

# BUSINESS ACTION GUIDE

Leading at the Intersection of People & Profits

## INVEST FOR CONTINUOUS IMPROVEMENT

### Open-Book Management: Follow the Action and Keep Score: SRC Electrical

What if every single employee in your business were just as driven as the CEO to solve business challenges, generate more profits, and share in the results of better business performance? Open-book management (OBM) is designed to achieve just that by teaching employees how money flows through the business, involving them in tracking the financials, and rewarding them for meeting and exceeding business goals. An important component of OBM is consistently and effectively communicating

metrics in real time (“follow the action and keep score”) so employees can keep track and better understand how their daily work impacts the business. To learn more about how to follow the action and keep score, we spoke with Tabitha Lewis, Director of Operations at SRC Electrical of Springfield, MO. With 140 employees, SRC Electrical is a leading remanufacturer of rotating electrical products including starters, alternators, and generators for the OEM (original equipment manufacturer) market. Their diverse customer base includes blue chip companies such as John Deere and Case New Holland. The company is part of SRC Holdings Corporation, which has 1,400 employees and 13 divisions. Jack Stack, SRC’s founder, is the author of *The Great Game of Business*, the seminal book on open-book management.



TABITHA LEWIS,  
DIRECTOR OF OPERATIONS

Originally established as a joint venture with Case New Holland (CNH) in 1991, SRC Holdings acquired CNH’s shares in 2009 to form SRC Electrical, a wholly-owned subsidiary. We were committed from the beginning to incorporating open-book management into our company – teaching all employees to understand the key measures of business (see *practice on Open-Book Management: Know and Teach The Rules*), enabling them to act on their knowledge, and ensuring they have an authentic stake in the company’s success through our employee ownership and incentive plan. As an OBM firm, we have to ensure that everyone is well informed on how we are performing from week to week and that we hold each other accountable. These are some key lessons we have learned in the process:

#### 1. Involve everyone in tracking the numbers

Unlike a lot of companies, we don’t wait until the end of the year to tell employees how the company performed. Instead, everyone participates in generating the numbers on a weekly basis so they really own them. Keeping score this way (through weekly meetings and on scoreboards that we all see every day) gives everyone the feedback we need to make adjustments, improve performance, and hit the numbers. To be effective, scoreboards need to be positioned where everyone can easily see them, and they have to contain useful and engaging information that people can act on in real time. We

have a company-wide financial scoreboard in the cafeteria that tells us if we are making a profit. There are also department-wide scoreboards and mini-game scoreboards – usually with a theme – tracking our progress on key drivers that affect the critical number (see *practice on Structuring and Playing Mini-Games*).

For example, right now we are trying to make sure the bulk of our work takes place during our four 10-hour days. Friday is a day for catch-up where we have to pay folks overtime. Production used to be low on Monday and then increase towards the end of the week, so people had to come in on Friday to finish up. Our goal was to get more work done early in the week to avoid

#### SRC ELECTRICAL’S FORMULA FOR FOLLOWING THE ACTION AND KEEPING THE SCORE

1. Involve everyone in tracking the numbers
2. Be proactive by looking ahead
3. Tell the stories behind the numbers
4. Unite everyone around a common goal

the Friday overtime cost. So we launched a mini-game stressing the key role each person plays in getting the product out the door and tracking how much work is done at different times in the week. Our reward for a month without overtime is a barbecue – with management doing the cooking. Anytime there is a business issue we want to work on, we design a game around it and we get a ton of savings. We try to play some sort of mini-game all the time.

### 2. Be proactive by looking ahead

Our company-wide financial scoreboard shows how money comes into and goes out of the business and what's left afterward. We give each line item an owner – someone who can impact that number and takes responsibility for tracking and forecasting it in weekly meetings. The scoreboard includes the planned budget that we are shooting for, our forecast for how we will do each week, and our monthly actuals.

Most companies only look at the previous month's financials, but by then it's too late to change them. At SRC, we believe in what we call "forward forecasting" to make the numbers come alive and give us the ability to deal with challenges in real time. Every week, we work together to forecast how the month will end. This enables us to leverage the things that are going well and correct any problems in real time. Forecasting is a skill that we've each had to learn – how to take the data we have on performance to date and then make our best estimate about how the rest of the month will go. We compare the forecast to the plan, and if it varies five percent or more above or below, we figure out why and what actions need to be taken.

### 3. Tell the stories behind the numbers

Our departments have 10 minute daily huddles, and company-wide 30 minute weekly huddles. It's always at the same time each week, so people can count on it and schedule around it. We start the weekly gathering with an update on the big picture – where the company is headed, how we are progressing on our goals, and any threats or opportunities that have arisen. Then we fill in the weekly forecast on the scoreboard in real time, with the person who has ownership for each line item calling out their weekly

#### OVERVIEW OF KEY OBM COMPONENTS

1. Know and teach the rules – teach financial literacy and how the business makes money
2. Annual high-involvement planning process
  - a. Set sales and strategic goals
  - b. Determine the critical number for the year and its key drivers
  - c. Design bonus plan based on critical number
3. Create a theme and a scoreboard for tracking the critical number
4. Hold weekly huddles to follow the action and keep score
  - a. Updates on high level direction
  - b. Forward forecasting
  - c. Accountability
  - d. Celebrating individual and team success
5. Provide a stake in the action through mini-games, gainsharing, and/or employee ownership

forecast number for that item and explaining any anticipated variance from the plan. Every employee follows along and fills in their own paper copy of the scoreboard, which has been a key practice for helping people really understand the numbers. We identify any potential issues to address post-huddle. We actively re-engage the team by celebrating progress and recognizing wins, large and small. Each employee commits to one thing they can do in the next week to improve the score. Our goal is for everyone to leave the huddle understanding what needs to be done next and fired up to play their part.

### 4. Unite everyone around a common goal

Every year, we identify a key issue or vulnerability to address in order to move our business forward – our "critical number." We create a theme and a scoreboard around it, and tie our quarterly bonus to it. Last year our critical number/theme was called Race to Reman. We had a particular customer that inspired us to bring more parts in-house rather than buying them from overseas, making us more profitable and resulting in our products being 100 percent U.S.-made. We set an

aggressive goal of releasing 50 new parts in the year. The scoreboard was a racetrack, and each time a new part was released, another car was put on the track.

The burden for meeting this goal fell primarily on the engineering department, but production, quality, and purchasing all played a supporting role. In particular, the engineers built better communications with the folks in the production department so that they could design the product right the first time. Our quarterly

goals were 14 new part numbers in the first, second, and third quarters, and eight in the fourth quarter. We talked about our goals frequently and had weekly updates. Everyone knew we had to hit the mark before we could get our bonus. Everyone was excited and motivated. We ended up hitting our goals every quarter and even going over by one!

### FINAL WORDS OF WISDOM

The combination of tracking, measuring, and reporting our progress; communicating well at all levels of the company; and having a real system for holding each other accountable has worked well for SRC Electrical. Because the weekly forecast numbers are generated by the employees, there is full buy-in and support from just about everyone. We have direct line of sight, where each person can see how their job affects the critical numbers. We have a sense of fun and friendly competition. All of these things create real engagement and accountability, and everyone benefits when we achieve great financial results.

### HOW DO WE LEARN MORE?

[Inc. Magazine: Keeping Score](#)

[Jack Stack and Bo Burlingham: The Great Game of Business: The Only Sensible Way to Run a Company](#)

[John Case: The Open-Book Experience: Lessons From Over 100 Companies Who Successfully Transformed Themselves](#)

[SRC Video: The SRC Story](#)

[NCEO Video: Mini Film from We the Owners: Employees Expanding the American Dream](#)

*Other companies that excel at following the action and keeping score include Tasty Catering and Zingerman's.*

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