus of 10 weeks' pay and Boardman enjoyed its most profitable year ever. Things look even better for 2013.

Part of the power of open-book management lies in its simplicity—deciding on and tracking that one key number. The process generates buy-in, because you're asking people their views about what's most important right now. And it helps them understand their own connections to the company's financial results. Employees begin to think and behave like businesspeople with a vested interest in success—not like hired hands.

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