

CONVERSATIONS

Open-Book Management's Lessons for Detroit

By Darren Dahl

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When the United Automobile Workers union was granted a 55 percent ownership stake in Chrysler as part of the company's plan to save itself under a bankruptcy filing, more than a few eyebrows went up. In Detroit, after all, there has long been a distinct line between owners and workers.

To assess what these changes might mean, I recently spoke with Jack Stack, a leading figure in both the open-book management and employee-ownership movements. At 19, having already been kicked out of both college and a Catholic seminary, Mr. Stack took a factory job with International Harvester. In 1982, he led a management buyout of a failing Harvester plant in Springfield, Mo., eventually turning the factory into SRC Holdings, a collection of 11 holding companies, 26 employee-owned businesses, and 1,200 employees that make, among other things, auto engines and home furnishings.

Along the way, Mr. Stack, now 60 and the chief executive of SRC, has become an apostle for open-book management, which encourages company owners to open up their books and expose their financial results to their employees in the belief that the employees will make better decisions and be more committed. He is the author (with Bo Burlingham) of two books, "The Great Game of Business" (Broadway Business, 1994) and "A Stake in the Outcome" (Broadway Business, 2003), that stress the value of empowering employees. A condensed version of our conversation follows.

Q. *What's your reaction to the U.A.W.'s becoming the majority owner of Chrysler?*

A. I think you have an interesting chemistry of cultures. It will be interesting to see if they collaborate or collide. For a long time it was the union's position that ownership is the bad guy. There is a long history of confrontation there.

Q. *Don't you think that making the employees owners can be a good thing?*

A. Yes, but they face challenges.

Q. *Such as?*

A. The first thing they have to realize is that they need to create a sense of accountability before they can be successful. With equity comes ownership and responsibility. They need to learn to be for the company as a whole and not just their own interests.

Q. *Do you have any advice for them?*

A. I have always used open-book management as a pattern changer. I sit someone down with a balance sheet and a case of beer and open it up and say here's what it is. We're staying here either until you understand how to read a balance sheet or we get drunk. They need to find something like this that creates that collaborative spirit, that fire in the belly.

Q. *How does open-book management create a collaborative spirit?*

A. The downturn really hit our engine remanufacturing business hard in November. Our plant was faced with a six-month gap in orders, which was trouble. The entire plant collaborated on how to schedule their workloads □ they basically had to take eight hours out of their work week to save money until we could get back on a full schedule. Because everyone knew the numbers, they scrambled to find new products and clients, like the post office, to fill the gap faster. The result was that we lost money in December and January but we were back to full employment in February. And we didn't do this through the old command-and-control method; everybody knew the gravity of the situation, and all the great ideas came from within. That's how open book drives collaboration.

Q. *What other role models can the new owners of Chrysler look to as an example of what you're talking about?*

A. Harley-Davidson is open book, and they have great collaboration with the union there. Open book has helped them innovate and create new product lines and diversification throughout the company. Everyone there has a passion for their company. They love to wear those Harley colors. They have a parking lot where I don't think they let anyone ride in unless they're on a Harley. That's the lesson for the automotive industry □ that it's about people who want to buy the car that they make.

Q. *Are there other lessons you think the industry needs to learn to become successful again?*

A. At the end of the day it's about relationships, and I think that too many American automakers didn't like anybody. I often got the feeling that they didn't like their employees, their suppliers, their dealers and even their shareholders. At some point, I think they needed to ask themselves who they did like. I participated in several roundtable discussions that wanted to drum up some solutions for the industry. And my solution has always been about building relationships. If you go into a Toyota factory, for example, they have tremendous relationships with their people. When they invest capital in something, they do it to make a worker's job easier, not to eliminate his job.

Q. *Of course, Toyota is struggling as well these days.*

A. That's simply a product of the down economy. But they haven't lost their focus on building relationships. That means that when the economy comes back, they'll be in a perfect position to come back strong with it.

Q. *Do you think open-book management could save the automotive industry?*

A. Just because you open the books doesn't mean doves and rainbows will fly out of them. What it does do is let people face the competitive reality of the marketplace. Rather than having some engineer with a stopwatch trying to get people to work faster for less money, open book gives everyone the chance to see what they need to do to succeed. In a macro sense, I believe that lack of open book has created this meltdown we are in today. We need to undo 100 years of top-down management practice. That means we need to start from scratch.